2017

Annual U.S. Disclosure Document

for the fiscal year ended September 30, 2017

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

The date of this 2017 Annual U.S. Disclosure Document is November 6, 2017.

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All references in this document to this “U.S. Disclosure Document” refer to the 2017 Annual U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal year ended September 30, 2017 (the “2017 fiscal year”), including the Annexes attached hereto. In this U.S. Disclosure Document, references to “2017” or the “2017 fiscal year” are to the fiscal year ended September 30, 2017, and we refer to prior fiscal years in a similar fashion.

This U.S. Disclosure Document is dated November 6, 2017. All references in this document to “the date of this U.S. Disclosure Document” are to November 6, 2017.

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 only.

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

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ’s business and operations, as well as its financial position, as of September 30, 2017, and the results of operations for the fiscal year then ended. All balances disclosed in this U.S. Disclosure Document relate to those of the Group.

Attached to this U.S. Disclosure Document as Annex A are the following extracts of the 2017 Annual Report, as prepared by the Company and filed with the Australian Securities Exchange (“ASX”) in accordance with its rules:

- The 2017 Remuneration Report;
- The 2017 Financial Report of the Group (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “2017 Financial Statements”); and
- The Independent Auditor’s Report on the audit of the 2017 Financial Statements.

Attached to this U.S. Disclosure Document as Annex B are the following documents prepared by the Company and filed with the ASX in accordance with its rules:

- The 2017 Financial Report of the Company (comprising the financial statements, notes to the financial statements and directors’ declaration); and
- The Independent Auditor’s Report on the audit of the 2017 Financial Report of the Company.

Attached to this U.S. Disclosure Document as Annex C are the following extracts of the 2016 Annual Report, as prepared by the Company and filed with the ASX in accordance with its rules:

- The 2016 Remuneration Report;
- The 2016 Financial Report of the Group and the Company (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “2016 Financial Statements”); and
- The Independent Auditor’s Report on the audit of the 2016 Financial Statements.

Forward-looking statements

This U.S. Disclosure Document contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company or the ANZ Group to differ materially from the information presented herein. When used in this U.S. Disclosure Document, the words “forecast”, “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “may”, “probability”, “risk”, “will”, “seek”, “would”, “could”, “should” and similar expressions, as they relate to the Company or the ANZ Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute “forward-looking statements” for the purposes of the United States (“U.S.”) Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date of this U.S Disclosure Document 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;
- economic conditions in Australia, New Zealand and the Asia Pacific, Europe & America (“APEA”) regions and other jurisdictions in which we or our customers operate, including without limitation changes that impact consumers and the natural resources and real estate sectors;
- losses associated with the ANZ Group’s counterparty exposures;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws and accounting standards in Australia and worldwide;
- the impact of legal, regulatory, administrative and other current or future proceedings arising out of our alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the APEA regions and other jurisdictions in which we or our customers operate;
- commercial and residential mortgage lending and real estate market conditions in Australia, New Zealand and the APEA regions;
- the effects of competition in the geographic and business environments in which we or our customers operate;
- our ability to adjust to and compete in the APEA geographic markets in which we operate or are seeking to operate;
- our ability to maintain or increase market share and control expenses;
- our timely development and acceptance of new products and services, and the perceived overall value of these products and services by users;
- the reliability and security of our technology and our ability to protect our information from security risks, including potential cyber-attacks;
- risks associated with the information systems we maintain;
- operational and environmental factors, including natural disasters, such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we or our customers operate;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- the stability of Australian and other regional and global 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 with respect to our internal processes, systems, organizational management and employees;
- other risks and uncertainties detailed under “Competition”, “Supervision and regulation”, and “Risk factors” in “Section 2: Information on the Group”, “Legal proceedings” in “Section 6: Additional Information” and elsewhere throughout this U.S. Disclosure Document; and
- various other factors beyond our control.

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

Basis of preparation

The summary of consolidated income statements and selected ratios for the fiscal years ended September 30, 2017, 2016, 2015, 2014, and 2013 and the summary of consolidated balance sheets and selected ratios as of September 30, 2017, 2016, 2015, 2014 and 2013 have been derived from the Group's financial statements. The 2017 Financial Statements are contained within ANZ's 2017 Annual Report (extracts of which, including the 2017 Financial Statements, are attached to this U.S. Disclosure Document as Annex A). The 2016 Financial Statements are contained within ANZ's 2016 Annual Report (extracts of which, including the 2016 Financial Statements, are attached to this U.S. Disclosure Document as Annex C).

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

Amounts in this U.S. Disclosure Document are presented in Australian Dollars ("$", "AUD" or "A$") unless otherwise stated. Amounts reported in United States Dollars ("USD" or "US$") have been translated at the September 29, 2017 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$0.7840 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document, refer to "Currency of presentation and exchange rates" in "Section 2: Information on the Group". References to "NZD" in this U.S. Disclosure Document are to New Zealand dollars. References throughout this U.S. Disclosure Document to "$B" and "$M" are to billions and millions of Australian Dollars (or, if specified, such other currency), respectively.

Summary of consolidated income statements and selected ratios

	Years ended September 30						
			Restated[2]	Originally Reported[2]			
	2017 USD M[1]	**2017 $M**	**2016 $M**	**2016 $M**	**2015 $M**	**2014 $M**	**2013 $M**
Interest income	22,830	29,120	29,951	29,951	30,526	29,524	28,627
Interest expense	(11,170)	(14,248)	(14,856)	(14,856)	(15,910)	(15,714)	(15,869)
Net interest income	11,660	14,872	15,095	15,095	14,616	13,810	12,758
Other operating income[2]	4,234	5,401	5,451	5,434	6,474	6,244	5,764
Operating income	15,894	20,273	20,546	20,529	21,090	20,054	18,522
Operating expenses[2]	(7,407)	(9,448)	(10,439)	(10,422)	(9,378)	(8,760)	(8,257)
Profit before credit impairment and income tax	8,487	10,825	10,107	10,107	11,712	11,294	10,265
Credit impairment charge[3]	(939)	(1,198)	(1,929)	(1,929)	(1,179)	(986)	(1,188)
Profit before income tax	**7,548**	**9,627**	**8,178**	**8,178**	**10,533**	**10,308**	**9,077**
Income tax expense[4]	(2,514)	(3,206)	(2,458)	(2,458)	(3,026)	(3,025)	(2,757)
Profit after income tax	5,034	6,421	5,720	5,720	7,507	7,283	6,320
Profit attributable to non-controlling interests	(12)	(15)	(11)	(11)	(14)	(12)	(10)
Profit attributable to shareholders of the Company	**5,022**	**6,406**	**5,709**	**5,709**	**7,493**	**7,271**	**6,310**
Other operating income as a % of operating income[2]	26.6%	26.6%	26.5%	26.5%	30.7%	31.1%	31.1%
Net interest margin	1.99%	1.99%	2.07%	2.00%	2.04%	2.13%	2.22%
Cost to income ratio	46.6%	46.6%	50.8%	50.8%	44.5%	43.7%	44.6%
Dividends on ordinary shares[5]	3,613	4,609	5,001	5,001	4,906	4,694	4,082
Earnings per fully paid ordinary share (cents)							
Basic	172	220	197	197	272	267	233
Diluted	165	211	189	189	257	257	226
Ordinary share dividend payout ratio (%)[6]	73.4%	73.4%	81.9%	81.9%	68.6%	67.4%	71.4%
Dividend per ordinary share (cents)	125	160	160	160	181	178	164

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 29, 2017 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to other operating income and $17 million increase to operating expenses). The Originally Reported 2016, 2015, 2014 and 2013 fiscal year comparative amounts have not been restated.*
3. *The credit impairment charge represents the aggregation of the individual and collective credit impairment charges.*
4. *Includes the impact of contribution tax and investment income tax attributable to policyholders.*
5. *Excludes dividends paid on preference shares.*
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:*

	2017 $M	*2016 $M*	*2015 $M*	*2014 $M*	*2013 $M*
Interim	*2,349*	*2,334*	*2,379*	*2,278*	*2,003*
Final	*2,350**	*2,342*	*2,758*	*2,619*	*2,497*
Total	*4,699**	*4,676*	*5,137*	*4,897*	*4,500*

**Based on the proposed final dividend announced on October 26, 2017 and on the forecast number of ordinary shares expected to be on issue at the dividend record date.*

Summary of consolidated balance sheets and selected ratios[1]

	As of September 30					
	2017 USD M[2]	**2017 $M**	**2016 $M**	**2015 $M**	**2014 $M**	**2013 $M**
Shareholders' equity excluding non-controlling interests	46,224	58,959	57,818	57,247	49,207	45,541
Subordinated debt[3]	13,885	17,710	21,964	17,009	13,607	12,804
Unsubordinated debt	70,766	90,263	91,080	93,747	80,096	70,376
Deposits and other borrowings	466,959	595,611	588,195	570,794	510,079	466,915
Gross loans and advances	457,928	584,091	580,035	574,255	525,685	487,618
Less: Individual provision for credit impairment	(891)	(1,136)	(1,307)	(1,061)	(1,176)	(1,467)
Less: Collective provision for credit impairment[4]	(2,087)	(2,662)	(2,876)	(2,956)	(2,757)	(2,887)
Less: Loans and advances held for sale	(4,674)	(5,962)	-	(8,065)	-	-
Net loans and advances	450,276	574,331	575,852	562,173	521,752	483,264
Total assets	703,504	897,326	914,869	889,900	772,092	702,995
Net assets	46,315	59,075	57,927	57,353	49,284	45,603
Risk weighted assets[5]	306,633	391,113	408,582	401,937	361,529	339,265
Summary of consolidated ratios						
Profit attributable to the shareholders of the Company as a percentage of:						
Average total assets[6]	0.7%	0.7%	0.6%	0.9%	1.0%	0.9%
Average ordinary shareholders' equity excluding non-controlling interests[6]	11.0%	11.0%	10.0%	14.5%	15.8%	15.0%
Average ordinary shareholders' equity excluding non-controlling interests as a percentage of average total assets[6]	6.3%	6.3%	6.3%	6.1%	6.1%	6.2%
Capital adequacy ratios:[5]						
Common Equity Tier 1	10.6%	10.6%	9.6%	9.6%	8.8%	8.5%
Tier 1	12.6%	12.6%	11.8%	11.3%	10.7%	10.4%
Tier 2	2.2%	2.2%	2.5%	2.0%	2.0%	1.8%
Total	14.8%	14.8%	14.3%	13.3%	12.7%	12.2%
Number of ordinary shares on issue (millions)	2,937.4	2,937.4	2,927.5	2,902.7	2,756.6	2,743.7

1. *Balance sheet amounts and metrics includes assets and liabilities held for sale.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 29, 2017 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *For the composition of subordinated debt refer to Note 15 of the 2017 Financial Statements (attached as part of Annex A to this U.S Disclosure Document).*
4. *The collective provision includes amounts for off-balance sheet credit exposures of $544 million at September 30, 2017 (2016: $631 million; 2015: $677 million; 2014: $613 million; 2013: $595 million).*
5. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority (APRA) Basel 3 methodology (refer to page 13).*
6. *Averages used are predominantly daily averages.*

Summary of credit risk data[1]

	As of September 30			
	2017 USD M[2]	**2017 $M**	**2016 $M**	**2015 $M**
Gross impaired assets				
Impaired loans	1,660	2,118	2,646	2,441
Restructured items[3]	131	167	403	184
Non-performing commitments and contingencies	78	99	124	94
Total gross impaired assets	**1,869**	**2,384**	**3,173**	**2,719**
Provision for credit impairment:				
Individual provision - impaired loans	877	1,118	1,278	1,038
Individual provision - non-performing commitments and contingencies	14	18	29	23
Collective provision[4]	2,087	2,662	2,876	2,956
Total provision for credit impairment	**2,978**	**3,798**	**4,183**	**4,017**
Total gross loans and advances[5]	**457,927**	**584,091**	**580,035**	**574,255**
Credit Risk Weighted Assets[6]	264,078	336,834	352,033	349,751
Collective provision as a % of credit risk weighted assets[6]	0.79%	0.79%	0.82%	0.85%
Gross impaired assets as a percentage of gross loans and advances	0.41%	0.41%	0.55%	0.47%
Individual provision for credit impairment as a percentage of gross impaired assets	47.7%	47.7%	41.2%	39.0%
Individual provision for impaired loans as a percentage of impaired loans	52.8%	52.8%	48.3%	42.5%
Total provision for credit impairment as a percentage of:				
Gross loans and advances[5]	0.7%	0.7%	0.7%	0.7%
Credit risk weighted assets[6]	1.1%	1.1%	1.2%	1.1%

1. *Balance sheet and credit risk data includes assets and liabilities held for sale.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 29, 2017 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.*
4. *The collective provision includes amounts for off-balance sheet credit exposures of $544 million at September 30, 2017 (2016: $631 million; 2015: $677 million).*
5. *Consists of loans and advances, customer liability for acceptances, capitalized brokerage/mortgage origination fees less unearned income.*
6. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 13).*

OVERVIEW

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

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

As of September 30, 2017, ANZBGL had total assets of $897.3 billion and shareholders' equity excluding non-controlling interests of $59.0 billion. In terms of total assets among banking groups, the Group ranked in the top two in Australia[1] as of September 30, 2017 and first in New Zealand[2] as of June 30, 2017.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on September 29, 2017, ANZBGL had a market capitalization of $86.9 billion, which ranked among the top five largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the fiscal year ended June 30, 2017; National Australia Bank results announcement for the fiscal year ended September 30, 2017; Westpac Banking Corporation results announcement for the fiscal year ended September 30, 2017.*
2. *Source: ASB Bank disclosure statement for the fiscal year ended June 30, 2017; Bank of New Zealand disclosure statement for the 9 months ended June 30, 2017; Westpac New Zealand disclosure statement for the 9 months ended June 30, 2017.*
3. *Source: IRESS.*

BUSINESS MODEL

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

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

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

- Net interest income – represents the difference between the interest income the Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;
- Other income – represents revenues generated from sales, trading and risk management activities in the Markets business; and
- Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions.

STRATEGY

Our strategy is focused on becoming simpler, better balanced and more service-oriented to help people and businesses respond to a changing world.

We believe that the execution of our strategy will deliver consistently strong results for our shareholders, achieving a balance between growth and return, short and long-term results and financial and social impact.

Strategic Priorities
Create a simpler, better capitalized, better balanced and more agile bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing our reliance on low-returning aspects of institutional banking in particular.
Focus our efforts on areas where we can carve out a winning position. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in our region.
Drive a purpose and values led transformation of the Bank. Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.
Build a superior everyday experience for customers and our people to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and our people.

PRINCIPAL ACTIVITIES OF THE GROUP

During the 2017 fiscal year, the Group made changes to its operating model for technology, operations and shared services to accelerate delivery of its technology and digital roadmap, and bring operations closer to its customers base in an effort to achieve operational efficiency gains. As a result of these organizational changes, divisional operations from Technology, Services & Operations ("TSO") and Group Center have been realigned to divisions. The residual TSO and Group Center now contains Group Technology, Group Hubs, Enterprise Services and Group Property and the Group Center. The Group operates on a divisional structure with six divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific, and TSO and Group Center.

Other than the changes described above, there have been no other significant structural changes in the 2017 fiscal year. However, certain prior period comparatives have been restated to align with the 2017 presentation. The divisions reported below are consistent with operating segments as defined in IFRS 8 and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2017, the principal activities of the six divisions were:

Australia

The Australia division comprises the Retail and Corporate and Commercial Banking business units.

- Retail provides products and services to consumer and private banking customers in Australia via the branch network, mortgage specialists, the contact center and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third-party brokers.
- Corporate and Commercial Banking 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 as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialized Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance, structured trade and 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 a full range of banking and wealth management (including KiwiSaver and ANZ New Zealand's life insurance) services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.
- Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions (including asset financing) through dedicated managers focusing on privately owned medium to large enterprises and the agricultural business segment.

Wealth Australia

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

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

On October 17, 2017, the Group announced it had agreed to sell OnePath pensions and investments ("OnePath P&I") and aligned dealer groups business to IOOF Holdings Limited ("IOOF"). The aligned dealer groups business consists of aligned advice businesses that operate under their own Australian financial services licenses and are owned indirectly by ANZ. Completion is expected in the March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. For further information on the sale, refer to "Recent Developments" below. ANZ continues to review options for its Life Insurance business.

Asia Retail & Pacific

The Asia Retail & Pacific division comprises the Asia Retail & 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 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. Subject to regulatory approval, ANZ expects the sale of its Retail and Wealth businesses in Taiwan and Indonesia and the sale of its Retail business in Vietnam to be completed early in the 2018 calendar year. Refer to "Section 2: Information on the Group – Competition – Asia" for more information on these sales.
- Pacific provides products and services to retail customers, small to medium-sized enterprises, institutional customers and Governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

Technology, Services & Operations and Group Center

TSO and Group Center provide support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Center includes Group Treasury, Shareholder Functions and minority investments in Asia. Subject to customary closing conditions and regulatory approvals, the sale of Shanghai Rural Commercial Bank ("SRCB"), which is one of the Group's minority investments in Asia, is expected to be completed by late in the 2017 calendar year. Refer to "Section 3: Operating and Financial Review and Prospects – Operating and Financial Review" for more information on the sale of SRCB.

RECENT DEVELOPMENTS

On October 17, 2017, the Group announced it had agreed to sell OnePath P&I and aligned dealer groups business to IOOF for $975 million. Completion is expected in the March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. As part of the agreement, ANZ will also enter into a 20–year strategic alliance to make available certain IOOF superannuation and investment products to ANZ customers. The expected accounting loss on sale of ~A$120 million is anticipated as a result of the sale, however the final gain/loss on sale will be determined at completion and will be impacted by transaction and separation costs, final determination of goodwill to be disposed, other balances and final taxation impacts.

On October 18, 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company ("Metrobank") regarding the sale of its 40% stake in the Philippines based Metrobank Card Corporation ("MCC"). The Group has agreed to sell one half of its 40% stake in MCC to Metrobank for US$144 million (A$184 million), which is expected to settle late in the 2017 calendar year. The Group also entered into a put option to sell its remaining 20% stake in MCC to Metrobank, exercisable in the September 2018 half on the same terms and for the same consideration. If exercised, the put option would deliver a total sale price of US$288 million (A$368 million). The sale is subject to customary regulatory approvals.

On October 23, 2017, the Group announced it had reached a confidential in-principle agreement with the Australian Securities and Investments Commission ("ASIC") to settle court action in respect of interbank trading and the bank bill swap rate ("BBSW"). On October 30, 2017, ANZ informed the Court that agreement with ASIC had been concluded. The financial impact to ANZ has been reflected in the Group's 2017 Financial Statements. On November 10, 2017, there will be a hearing to determine whether the Court is prepared to make the orders which ANZ and ASIC seek so as to give effect to the settlement.

Other than the matters described above, there have been no other significant developments since September 30, 2017 to the date of this U.S. Disclosure Document.

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of September 30, 2017, the four major banking groups in Australia (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) held approximately 79% of the total Australian lending assets of banks that conduct business in Australia. The operations of the smaller regional banks are typically focused on servicing customers in a particular state or region with 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 1959 (Cth) (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 Corporate and Commercial Banking 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 higher levels 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, we believe 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 some Asian banks who are expanding beyond their local markets and the boutique operations of large multi-national banking conglomerates with a focus on niche areas.

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

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

The banking industry continues to evolve with new digital products and service solutions to meet customer needs and changing customer preferences. Demand for innovative, digital solutions is contributing to further competition from existing and new entrants to the banking industry, particularly in retail banking.

New Zealand

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

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

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

Outside the banking sector, a number of smaller finance companies are active in the personal and commercial property markets through competitive lending and deposit product offerings. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2017.

Asia

Banking in Asia is highly competitive. There are a large number of global banks (for example Citibank, HSBC & Standard Chartered) and regional banks (for example DBS Bank Ltd., CIMB and Maybank) 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 currently operates in 15 Asian markets, focused primarily in institutional banking and delivering financial solutions to customers driven by regional trade and capital flows. We believe the Group's geographic coverage, strength in its domestic markets of Australia and New Zealand, and targeted focus on customers, industries and product specialization (including Markets and Transaction Banking) enables the Group to differentiate itself from its competitors across 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. This has contributed to the net interest margin on institutional lending in Asia being generally lower than that of similar lending in Australia and New Zealand. Competition in Asia is expected to continue to grow with relatively stronger economic growth prospects compared with other developed markets, which we believe will attract continued investments in the region by attracting global and regional banks.

While the Group provides a broad suite of financial services to institutional customers, it does not seek to be a full-service bank to the retail or commercial markets in Asia. A review of the retail and wealth operations in Asia was undertaken during 2016. The Group announced on October 31, 2016 that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank Ltd., and announced on April 21, 2017 that it had agreed to sell its Retail business in Vietnam to Shinhan Bank Vietnam. During the September 2017 half, the Group completed the sales in China, Singapore and Hong Kong. Subject to regulatory approval, ANZ expects the sales of its Retail and Wealth businesses in Taiwan and Indonesia, and the sale of its Retail business in Vietnam to be completed early in the 2018 calendar year.

As of the date of this U.S. Disclosure Document, the Bank's Retail and Wealth businesses in the Philippines and Japan remain under strategic review.

SUPERVISION AND REGULATION

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

AUSTRALIA

Overview of APRA's Prudential and Regulatory Supervision

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

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

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

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

Capital Management and Adequacy and Liquidity within APRA's Regulations

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

Capital

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

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

Effective January 1, 2013, APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios are not directly comparable with international peers. The Basel 3 reforms include: increased capital deductions from Common Equity Tier 1 ("CET1") capital, an increase in capitalization rates (including prescribed minimum capital buffers, fully effective from January 1, 2016), tighter requirements around new Additional Tier 1 and Tier 2 securities and transitional arrangements for existing Additional Tier 1 and Tier 2 securities that do not conform to the new regulations. Other changes include capital requirements for counterparty credit risk and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions as well as changes that have resulted from the Financial System 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. The Group received approval for an RBA CLF of $43.8 billion for the 2017 calendar year.

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.

Other Australian 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 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 in and advise on 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 also required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under Australian law, including the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (“AML Act”). The AML Act is administered by AUSTRAC.

Australian Regulatory Developments

Recent developments

The 2017-18 Federal Budget announcement by the Australian Government on May 9, 2017 included a proposal to legislate for a new “Banking Executive Accountability Regime” (“BEAR”). On October 19, 2017, to establish BEAR, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017* (the “BEAR Bill”) was introduced into the Australian Parliament. The BEAR is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. If the BEAR Bill is passed into law by the Australian Parliament:

- ANZ will be required to register individuals with APRA before appointing them as senior executives or directors and maintain and provide APRA with a map of the roles and responsibilities of such persons across the ADI group, and to give APRA accountability statements for each senior executive or director detailing that individual’s roles and responsibilities;
- where banks and their senior executives and directors do not meet accountability obligations, APRA will be empowered to disqualify individuals as senior executives or directors without a court order (but subject to a right of review);
- ANZ will be obliged to set remuneration policies for directors and senior executives consistent with BEAR’s requirements, including for the deferral of certain components of that remuneration; and
- ANZ may be liable for substantial penalties for failing to comply with its BEAR obligations.

Risks to ANZ from BEAR include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.

On October 19, 2017, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017* (the “Crisis Management Bill”) was also introduced into the Australian Parliament. If passed into law by the Australian Parliament, the Crisis Management Bill would amend the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA’s powers to facilitate resolution of the entities it regulates (and their subsidiaries). Additional powers which are proposed to be given to APRA under the Crisis Management Bill which could impact ANZ include greater oversight, management and directions powers in relation to the Group entities which are currently not regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments. At this stage, the impact of the Crisis Management Bill, if passed, is uncertain.

Financial System Inquiry (“FSI”)

The Australian Government completed a comprehensive inquiry into Australia’s financial system and the FSI final report was released on December 7, 2014. The contents of the report are wide-ranging and key recommendations that may have an impact on regulatory capital levels include:

- Setting capital standards such that Australian ADIs capital ratios are unquestionably strong;
- Raising the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weight for ADIs using IRB models and those using standardized risk weights;
- Implementing a framework for minimum loss absorbing and recapitalization capacity in line with emerging international practice;
- Developing a common reporting template that improves the transparency and comparability of capital ratios of Australian ADIs; and
- Introducing a leverage ratio that acts as a backstop to ADIs risk-based capital requirements, in line with the Basel 3 framework.

APRA supported the FSI’s recommendations and in response introduced the following:

- With effect from July 2016, APRA increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach to credit risk (including ANZ) to a risk-weighting of at least 25%. APRA also required refinements to residential mortgages risk models which ANZ implemented in June 2017. Collectively these changes have increased average credit risk weighting of ANZ’s residential mortgages to approximately 28% as at September 30, 2017; and
- In July 2017, APRA released an information paper outlining its assessment on the additional capital required for the Australian banking sector to be considered ‘unquestionably strong’. APRA indicated that “[i]n the case of the four major Australian banks, APRA expects that the increased capital requirements will translate into the need for an increase in CET1 capital ratios, on average, of around 100 basis points above their December 2016

levels," which in broad terms "equates to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent." APRA also stated that "ADIs should, where necessary, initiate strategies to increase their capital strength to be able to meet these capital benchmarks by January 1, 2020 at the latest" in order to accommodate future changes to capital framework mainly from Basel 3 changes in respect of credit risk, operational risk and the capital floor, and additional changes to address mortgage concentration risk and to improve transparency, comparability and flexibility.

Discussion papers covering the above are expected to be released late in the 2017 calendar year, with consultation on draft prudential standards taking place throughout 2018. Final standards will then be issued in 2019 to take effect from early 2021. Importantly, APRA has indicated these changes to the capital framework will be accommodated within the 10.5% CET1 benchmark that Australian ADIs are expected to have met, a year ahead of the expected effective date of the new prudential standards.

Net Stable Funding Ratio ("NSFR")

APRA released its final standards on NSFR in December 2016 confirming that the minimum NSFR of 100% will become a regulatory requirement from January 1, 2018. As part of managing future liquidity requirements, ANZ monitors the NSFR in its internal reporting and we believe the Group is well placed to meet this requirement by the implementation date.

Level 3 conglomerates ("Level 3")

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

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

The non-capital components of the Level 3 framework relating to group governance, risk exposures, intragroup transactions and other risk management and compliance requirements came into effect on July 1, 2017. These have had no material impact on the Group's capital position.

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

Apart from the review of the Trading Book standard which has been finalized, BCBS is currently deliberating on the other proposals. Once finalized, APRA is expected to incorporate these proposals as part of changes to the regulatory capital framework that APRA intends to implement by 2021, as outlined in its July 2017 information paper 'Strengthening banking system resilience – establishing unquestionably strong capital ratios'.

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.

On March 31, 2017, APRA announced that ADIs will be required to limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. Within this limit, ADIs are also expected to place strict internal limits on the volume of interest-only lending at loan-to-valuation ratios ("LVRs") above 80% and ensure there is strong scrutiny and justification of any instances of interest-only lending at LVRs above 90%.

As a lever available to ADIs to meet the above requirements and manage portfolio risk, the Group has implemented differentiated pricing between owner occupier and investor lending. Within these categories, differentiated pricing applies between customers making interest-only repayments and principal and interest repayments.

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

APRA has reviewed the level of financial 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 as at January 1, 2016 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 of 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 ANZBGL's exposures to its New Zealand Operations must not exceed 50 percent of ANZBGL's Level 1 Tier 1 Capital. In addition, certain requirements of APRA's Level 3 conglomerates framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017 (see "Level 3 conglomerates ("Level 3")" above). One of those requirements is that the ANZ Group must limit its financial and operational exposures to subsidiaries (including ANZ New Zealand) to levels consistent with exposures to unrelated institutions of broadly the equivalent credit status.

Sections 102.6 and 102.7 of the Australian Criminal Code

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

Under the Autonomous Sanctions Act 2011 of Australia and the Autonomous Sanctions Regulations 2011 of Australia, sanctions are imposed against certain specifically identified persons, entities and vessels 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 Reserve Bank of New Zealand (the “RBNZ”) to exercise its powers of registration of banks and prudential supervision of registered banks for the purposes of:

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

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

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

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

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

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

At present, registered banks are required to issue disclosure statements quarterly that contain comprehensive corporate details, together with full financial statements at the full year, and unaudited interim financial statements at the half year and off-quarters. The financial statements are subject to full external audit at the end of each financial year and a limited scope review at the end of each financial half-year. Each bank director is required to sign his or her bank’s disclosure statements and to make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank’s disclosure statement contains information that is held to be false or misleading. From the first quarter of 2018, RBNZ is intending to publish a quarterly 'dashboard' of key information on New Zealand registered banks, sourced from information reported privately by banks to the RBNZ. The quarterly dashboard will replace the requirement to issue disclosure statements for off-quarters of the financial year. See “New Zealand Regulatory Developments – *Financial reporting*” below.

New Zealand registered banks are required to comply with the Basel 3 capital adequacy requirements, as modified to reflect New Zealand conditions. From January 1, 2014, the RBNZ has also required most New Zealand incorporated banks, including ANZ Bank New Zealand Limited ("ANZ New Zealand"), to maintain a conservation buffer of 2.5% 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%, although there is no formal upper limit. Counterparty credit risk requirements and additional disclosure requirements to incorporate Basel 3 have been in effect since March 31, 2013.

New Zealand incorporated banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("BS13"). The Liquidity Policy requires banks to meet a minimum core-funding ratio of 75%, 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 2017 or 2018 in light of the BCBS’ 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 financial 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 5% of ANZBGL's Level 1 Tier 1 Capital. Excess exposures as at January 1, 2016 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 of June 30, 2015 until ANZBGL is, and expects to remain, below the 5% limit. APRA has also 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 ANZBGL's exposures to ANZ New Zealand and its other New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 Capital. In addition, certain requirements of APRA's Level 3 conglomerates framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017. One of those requirements is that the ANZ Group must limit its financial and operational exposures to subsidiaries (including ANZ New Zealand) to levels consistent with exposures to unrelated institutions of broadly the equivalent credit status.

RBNZ prudential credit controls

The RBNZ imposes restrictions on high LVR residential mortgage lending. Revised conditions of registration came into force on October 1, 2016, requiring New Zealand banks to restrict new non property-investment residential mortgage lending over 80% LVR to no more than 10% of the dollar value of a bank's new non property-investment residential mortgage lending. New Zealand banks must also restrict property investment residential mortgage lending over 60% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ has also established a specific asset class for loans to residential property investors. New Zealand banks (including ANZ New Zealand) are required to hold more capital for loans to residential property investors because of higher "Loss Given Default" rates and higher correlation factors for this asset class than for the non-property investment lending asset class.

Financial reporting

In September 2017, the RBNZ announced its decision to remove the requirement for banks to publish 'off-quarter' disclosure statements. Instead, the RBNZ will publish a quarterly 'dashboard' of key information on New Zealand locally incorporated registered banks sourced from private reporting that banks provide to the RBNZ. The implementation of the dashboard is expected to take several months, and the RBNZ will engage with the banking industry and other stakeholders during this process, including holding two trials before going live in late May 2018 with data from the first quarter of 2018.

RBNZ review of capital requirements

On May 1, 2017 the RBNZ published an issues paper announcing that it is undertaking a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks over 2017 and 2018. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The capital review will focus on the three key components of the current framework:

- The definition of eligible capital instruments;
- The measurement of risk; and
- The minimum capital ratios and buffers.

The RBNZ requested feedback about the topics covered by the issues paper for which responses were due on June 9, 2017. Detailed consultation documents on policy proposals and options for each of the three components will be released during 2017, with a view to concluding the review by the first quarter of 2018.

On July 14, 2017, the RBNZ released a consultation paper on what types of financial instruments should qualify as eligible regulatory capital. The consultation paper sets out proposals for reform to the definition of eligible capital instruments for which responses were due September 8, 2017.

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.

RBNZ's revised outsourcing policy

The RBNZ released its updated outsourcing policy ("BS11") on September 19, 2017, and ANZ New Zealand's revised conditions of registration came into force on October 1, 2017. BS11 will apply to all outsourcing arrangements entered into from the effective date, while existing outsourcing arrangements have five years to transition to compliance with BS11.

The key features of BS11 are as follows:

- All new outsourcing arrangements to or through a related party require RBNZ non-objection, unless the service or function is on the "pre-approved services and functions list" or on the "whitelist" (each of which will be maintained by the RBNZ). Non-objection is not required for outsourcing to an independent third party;
- Defined risk mitigants must be in place for all outsourcing arrangements. This includes mandatory contractual terms, undertaking due diligence to determine whether the provider's disaster recovery or business continuity arrangements are appropriate and, for related party outsourcing, robust back-up arrangements which are within the legal and practical control of ANZ New Zealand, and which can be deployed within 6 hours of a failure event occurring (or by the start of the next business day for some functions). At its discretion, the RBNZ may provide non-objection where there are "alternative arrangements" in place, instead of a robust back-up. Risk mitigants must be tested annually;
- Where outsourcing arrangements relate to 'basic banking services', backup arrangements must be capable of operating indefinitely on a fully automated basis. Where outsourcing arrangements do not relate to 'basic banking services', the back-up arrangements must be sufficiently robust to close out and manage the wind down of those products on a standalone basis;
- ANZ New Zealand must have a compendium of all outsourcing arrangements by October 1, 2019. The compendium must be embedded in compliance systems and form part of board and senior management oversight and governance reviews. All new outsourcing arrangements will be required to be entered onto the compendium within 20 days of becoming effective;
- ANZ New Zealand must have a separation plan that describes how ANZ New Zealand will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ New Zealand, or separation from ANZBGL. The separation plan must assume an abrupt loss of access to services or functions provided by related parties. A draft separation plan must be in place by April 1, 2018. A final separation plan, fully compliant with BS11, must be in place by April 1, 2022 and will be subject to annual testing; and
- An independent review is required on an annual basis during the five year transition period until full compliance is attained, assessing progress and compliance of transitioned arrangements. A triennial review is required after the transition period in addition to an annual review by internal audit of the compendium.

RBNZ and MBIE review of foreign margin requirements for over-the-counter ("OTC") derivatives

Since late 2016, the RBNZ and the New Zealand Ministry of Business, Innovation and Employment ("MBIE") have, in co-ordination with the New Zealand Treasury, been engaging with industry and overseas regulators to assess the likely domestic impact of foreign margin requirements. Although New Zealand has no legislative margin requirements for OTC derivatives, several registered banks (including ANZ New Zealand) will likely be required to comply with margin rules being implemented in foreign jurisdictions. On July 13, 2017, MBIE and the RBNZ released a consultation paper which describes potential impediments in New Zealand legislation to compliance with foreign margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances) and suggests several high level options for reform, including a preferred option which is to enact targeted legislative amendments to address those impediments. The New Zealand Bankers' Association co-ordinated an industry response to the consultation paper which was submitted on August 24, 2017. The appropriate form of any necessary amendments to existing legislation are now being considered.

Financial Markets Authority guidance on the Bank Bill Benchmark ("BKBM")

In October 2017, the New Zealand Financial Markets Authority ("FMA") released a guidance note clarifying its expectations about the trading conduct and controls for firms participating in the trading that sets BKBM and closing rates in the New Zealand market. Although the note aims to reduce regulatory uncertainty (and does not create any new legal obligations), market participants remain responsible for ensuring that trading conduct of their staff is legal and appropriate. Where the FMA identifies inappropriate trading conduct, its response will take into account the measures participants take to try to ensure good trading conduct.

MBIE review of the Financial Advisers Act 2008

Since 2015, the MBIE has been conducting a review of the Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand. Following that review the New Zealand Government announced in 2016 its intention to amend the existing regime and an exposure draft of the Financial Services Legislation Amendment Bill (the "Bill") was released for submissions in early 2017. The Bill proposes a revision of the existing legislative regime and, among other things, will simplify the financial adviser types and services they can provide, will impose a duty on all financial advisers to put the interests of clients first, will remove the requirement for advice to be given by a natural person (enabling robo-advice), and will introduce more meaningful disclosure requirements. The provisions for the new financial advice regime will be placed in the Financial Markets Conducts Act 2013 ("FMCA") and will introduce a licensing regime at the firm level. The Bill also amends the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("FSP Act"). Submissions on the draft Bill closed on March 31, 2017. A number of changes to the Bill were made as a result of submissions, including introducing a duty to take reasonable steps to ensure clients understand any limitations on the nature and scope of advice. The Bill was introduced to Parliament on August 3, 2017.

Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the "NZ AML/CFT Act")

On August 10, 2017, the Anti-Money Laundering and Countering Financing of Terrorism Act Amendment Bill (the "**NZ AML/CFT Amendment Act**") received Royal Assent, extending the scope of the NZ AML/CFT Act. The NZ AML/CFT Amendment Act expands the NZ AML/CFT Act to include some additional non-financial institution business sectors as "reporting entities", aligning with best practice recommendations set down by the Financial Action Task Force. The NZ AML/CFT Amendment Act also extends the current suspicious transaction reporting obligation to include an obligation to report suspicious activity, expands the scope of the reliance provisions in the NZ AML/CFT Act and creates some additional simplified customer due diligence categories.

In addition, new regulations became effective from November 1, 2017, which obligate reporting entities to report all international funds transfers exceeding NZD1,000 along with all cash transactions exceeding NZD10,000 to the Financial Intelligence Unit of the New Zealand Police (irrespective of any suspicion that may or may not exist relating to the underlying transaction). These regulations sit alongside existing obligations on reporting entities to report suspicious transactions.

International Monetary Fund ("IMF") has released its Financial Sector Assessment Program ("FSAP") review

On May 8, 2017, the IMF released its FSAP review of New Zealand. The review seeks to assess the strength and soundness of the New Zealand banking and financial services sector. Most aspects of the review are conducted against international standards by which New Zealand is not required to abide, but which the government has a publicly stated objective of seeking to act consistently with (where appropriate for New Zealand to do so). This IMF FSAP review is the first conducted in New Zealand since 2004, and comes after notable events such as the global financial crisis, finance company collapses, Canterbury earthquakes, and large scale financial services regulatory reform. The RBNZ has stated that it is considering the FSAP findings and recommendations in its areas of responsibility and the degree to which these might further its statutory purpose of promoting a sound and efficient financial system.

RBNZ consultation on Debt-to-Income ("DTI")

On June 8, 2017, the RBNZ released a consultation paper seeking feedback on serviceability restrictions such as DTI limits being added to its macro prudential toolkit. The RBNZ has said the purpose of the consultation is to gather feedback from the public on the prospect of including DTI limits in the Memorandum of Understanding ("MOU") on macro-prudential policy between the Minister of Finance and Governor of the RBNZ. The MOU determines the set of macro-prudential tools available to the RBNZ and how those tools should be used. The consultation paper outlines the RBNZ’s view on these issues and states that the RBNZ would not implement a DTI policy in current market conditions, but that the DTI limits could be a useful option in the future. Feedback to the consultation was due by August 18, 2017, and will be used by the RBNZ and New Zealand Government Treasury in discussing potential amendment of the MOU with the Minister of Finance.

UNITED STATES

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

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

ANZBGL is subject to U.S. federal laws and regulations, including the International Banking Act of 1978 (the "IBA"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies. As a federally-licensed branch regulated primarily by the OCC the Group's New York branch can generally engage in activities permissible for national banks, with the exception that the Group's New York branch may not accept retail deposits. The New York branch does not accept retail deposits and thus is not subject to the supervision of the Federal Deposit Insurance Corporation (“FDIC”). The U.S. 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 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 impose minimum margin requirements on uncleared swaps, require the central clearing of standardized over-the-counter (“OTC”) derivatives on regulated trading platforms and clearing houses and provide for heightened supervision of OTC derivatives dealers and major market participants. To date, the CFTC has implemented a significant portion of its rules for the regulation of the OTC swaps market, including rules concerning the registration of swap dealers, recordkeeping and reporting of swaps data, and the clearing and trading of certain interest-rate and index credit default swaps. Because ANZBGL is a registered swap dealer under the CFTC regulations, the Group is subject to these CFTC requirements as well as certain additional business conduct rules that apply to the Group’s swap transactions with counterparties that are U.S. persons.

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

U.S. prudential regulators and the CFTC have finalized and issued their respective rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. The requirement for swap dealers to collect and post variation margin with all counterparties became effective for ANZBGL and certain other institutions on September 1, 2017 through guidance issued by the regulators. 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 U.S. resolution plan in December 2016 and, under instructions issued by the FRB and the FDIC in September 2017, is next scheduled to be submitted in December 2018. ANZBGL also is subject to “enhanced prudential regulations” under Reg. YY, Subpart N, which requires quarterly and annual certification of compliance with the financial and risk oversight requirements thereof.

The U.S. Foreign Account Tax Compliance Act (“FATCA”), requires financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Federal tax authority, the Internal Revenue Service ("IRS"), either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30 percent withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States (and, beginning on January 1, 2019, certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2019, at the earliest. In the event that any country in which ANZ operates does not finalize and enforce an Intergovernmental Agreement (“IGA”) with the United States, and that country has local law impediments preventing compliance with FATCA, the Group may also be subject to broader compliance issues, significant withholding exposure and other operational impacts.

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 and/or its customers may face withholding tax if the Group does not provide such information in compliance with the applicable rules and regulations.

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

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

OTHER REGULATORS

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 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.

The Group is also required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under the local laws of all the countries in which it operates.

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 political and 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 political and economic conditions and the level of business activity in the major countries and regions in which the Group operates or trades, i.e., Australia, New Zealand, Asia Pacific, Europe and the United States.

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

For example, the global financial crisis that commenced in 2007 saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the emergence of many challenges for financial services institutions worldwide.

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

Changes in global political conditions, such as the "Brexit" referendum in the United Kingdom on June 23, 2016 (and the related negotiations with the European Union) and the commencement of Donald Trump's presidency in January 2017, have the potential to lead to extended periods of increased political and economic uncertainty and volatility in the global financial markets. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets. Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which could adversely affect the Group's business. These conditions may also adversely affect the Group's ability to raise medium or long-term funding in the international capital markets.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in 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.

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 the Group's ability to recover loans and other credit exposures.

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

Other current economic conditions impacting the Group and its customers include:

- Changes in the commercial and residential real estate markets in Australia and New Zealand (see risk factor 6 "Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect the Group's business, operations and financial condition"); and
- The demand for natural resources given that sector is a significant contributor to Australia's economy and that sector's significant exposure to Asia, particularly China and China's economic growth (see risk factor 7 "Credit risk may adversely affect the Group's business, operations and financial condition").

Natural and biological disasters such as, but not restricted to, cyclones (for example, Cyclone Debbie in March 2017), floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may adversely affect the Group's business, operations and financial condition (see risk factor 13: "Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's business, operations and financial condition").

All or any of the negative political, business or economic conditions 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.

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

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

Digital technologies and business models are changing customer behavior and the competitive environment. Emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models in the financial services sector.

The Group relies on bank deposits to fund a significant portion of its balance sheet. The Group competes with banks and other financial services firms for such deposits. Increased competition for deposits could increase the Group's cost of funding. 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, less stable or more expensive forms of funding, or to reduce lending. This could adversely affect the Group's business, prospects, financial performance or financial condition.

The impact on the Group of an increase in competitive market conditions or a technological change that puts the Group's business platforms at a competitive disadvantage, especially in the Group's main markets and products, would potentially lead to a material reduction in market share and margins, which would adversely affect the Group's business, operations and financial condition.

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

The Group is subject to detailed laws and regulations (including prudential requirements, taxation laws and accounting standards) and industry codes of practice 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 which, in some cases, have broad administrative and investigative powers over the Group's businesses. For example, APRA has very wide powers under the Banking Act in Australia, including in certain circumstances to investigate the affairs of and/or issue directions to banks (including ANZ), such as a direction to comply with a prudential requirement, to conduct an audit, to remove a director, executive officer or employee or not to make payments or undertake a transaction. In this regard, on October 19, 2017, the Crisis Management Bill was introduced into the Australian Parliament. If passed into law by the Australian Parliament, the Crisis Management Bill would amend the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA's powers to facilitate resolution of the entities it regulates (and their subsidiaries). Additional powers which are proposed to be given to APRA under the Crisis Management Bill which could impact the Group include greater oversight, management and directions powers in relation to the Group entities which are currently not regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments. At this stage, the impact of the Crisis Management Bill, if passed, is uncertain.

Failure by the Group, or an employee of the Group, to comply with applicable laws, regulations and other obligations may result in regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licenses or other enforcement or administrative action or agreements (such as enforceable undertakings) which, depending on the circumstances, could have a material adverse impact on the Group's business, operations, reputation, prospects, financial performance or financial condition. For further information, refer to risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's business, operations and financial condition" and Note 33 of the Group's 2017 Financial Statements. Further, regulatory actions may result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of such litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities.

Regulation is becoming increasingly extensive and complex in Australia and the other markets where the Group conducts business. As with other financial institutions, the Group faces increasing supervision and regulation in most of the jurisdictions in which it operates or raises funds, particularly in the areas of funding, liquidity, derivative execution, capital adequacy, provisioning, conduct, competition, mortgage pricing, consumer credit and consumer protection (including in the design and distribution of financial products), remuneration, privacy, data access, prudential regulation, anti-bribery and corruption, anti-money laundering and counter-terrorism financing, economic and trade sanctions and a greater focus on executive accountability. The BEAR Bill was introduced into the Australian Parliament in October 2017. The BEAR is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in Australian ADI groups. Risks to ANZ from BEAR include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.

Additionally, in the face of increasing public scrutiny of banking culture in recent years, there are several on-going Australian Government inquiries (including a House of Representatives inquiry into Australia's four major banks (including ANZ), which resulted in two committee reports in November 2016 and April 2017 that contained recommendations to improve the banking system for consumers, and a Senate inquiry focused on consumer protection and transparency in the banking, insurance and financial sectors), and proposals for new inquiries to be established (such as the opposition Australian Labor Party's proposal in April 2016 for a Royal Commission to investigate Australian banks), which could lead to additional regulatory changes or other regulatory measures which may adversely affect the Group's business, operations or financial condition.

Such scrutiny has become further increased following the commencement by AUSTRAC of civil penalty proceedings in 2017 against another major Australian bank relating to alleged past and ongoing contraventions of the AML Act (see risk factor 5 "Significant fines and sanctions in the event of breaches of law or regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's business, reputation, operations and financial condition").

Any changes to laws, regulations, fiscal and other regulatory policies (including taxation and levies) or interpretation may adversely affect the business, prospects, operations, financial performance or financial condition of the Group, either on a short-term or long-term basis. The Group's regulatory landscape is continually evolving and the nature, scope, timing and impact of any changes can be unpredictable, are beyond the Group's control, and may not be harmonized or otherwise consistently applied or interpreted by different governments or regulators across the multiple jurisdictions in which the Group operates. In addition, due to the increasing interconnectedness of regulation and regulators, actions taken in one jurisdiction may prompt similar actions to be taken in another jurisdiction.

Regulatory changes may adversely impact the operations and profitability of the Group or one or more of its businesses in a range of ways, such as by requiring the Group to:

- change its corporate structure or alter its business mix (for example by limiting the types, amount and composition of financial services and products that the Group can offer, limiting the fees and interest that the Group may charge or increasing the ability of other banks or non-banks to offer competing financial services or products);
- raise substantial additional capital;
- incur additional legal, compliance and tax costs;
- increase demands on management, employees and information technology systems;
- 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);
- hold significant levels of additional liquid assets; or
- undertake further lengthening of the Group's funding base.

Any of these events could materially and adversely affect the Group's business, operations, prospects, financial performance or financial condition.

Examples of certain current and potential regulatory changes and developments relevant to the Group are discussed below. These examples are not exhaustive.

As part of its 2017-18 Federal Budget, the Australian Government imposed a levy on liabilities for certain large banks, including the Group, with effect from 1 July 2017 (the "Major Bank Levy"). Based on ANZ's March 31, 2017 balance sheet, ANZ estimates that the financial impact of the Major Bank Levy on the Group would have been approximately $345 million before tax, and approximately $240 million after tax, per annum. There is a risk that Australian State and Territory Governments may introduce similar levies. A bill to this effect has been introduced into the South Australian Parliament in June 2017 but has not yet been enacted. Based on the form of the bill for the South Australian levy that was introduced into the South Australia Parliament, the South Australian levy would apply to all banks that operate in South Australia and are liable for the Major Bank Levy, including the Group. The amount payable under the South Australian levy would be equal to a bank's levy base under the Major Bank Levy multiplied by South Australia's gross state product share of the Australian gross domestic product multiplied by a levy rate of 0.06%. The net financial impact of this bank levy, and any similar levies, will also be dependent upon business performance and decisions ANZ makes in response to the levy. ANZ's balance sheet is also undergoing change due to various strategic initiatives that may impact the amount of the levy payable. The Major Bank Levy, the South Australian levy or any similar levy could adversely affect the Group's business, operations or financial condition.

Implementation of the BCBS's 'Basel 3' capital and liquidity reforms will continue over the coming years. The BCBS continues to refine its 'Basel 3' global regulatory framework and is consulting on other proposals (such as reforms to simplify the measurement of risk-weighted assets and reduce their variability across banks and jurisdictions). Consistent with Basel 3 requirements relating to liquidity reforms, the Group will be required to comply with the NSFR requirements, with effect from 1 January 2018. Any further changes may be implemented by APRA into its prudential standards in Australia and by other regulators in due course. The impacts of such changes on the Group cannot be fully determined until the final requirements, and any proposals by APRA or other regulators to implement them, are known.

In addition to BCBS reforms, there have been a series of other regulatory releases from authorities in various jurisdictions outside of Australia where the Group operates that have proposed significant regulatory changes for financial institutions. These changes include, among other things, proposals for changes to financial regulations in the United States (including the Dodd-Frank Act and its Volker Rule) which are under review as a result of an executive order released in February 2017, changes to senior executive accountability in Singapore and Hong Kong, greater data protection regulations in Europe, the Markets in Financial Instruments Directive 2 in the European Economic Area and amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach). United Kingdom and European authorities may also propose significant regulatory changes as a result of "Brexit" which, may impact the Group in the future. Regulatory changes outside of Australia could increase our regulatory compliance costs and otherwise adversely affect the Group's business, operations, prospects, financial performance or financial condition.

The Final Report of the FSI (released on December 7, 2014) concluded a comprehensive inquiry into Australia's financial system, which was established by the Australian Government in late 2013. The Final Report of the FSI included a wide-ranging set of recommendations. In Australia, APRA is responsible for implementing the final recommendations of the Australian Government's FSI aimed at strengthening the resilience of Australia's financial system including (among other things) setting capital standards to ensure that capital ratios of ADI's are "unquestionably strong".

Consistent with the FSI's recommendation that the capital ratios of ADIs should be "unquestionably strong", effective from July 2016, APRA increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach to credit risk (including the Group). Subsequently, on July 19, 2017, APRA released an information paper outlining APRA's conclusions with respect to the quantum and timing of capital increases that will be required for ADIs to achieve "unquestionably strong" capital ratios. APRA indicated that, in the case of the four major Australian banks, it expects that the increased capital requirements will translate into the need for an increase in Common Equity Tier-1 ("CET1") capital ratios, on average, of around 100 basis points above their December 2016 levels. In broad terms, that equates to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent. APRA also stated that ADIs should, where necessary, initiate strategies to increase their capital strength to be able to meet these capital benchmarks by January 1, 2020 at the latest.

The Group expects that APRA's implementation of the prudential standards to produce "unquestionably strong" capital ratios will result in further changes to the risk weighting framework for certain asset classes and other risks (such as operational risks). Changes may also include increases in APRA's existing Common Equity Tier 1 "capital conservation buffer" requirement for ADIs. While APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, it is not currently clear how APRA will implement these changes.

APRA's prudential standards may also be further supplemented by yet to be finalized proposals to implement other key FSI recommendations:

- to supplement the risk-adjusted capital ratio requirements with the introduction of a minimum leverage ratio; and
- to implement a minimum total loss absorption capital requirement where certain senior debt could be "bailed in" to recapitalize a stressed financial institution to avoid government support of that financial institution.

APRA is expected to continue to assess the impact of impending BCBS reforms and to consider other financial resilience measures, such as liquidity, funding, asset quality, and recovery and resolution planning relating to the FSI's key recommendations.

In addition, APRA is currently undertaking several open consultations, including those related to reporting requirements for the countercyclical capital buffer, liquidity measures and securitization, as well as other areas of focus. Accordingly, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remain uncertain. Further changes to APRA's prudential standards and the final outcome of the FSI could increase the level of regulatory capital that the Group is required to maintain, restrict the Group's flexibility, require it to incur substantial costs and impact the profitability of one or more business lines, which could adversely affect the Group's business, financial performance or financial condition.

Refer to Note 22 of the Group's 2017 Financial Statements for a further discussion and update on regulatory developments specifically with respect to capital management, including BCBS and FSI reforms.

5. Significant fines and sanctions in the event of breaches of law or regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's business, reputation, operations and financial condition

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums mean that these risks continue to be an area of focus for the Group. Following the AUSTRAC civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the AML Act, there may be increased regulatory scrutiny of other Australian banks, including the Group, and significant changes to the anti-money laundering regulatory framework. While the full scope of any changes, if any, is not known, the Group may incur additional costs associated with legal compliance that may adversely affect our business and financial condition.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of the Group. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious legal and reputational consequences for the Group and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively, could have a material adverse effect on the Group's business, reputation, operations and financial condition. The Group's foreign operations may place the Group under increased scrutiny by regulatory authorities, and subject us to increased compliance costs.

6. Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect the Group's 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.

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to drive underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). Values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, have steadily risen.

Should the Group's regulators impose supervisory measures impacting the Group's residential lending or if Australian housing price growth subsides or property valuations decline, the demand for the Group's home lending products may decrease which may adversely affect the Group's business, operations and financial condition. For example, in March 2017, prompted by ongoing Australian housing price appreciation and rising Australian household debt, APRA introduced a new supervisory measure instructing Australian banks, including the Group, to limit new residential interest-only mortgages to 30% of total new residential mortgage lending.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and commercial property) the Group holds against loans which may impair the Group's ability to recover amounts owing to the Group if customers or counterparties were to default. A significant decrease in Australian and New Zealand housing valuations triggered by, for example, an event or a series of events in the local or global economy or lack of confidence in market values, could adversely impact the Group's home lending activities. This is because borrowers with loans in excess of their property value show a higher propensity to default and, in the event of such defaults the Group's security values would be eroded, causing the Group to incur higher credit losses, which could adversely affect the Group's financial performance and condition. The demand for the Group's home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make the Group's lending products less attractive to potential homeowners and investors. A material decline in residential housing prices could also cause losses in the Group's residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the Group is forced to re-sell these dwellings at a loss.

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 significant decrease in commercial property valuations or a significant slowdown in the 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.

7. *Credit risk may adversely affect the Group's business, operations and financial condition*

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which could result in credit losses. Should material credit losses occur to the Group's credit exposures, it could have an adverse effect on the Group's business, operations and financial condition.

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 or with exposure to:

- the Australian natural resources sector which is particularly exposed to any prolonged slowdown in the Chinese economy could be materially and adversely impacted by a decline in natural resource prices;
- former government owned and now privatized assets such as electricity distribution networks, ports, road and rail networks could be materially and adversely impacted because the Group believes these assets are being valued at historically high levels. The value of the capital and profitability of these investments is vulnerable to interest rate and currency exchange rate movements. Long-term interest rate and currency hedges are provided by banks, including the Group, to manage these risks. These long-term hedge exposures have volatile mark to market characteristics which are unsupported by collateralized security agreements for out of the money positions. Counterparty insolvency has the potential to expose the Group to large uncovered derivative liabilities; and
- the dairy industry in Australia and New Zealand, which is particularly exposed to excess milk production from other developed countries being sold into traditional markets, could be materially and adversely impacted by a decline in commodity prices.

Credit risk may also arise from certain derivative, clearing and settlement contracts the Group enters into, and from the Group's dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies where the financial conditions of such entities are affected by economic conditions in global financial markets.

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, more expensive imports due to the reduced strength of the Australian and New Zealand dollars relative to other currencies, 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.

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 judgements, 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.

8. *Challenges in managing the Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the Group's business operations and financial condition*

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, United States and United Kingdom. The Group is required by its primary regulator, APRA, to maintain adequate regulatory capital.

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

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

APRA has now implemented Prudential Standards to accommodate Basel 3. 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 APRA's response to the remaining FSI recommendations, further changes from APRA's unquestionably strong requirements or the requirements of the BCBS including, for example, further refinements to Basel 3 requirements), are described in risk factor 4 "Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition".

9. *The Group's credit ratings could change and adversely affect the Group's ability to raise capital and wholesale funding and constrain the volume of new lending which may adversely affect the Group's business operations and financial condition*

The Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. Credit ratings may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies by which they are determined may also be revised in response to legal or regulatory changes, market developments or for any other reason.

During 2017, Fitch, Standard & Poor's and Moody's affirmed or revised their respective ratings and outlooks of the major Australian banks, including ANZ, as follows:

- Fitch (March 2017): Affirmed the ratings of the major Australian banks, including the Group, with a stable outlook;
- Standard & Poor's (May 2017): lowered its assessment of Australia's Banking Industry Country Risk Assessment ("BICRA") from 2 to 3 and subsequently lowered its assessment of the standalone credit profiles of almost all financial institutions operating in Australia including ANZ. This resulted in the downgrading of the ratings on hybrid and subordinated debt instruments issued by ANZ and ANZ New Zealand by one notch. ANZ and ANZ New Zealand's long term ratings remained at AA- with negative outlook; and
- Moody's (June 2017): Revised its outlook for Australia's macro profile from "Very Strong negative", to "Strong plus" and downgraded the long-term rating of ANZ (alongside the other three major Australian banks) from Aa2 to Aa3. In addition, ANZ's hybrid and subordinated debt were downgraded by one notch. Moody's also revised the outlook for ANZ (and the other major Australian banks) from negative to stable. The long-term rating of ANZ New Zealand was also downgraded one notch to A1 from Aa3, and the hybrid and subordinated debt downgraded by one notch. The outlook for ANZ New Zealand was revised from negative to stable.

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.

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

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

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

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

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

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

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

In addition, the Group has an ongoing need to update and implement new information systems applications and technology, in part to assist the Group in satisfying regulatory demands, ensuring information security, enhancing digital banking services for the Group's customers and integrating the various segments of the Group's business. For example, the Group is piloting the release of voice biometrics for customer transactions on mobile devices and working towards implementing the industry New Payments Platform (which will be an open access infrastructure for fast payments in Australia). 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 the Group to provide a number of information technology systems, and any failure of the Group's systems could directly affect ANZ New Zealand.

11. Risks associated with information security including cyber-attacks, may adversely affect the Group's business, reputation, operations and financial condition

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, India, the United States, Europe, Singapore and China.

The Group operates in 34 markets, and the risks to its systems are inherently higher in certain countries where, for example, political threats or targeted cyber-attacks by terrorist or criminal organizations are greater.

The Group employs a team of information security experts who are responsible for the development and implementation of the Group's Information Security Policy. The Group also uses third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the Group's business.

The Group is conscious that threats to information systems are continuously evolving and that cyber threats, including but not limited to, cyber compromise, advanced persistent threats, distributed denial of service, malware and ransomware attacks, and the risk of such attacks are increasing, and as such the Group may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about the Group and/or its clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen.

The Group may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. Any unauthorized access of the Group's information systems or unauthorized use of its confidential information could potentially result in disruption of the Group's operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion to the Group's competitive market position, which could adversely affect the Group's financial results and reputation.

12. Disruption to electricity markets and gas markets may adversely affect the Group's business, operations and financial condition

During 2016 and 2017, there have been various events in Australia that have affected retail, commercial and industrial electricity and gas users. These events include the closure of the Hazelwood coal power station in Victoria, black-outs in South Australia, export demand for Queensland LNG gas and announcements relating to energy policy and investment by the Australian federal government and the South Australian state government.

Some of these events resulted in higher electricity and gas prices, as well as disruption to electricity and gas markets. The cost of sustained high prices may flow through to business and consumers. The potential inability of businesses to pass through this cost increase to customers may lead to credit risk associated with the Group's customers. The impact of higher electricity cost for consumers could lead to reduced consumption and indirectly impact the demand for goods and services, contributing to lower business profitability. Higher electricity costs may also increase the CPI and influence upward adjustments to interest rate settings.

These effects may adversely affect the Group's customers or the Group's collateral position in relation to credit facilities extended to such customers, which may adversely affect the Group's business, operations and financial condition.

13. Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's business, operations and financial condition

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

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

14. Liquidity and funding risk events may adversely affect the Group's 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. Deterioration in investor confidence in the Group could materially impact the Group's cost of borrowing, and the Group's ongoing operations and funding.

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

Since the advent of the global financial crisis in 2007, developments in major markets (including the United States, Europe and China) have adversely affected the liquidity in global capital markets and increased funding costs, for significant periods, 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 this liquidity is incrementally 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.

15. 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. For instance, the U.S. Federal Reserve increased interest rates in December 2016, March 2017 and June 2017, though the Australian Reserve Bank lowered interest rates in May 2016 and August 2016 and has since kept the interest rates on hold. In addition, in some jurisdictions, currency policy is also used to influence general business conditions and the demand for money and credit. These measures and 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 measures and 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 interest rates and monetary policy are difficult to predict and may adversely affect the Group's business, operations and financial condition.

16. ***Acquisitions and/or divestments may adversely affect the Group's business, operations and financial condition***

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

Divestments by the Group during the 2017 fiscal year included entering into agreements to sell:

- A majority of the Group's Retail and Wealth businesses in Asia;
- A 20% stake in SRCB; and
- UDC Finance.

In October 2017, the Group also announced that it had entered into agreements to sell:

- OnePath P&I and aligned dealer group businesses in Australia; and
- A 20% stake in MCC (in addition to entering into a put option to sell the Group's remaining 20% interest).

The sale of the Group's Retail and Wealth businesses in China, Singapore and Hong Kong have now completed. The other transactions listed above remain subject to regulatory approvals and other completion conditions.

The Group is also considering the sale of its life insurance business in Australia.

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. Additionally, there are risks relating to the completion of any particular transaction occurring, including counterparty and settlement risk, or the non-satisfaction of any completion conditions (for example, relevant regulatory or third party approvals). 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. Further, there is a risk that completion of an agreed transaction may not occur, including due to failure of the counterparty to satisfy its completion conditions or because other completion conditions such as obtaining relevant regulatory approvals are not satisfied.

17. ***Sovereign risk events may destabilize global financial markets and may adversely affect the Group's, business, operations and financial condition***

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

18. ***Market risk events may adversely affect the Group's business, operations and financial condition***

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For purposes of financial risk management, the Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded markets risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations, market risk arising from the insurance business, non-traded equity risk and lease residual value risk. For a further discussion of market and related risks, see Note 16 to the Group's 2017 Financial Statements.

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

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

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

20. ***Operational risk may adversely affect the Group's 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 reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

Operational risk is typically classified into 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: associated with the Group's 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 and transactions, where financial advantage is obtained;
- Employment Practices and Workplace Safety: employee relations, diversity and discrimination, loss of key staff or inadequate management of human resources including the Chief Executive Officer (CEO) and the management team of the CEO, and health and safety risks to the Group's employees;
- Clients, Products and Business Practices: risk of market manipulation, product defects, incorrect advice, money laundering and misuse or unauthorized disclosure of customer information;
- 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 the Group's 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.

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.

21. Reputational risk events may adversely affect the Group's business, operations and financial condition

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

The Group may incur reputational damage where one of its practices fails to meet evolving community expectations. As these expectations may exceed the standard required in order to comply with applicable law, the Group may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and the Group's practices could arise in a number of ways, including in relation to our product and services disclosure practices, pricing policies and use of data.

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

22. Conduct-related risk events or behaviors that do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community may adversely affect the Group's business, reputation, operations and financial condition

Conduct-related risks can result from:

- the provision of unsuitable or inappropriate advice (for example, advice that is not commensurate with a customer's needs and objectives or 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 the Group's policies and standards; and
- trading activities in financial markets, outside of the Group's policies and standards.

The Group is regulated under various legislative regimes in the countries in which it operates that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorized to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes. Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including unethical or misleading financial advice and compensation processes for consumers impacted by that advice. In June 2017, the final report from the Australian Senate Economic References Committee on the Scrutiny of Financial Advice was released and stated that the culture and practices of the financial advice industry "fall well short of the public's expectations".

Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest and/or inadequate improvement to culture and practices, may expose the Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences, which could adversely affect the Group's business, operations and financial condition.

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

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

24. Insurance risk events may adversely affect the Group's business, operations and financial condition

The Group is exposed to insurance risk events, predominantly in the Group's life insurance business. 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. If the Group incurs losses due to insurance risk events, such losses may adversely affect the Group's business, operations and financial condition.

25. Increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes (which are still evolving), may adversely affect the Group's business, operations and financial condition

The U.S. Foreign Account Tax Compliance Act ("FATCA") requires non U.S. financial institutions to undertake ongoing customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Internal Revenue Service ("IRS") either directly or via local tax authorities. If the ongoing obligations are not completed in the manner and form meeting the applicable requirements, the Group and/or customers 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 1 January 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 1 January 2019, at the earliest. In the event that any country in which ANZ operates does not finalize and enforce an Intergovernmental Agreement ("IGA") with the United States, and that country has local law impediments preventing compliance with FATCA, the Group may also be subject to broader compliance issues, significant withholding exposure and other operational impacts.

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

The OECD's Common Reporting Standard ('CRS') provides for the Automatic Exchange of (financial account) Information ('AEOI') in tax matters. Over 100 jurisdictions have committed to implement the CRS. The CRS has commenced in a number of countries in which the Group has operations for example, Australia, New Zealand, Hong Kong, Singapore and the United Kingdom. CRS requirements, though generally similar to FATCA, have significant country by country variations and require a higher standard of compliance in many aspects, with significant penalties for non-collection/reporting of prescribed customer information. Ongoing OECD peer review and other regulatory review activities are likely to result in further obligations and an increased focus on compliance with the CRS and each country of adoption ensuring that its penalty regime is sufficiently adequate to deter non-compliance.

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

26. Changes in the valuation of some of the Group's assets and liabilities may have a material adverse effect on the Group's earnings and/or equity

The Group applies accounting standards which require that various financial instruments, including certain derivative instruments and assets and liabilities held for sale (as per the Notes to the Group's 2017 Financial Statements), are recognized at fair value with changes in fair value recognized in earnings or 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 which are recognised in earnings. The Group is required to assess the recoverability of goodwill balances at least annually and other non-financial assets including premises and equipment, investment in associates, capitalized software and other intangible assets (including acquired portfolio of insurance and investment business and deferred acquisition costs) where there are indicators of impairment.

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

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

27. 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 judgement in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but that 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.

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

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

The Group had contingent liabilities as at September 30, 2017 in respect of the matters outlined in Note 33 to the Group's 2017 Financial Statements.

Note 33 includes, among other things, descriptions of:

- bank fees litigation;
- benchmark/rate actions;
- regulatory reviews and customer exposures; and
- security recovery actions.

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability, wealth advice, pricing and competition, conduct in financial markets and capital market transactions. During the year, the Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

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

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$0.7840 = A$1.00, the Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on September 29, 2017. On October 27, 2017 the Noon Buying Rate was US$0.7660 = A$1.00.

Noon Buying Rates for Australian Dollars

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

	USD per AUD1.00			
Year ended September 30	**High**	**Low**	**Average[1]**	**Period-end**
2013	1.0579	0.8901	0.9885	0.9342
2014	0.9705	0.8715	0.9155	0.8737
2015	0.8904	0.6917	0.7781	0.7020
2016	0.7817	0.6855	0.7385	0.7667
2017	0.8071	0.7174	0.7624	0.7840

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

Major Exchange Rates

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

	Balance Sheet			Profit & Loss Average		
	As of September 30			Year ended September 30		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Chinese Yuan	**5.2297**	5.0809	4.4573	**5.1868**	4.8064	4.8803
Euro	**0.6655**	0.6789	0.6229	**0.6896**	0.6626	0.6838
Pound Sterling	**0.5848**	0.5874	0.4625	**0.6010**	0.5159	0.5074
Indian Rupee	**51.289**	50.764	46.142	**50.074**	49.179	49.522
Indonesian Rupiah	**10,565**	9,900	10,281	**10,132**	9,887	10,199
Japanese Yen	**88.404**	76.844	84.072	**84.655**	82.039	93.515
Malaysian Ringgit	**3.3155**	3.1576	3.1176	**3.3043**	3.0430	2.8761
New Taiwan Dollar	**23.795**	23.895	23.066	**23.479**	23.904	24.543
New Zealand Dollar	**1.0867**	1.0487	1.1003	**1.0661**	1.0737	1.0785
Papua New Guinean Kina	**2.5102**	2.4143	2.0123	**2.4193**	2.2606	2.0940
United States Dollar	**0.7845**	0.7617	0.7013	**0.7612**	0.7361	0.7839

For the 2017 fiscal year, 33% of ANZ's operating income was derived from the New Zealand and Asia Pacific, Europe & America ("APEA") geographic regions (2016 fiscal year: 35%; 2015 fiscal year: 37%; 2014 fiscal year: 36%; 2013 fiscal year: 33%). Refer to Note 7 of the 2017 Financial Statements (attached as Annex A to this U.S. Disclosure Document) for a breakdown of total operating income by geographical location.

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

Australian Dollar movement against foreign currencies[1]

Year ended September 30	**2017**	**2016**	**2015**	**2014**	**2013**
Chinese Yuan	8%	-2%	-14%	-8%	-6%
Euro	4%	-3%	1%	-10%	-4%
Pound Sterling	17%	2%	-9%	-13%	-2%
Indian Rupee	2%	-1%	-12%	0%	4%
Indonesian Rupiah	2%	-3%	-5%	9%	4%
Japanese Yen	3%	-12%	-1%	3%	13%
Malaysian Ringgit	9%	6%	-3%	-4%	-3%
New Taiwan Dollar	-2%	-3%	-11%	-6%	-4%
New Zealand Dollar	-1%	0%	-1%	-10%	-6%
Papua New Guinean Kina	7%	8%	-6%	4%	-1%
United States Dollar	3%	-6%	-15%	-7%	-3%

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

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

The Group has taken out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, U.S. Dollar and U.S. Dollar correlated).

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the 2017 Financial Statements (attached to this U.S. Disclosure Document as part of Annex A) prepared under AASs (refer to "Section 1: Key Information - Basis of preparation" for a description of AASs).

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

In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to other operating income and $17 million increase to operating expenses). The Originally Reported 2016, 2015, 2014 and 2013 fiscal year comparative amounts have not been restated.

Comparative information for the 2016 fiscal year at the divisional level within this U.S. Disclosure Document reflects the impact of the changes to the TSO operating model as described under "Principal Activities of the Group" in this U.S. Disclosure Document. These reallocations do not have an impact on comparative information in the income statement or balance sheet at the Group level, but do have an impact at the divisional level.

Large/notable items

The Group recognized a number of items which impacted the Group's statutory profit. These items are described below:

Sales and investment related adjustments

- **Asian minority investments adjustments and reclassification**

  During the 2016 fiscal year, the Group recognized a $260 million impairment to its equity accounted investment in AMMB Holdings Berhad ("AmBank") bringing the carrying value in line with its value-in-use calculation. For further information refer to Note 34 of the 2016 Financial Statements (attached to this U.S. Disclosure Document as part of Annex C).

  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. As ANZBGL did not participate in the capital raising, its ownership interest decreased from 14% to 12%. As a consequence, ANZBGL ceased equity accounting for the investment in BoT and commenced accounting for it as an available for sale asset[1]. A net gain of $29 million was recognized in relation to the remeasurement of the investment to fair value and recycling of the associated equity accounting reserves.

  On January 3, 2017, the Group announced that it had agreed to sell its 20% stake in SRCB. On September 18, 2017, the Group announced a revised transaction arrangement in which Baoshan Iron & Steel Co. Ltd. ("Baoshan") replaced Shanghai Sino-Poland Enterprise Management Development Corporation Limited ("Shanghai Sino-Poland") joining China COSCO Shipping Corporation Limited ("COSCO") to acquire ANZ's 20% stake in SRCB. Under the revised arrangement, COSCO and Baoshan will each acquire a 10% stake in SRCB. The key financial terms of the revised sale agreement are unchanged from those described in the January 25, 2017 U.S. Investor Website update. The sale is subject to customary closing conditions and regulatory approvals and is expected to be completed by late 2017. In the 2017 fiscal year, the Group recognized a $219 million impairment to the investment, $12 million of foreign exchange losses and $102 million of tax expenses following the reclassification of the investment to held for sale[2]. This loss will be largely offset by the release of foreign currency translation and available for sale reserves of $289 million on sale completion.

  Notes:

  1. *Equity accounted earnings from BoT prior to the cessation of equity accounting upon reclassification to available for sale were nil for the 2017 fiscal year and $86m for the 2016 fiscal year.*
  2. *Equity accounted earnings from SRCB prior to the cessation of equity accounting upon reclassification to held for sale were $58m for the 2017 fiscal year and $259m for the 2016 fiscal year.*

- **Sale of Asia Retail and Wealth businesses**

  On October 31, 2016, the Group announced it had agreed to sell its Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank Ltd. As a result of the sale agreement, the Group recognized a $324 million charge to impair software, goodwill and fixed assets as well as providing for costs associated with the sale in the March 2017 half. In the September 2017 half, a $14 million gain was recognized in relation to the sale. For further information refer to Note 28 of the 2017 Financial Statements (attached to this U.S. Disclosure Document as part of Annex A). This business is part of the Asia Retail & Pacific division.

  At balance date, Retail and Wealth businesses in China, Singapore and Hong Kong have transitioned to DBS Bank Ltd. We expect to transition the remaining businesses in Taiwan and Indonesia early in the 2018 calendar year.

  On April 21, 2017, the Group announced it had agreed to sell its Retail business in Vietnam to Shinhan Bank Vietnam. The transfer of the Retail business in Vietnam to Shinhan Bank Vietnam will be completed early in the 2018 calendar year.

- **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 gain on sale of the Esanda Dealer divestment was $66 million, which was recognized in the 2016 fiscal year.

Derivative methodology change and valuation adjustments

- **Derivative CVA methodology change**

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

- **Derivative CVA valuation adjustments**

  In determining the fair value of derivative positions, adjustments are made to the risk free value to include factors such as the impact of credit and funding. The impact of valuation adjustments has increased significantly following the derivative CVA methodology change implemented in 2016 and changes previously made to align funding valuation adjustments with emerging market practice. In the 2017 fiscal year, a net gain of $229 million was recognized to reflect the impact of funding and credit valuation adjustments, net of associated hedges (2016 fiscal year: net loss of $102 million).

Other large/notable items

- **Gain on sale of 100 Queen Street, Melbourne**

  The Group sold the 100 Queen Street office tower and former head office in Melbourne, Australia. The transaction resulted in a gain on sale of $114 million in the 2017 fiscal year.

- **Software capitalization changes**

  During the 2016 fiscal year, the Group amended 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 as of October 1, 2015 with an original cost below the revised threshold, the carrying values were expensed through an accelerated amortization charge of $556 million in the 2016 fiscal year (recognized in the TSO and Group Center division).

- **Restructuring**

  The Group accelerated the process of reshaping its workforce in 2016 to build a simpler, more agile bank. A restructuring expense of $278 million was recognized in the 2016 fiscal year. In the 2017 fiscal year, a restructuring expense of $62 million was recognized but not considered large/notable.

Group Profit and Loss

	Years ended September 30			
	2017 $M	Restated[1] 2016 $M	Originally Reported[1] 2016 $M	2015 $M
Net interest income	14,872	15,095	15,095	14,616
Other operating income[1]	5,401	5,451	5,434	6,474
Operating income	20,273	20,546	20,529	21,090
Operating expenses[1]	(9,448)	(10,439)	(10,422)	(9,378)
Profit before credit impairment and income tax	10,825	10,107	10,107	11,712
Credit impairment charge	(1,198)	(1,929)	(1,929)	(1,179)
Profit before income tax	9,627	8,178	8,178	10,533
Income tax expense	(3,206)	(2,458)	(2,458)	(3,026)
Non-controlling interests	(15)	(11)	(11)	(14)
Profit after income tax	**6,406**	**5,709**	**5,709**	**7,493**

1. *In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million to increase to other operating income and $17 million increase to operating expenses). The Originally Reported 2016 and 2015 fiscal year comparative amounts have not been restated.*

Comparison of 2017 with Restated 2016

Profit after income tax increased $697 million (+12%) compared with 2016 fiscal year mainly due to:

- Net interest income decreased $223 million (-1%) largely due to an 8 basis point decrease in the net interest margin, partially offset by 2% growth in average interest earning assets. The growth in average interest earning assets reflects ANZ's strategic focus on home loans, in particular owner occupier, partially offset by reductions from Institutional portfolio rebalancing and the partial completion of the Asia Retail and Wealth sales. The lower net interest margin reflects the combined impact of deposit competition, growth in the liquidity portfolio and lower earnings on capital. This was partially offset by differentiated repricing in home loans across investor and owner occupier, principal and interest and interest only loans which on a net basis benefited margins. The Major Bank Levy was introduced on July 1, 2017 which also reduced net interest income by $86 million.
- Other operating income decreased $50 million (-1%) due to a $264 million reduction in net funds management and insurance income, a $244 million decrease in share of associates' profit primarily due to the reclassification of SRCB and BoT, a $229 million reduction in other operating income mainly due to a number of sales related charges in 2017, a $116 million accounting loss from economic hedges as well as a $75 million reduction in net fee and commission income. These unfavorable impacts were partially offset by a significant improvement in Markets other operating income of $670 million, mainly related to derivate valuation changes, and a $233 million accounting gain on revenue hedges.
- Operating expenses decreased $991 million (-9%) primarily due to the $556 million charge for software capitalization policy changes and the $278 million charge for restructuring taken in 2016 that was not repeated in 2017. Personnel expenses reduced by $363 million reflecting a 5% reduction in average full time equivalent employees. Partly offsetting this are increases in underlying technology expenses of $55 million and increases in other expenses of $106 million as the result of non-lending losses and higher technology related consulting expenses.
- Credit impairment charges decreased $731 million (-38%). Individual credit impairment charges decreased by $572 million (-30%) primarily as a result of a benign credit environment. Collective impairment charges decreased by $159 million due to an improvement in the Group's overall risk profile and portfolio rebalancing in the Institutional division, partially offset by economic overlay adjustments.

Comparison of Originally Reported 2016 with 2015

Profit after income tax decreased $1,784 million (-24%) compared to the 2015 fiscal year mainly due to software capitalization changes, Asian minority investments adjustments, restructuring expenses and the derivative CVA methodology change. Key factors affecting the result were:

- Net interest income increased $479 million (+3%) with 5% growth in average interest earning assets, partly offset by a 4 basis point decrease in net interest margin. Adjusting for the $96 million favorable impact of foreign currency translation and the $224 million impact from divesting the Esanda Dealer Finance loan portfolio, net interest income increased by $607 million (+4%) and net interest margin fell by 1 basis point. Average interest earning assets increased by $37.1 billion (+5%) reflecting a $10.2 billion increase due to foreign currency translation impact, lending growth of $13.7 billion, an $8.5 billion increase in trading securities and available-for-sale assets and a $3.8 billion increase in collateral paid. Loan growth occurred primarily in Australia and New Zealand home loans, partially offset by a decrease in Institutional loans as a result of the strategic repositioning of that business to improve capital efficiency and returns. The net interest margin decline was primarily due to increased wholesale funding costs, growth in the lower margin liquidity portfolio and lower earnings from financial market activities, partially offset by improved Australian home loan margins.
- Other operating income decreased $1,040 million (-16%). This decrease was primarily driven by economic hedges which decreased from an unrealized gain of $256 million to an unrealized loss of $180 million, partially offset by a favorable foreign currency translation impact of $225 million as well as a $60 million reduction in realized and unrealized revenue hedge losses. Adjusting for this, other operating income decreased by $889 million which was mainly due to the $260 million impairment of the investment in Ambank (refer to Note 34 of the 2016 Financial Statements (attached to this U.S. Disclosure Document as part of Annex C)), the $237 million derivative CVA methodology change, a $261 million decrease in Institutional as a result of the strategic repositioning of that business to improve capital efficiency and returns, along with lower sales revenue in Markets as well as a $51 million decrease in net funds management and insurance income.
- Operating expenses increased $1,044 million (+11%) with foreign currency translation having a $114 million unfavorable impact. Adjusting for this, operating expenses increased $930 million (+10%) mainly due to a $743 million increase related to software capitalization changes and a $247 million increase in restructuring charges. Excluding these impacts, operating expenses decreased $60 million (-1%) with personnel expenses

decreasing by $230 million (-4%) due to a 7% FTE reduction (-5% average) and lower incentive expenses, offset by higher technology expenses which increased $189 million (+13%) from higher depreciation and amortization of digital-enabling and other core infrastructure, as well as higher licensing and outsourced services costs.

- Credit impairment charges increased $750 million (+64%) with foreign currency translation having a $9 million unfavorable impact. Adjusting for this, individual credit impairment charges increased by $819 million (+76%) predominantly from a small number of Australian and multinational resource related exposures in Institutional; increased provisions in the Australia division due to growth in Small Business Banking and higher delinquencies in the retail and commercial portfolios in Queensland and Western Australia; as well as the commercial settlement of the legal dispute with Pankaj and Radhika Oswal in Institutional. This was partially offset by a $78 million (-82%) decrease in the collective credit impairment charge.

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.

In the 2017 fiscal year, the Group changed its calculation of net interest margin to net Australian home loan deposit offset account balances against average interest earning assets to reflect the non-interest earning nature of home loan deposit offset account balances. Average interest earning assets were reduced as result of this change to align with other major banks in Australia. The Restated 2016 fiscal year's net interest margin and total average interest earning assets comparatives have been restated accordingly. The Originally Reported 2016 and 2015 comparative amounts have not been restated.

Group	Years ended September 30			
		Restated	Originally Reported	
	2017 $M	2016 $M	2016 $M	2015 $M
Net interest income [1]	**14,872**	15,095	15,095	14,616
Average interest earning assets[2,3]	**748,000**	730,835	754,160	717,012
Average deposits and other borrowings[3]	**600,186**	586,453	586,453	559,779
Net interest margin (%)[2]	**1.99**	2.07	2.00	2.04

Net interest margin by major division	Years ended September 30			
		Restated[4]	Originally Reported[4]	
	2017 $M	2016 $M	2016 $M	2015 $M
Australia[1]				
Net interest margin (%)[2]	**2.68**	2.75	2.55	2.55
Average interest earning assets[2]	**312,412**	298,764	322,012	302,074
Average deposits and other borrowings	**196,256**	183,196	183,104	170,857
Institutional				
Net interest margin (%)	**1.01**	1.13	1.13	1.20
Average interest earning assets	**304,727**	305,446	305,468	299,426
Average deposits and other borrowings	**244,772**	232,959	232,919	229,563
New Zealand[1]				
Net interest margin (%)	**2.31**	2.37	2.38	2.50
Average interest earning assets[3]	**109,212**	103,166	103,166	95,207
Average deposits and other borrowings[3]	**78,968**	75,418	75,417	68,079

1. *Net interest income includes income relating to assets held for sale and income earned on assets prior to divestment.*
2. *In the 2017 fiscal year, the Group changed its calculation of net interest margin to net Australian home loan deposit offset account balances against average interest earning assets. Average home loan deposit offset account balances for the Australia division were $25,532 million for the fiscal year ended September 30, 2017 (The fiscal year ended September 30, 2016: $23,325 million). The 2016 fiscal year comparatives have been restated. The Originally Reported 2016 and 2015 fiscal year comparative amounts have not been restated.*
3. *Average Balance Sheet amounts for the fiscal year ended September 30, 2017 include assets and liabilities held for sale.*
4. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of 2017 with Restated 2016

The decrease in net interest income of $223 million (-1%) was driven by:

Net interest margin (-8 bps)

- Asset mix and funding mix (+1 bps): favorable impact from a lower proportion of wholesale funding and run-off of lower margin lending products in the Institutional division, partially offset by the adverse impact from growth in Australian home loans.
- Funding costs (-2 bps): impact of higher hybrid and subordinated debt and the introduction of the Major Bank Levy.
- Deposit competition (-3 bps): lower margin from increased competition in Australia and New Zealand, partially offset by improved margins in Asia.
- Asset competition and risk mix (+4 bps): increase driven by Australian and New Zealand home loans repricing.
- Markets and treasury (-8 bps): adverse impact to earnings on capital as the result of lower interest rates, growth in the liquidity portfolio and lower earnings from markets activities.

Average interest earning assets (+$17.2 billion or +2%)

- Average gross loans and advances (+$6.1 billion or +1%): excluding the impact of foreign currency translation, the increase was +$7.4 billion (+1%) driven by growth in Australia and New Zealand home loans, partially offset by a decline in the Institutional division due to portfolio rebalancing, and the partial completion of the Asia Retail and Wealth sales.
- Average trading and available-for-sale assets (+$5.7 billion or +6%): excluding the impact of foreign currency translation, the increase was +$6.5 billion (+7%) driven by growth in the liquidity portfolio.
- Average cash and other liquids (+$5.2 billion or +7%): excluding the impact of foreign currency translation, the increase was +$6.8 billion (+9%) driven by liquidity management requirements, market volatility and volume of derivative transactions.

Average deposits and other borrowings (+$13.7 billion or +2%)

- Average deposits and other borrowings (+$13.7 billion or +2%): excluding the impact of foreign currency translation, the increase was +$18.0 billion (+3%) driven by growth in customer deposits across Australia, New Zealand and Institutional divisions, partially offset by a decline of deposits and other borrowings in Treasury, as well as the partial completion of the Asia Retail and Wealth sales.

Comparison of Originally Reported 2016 with 2015

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

Net interest margin (-4 bps)

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

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

- Average gross loans and advances (+$18.7 billion or +3%): excluding the impact of foreign currency translation, growth was +$13.7 billion or +2% driven by growth in Australia and New Zealand home loans. This was partially offset by a decline in Institutional lending due to the strategic repositioning of that business, as well as the Esanda Dealer Finance divestment.
- Average collateral paid (+$4.1 billion or +49%): excluding the impact of foreign currency translation, increase was +$3.8 billion or +44% due to mark-to-market declines on positions with collateralized derivative counterparties.
- Average trading and available-for-sale assets (+$9.7 billion or +11%): excluding the impact of foreign currency translation, growth was +$8.5 billion or +9% driven by growth in the liquidity portfolio.
- Average cash (+$2.6 billion or +6%): excluding the impact of foreign currency translation, growth was +$0.9 billion or +2% driven by management of liquidity requirements.

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

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

Other operating income

	Years ended September 30			
		Restated[1]	Originally Reported[1]	
	2017 $M	2016 $M	2016 $M	2015 $M
Net fee and commission income[1,2]	**2,362**	2,437	2,420	2,527
Net funds management and insurance income[2]	**1,500**	1,764	1,764	1,815
Markets other operating income[4,6,8]	**1,436**	766	765	1,062
Share of associates profit[2]	**300**	544	544	625
Net foreign exchange earnings[2,3]	**265**	290	290	123
Economic hedges[4]	**(296)**	(180)	(180)	256
Revenue hedges[5]	**140**	(93)	(93)	4
Other[1,2,7]	**(306)**	(77)	(76)	62
Total other operating income	**5,401**	5,451	5,434	6,474

	Years ended September 30			
		Restated[8]	Originally Reported[8]	
Markets operating income	2017 $M	2016 $M	2016 $M	2015 $M
Net interest income	**920**	1,032	1,035	1,107
Other operating income[6]	**1,436**	766	765	1,062
Markets operating income	**2,356**	1,798	1,800	2,169

1. *In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to other operating income). The Originally Reported 2016 and 2015 comparative amounts have not been restated.*
2. *Excluding the Markets business.*
3. *Net foreign exchange earnings includes the sale of SRCB, which contributed $12 million in the 2017 fiscal year.*
4. *Represents gains and losses on economic hedges used to manage interest rate and foreign exchange risk and the ineffective portion of designated accounting hedges.*
5. *Represents gains and losses on revenue hedges used to hedge large foreign exchange currency denominated revenue streams.*
6. *Markets other operating income for the 2016 fiscal year includes a charge of $237 million related to the derivative CVA methodology change.*
7. *Other income for the 2017 fiscal year includes a $310 million charge related to the sale of Retail and Wealth businesses in Asia, a $219 million charge related to the sale of SRCB, and a $114 million gain on sale of 100 Queen Street, Melbourne. The 2016 fiscal year includes a $260 million impairment of the investment in AmBank, a $29 million gain on cessation of equity accounting of BoT, and a $66 million gain on the Esanda Dealer Finance divestment.*
8. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of 2017 with Restated 2016

Other operating income decreased by $50 million (-1%). Key factors affecting the result were:

Net fee and commission income (-$75 million or -3%)

- $70 million decrease in the Asia Retail & Pacific division as the result of lower performance and partial sale completion.
- $56 million decrease in the Institutional division primarily due to portfolio rebalancing.
- $40 million increase in the Australia division primarily due to growth in the Small Business Banking and Deposits and Payments subdivisions.

Net funds management and insurance income (-$264 million or -15%)

- $163 million decrease in Wealth Australia primarily due to adverse retail life claims, reduced fee income as expected from ongoing rationalization of legacy investment platforms to SmartChoice, lower income on invested capital, partially offset by favorable ANZ Lenders Mortgage Insurance Pty. Limited experience.
- $37 million decrease in the Asia Retail & Pacific division as the result of lower performance and partial sale completion.
- $123 million decrease due to the impact of changes in market discount rates on the re-measurement of insurance policy liabilities.
- $60 million increase in contribution tax and investment income tax attributable to policyholders due to higher return on investments.

Markets operating income (+$558 million or +31%)

- Markets other operating income for the 2016 fiscal year includes a charge of $237 million related to the derivative credit valuation adjustment ("CVA") methodology change. Excluding the $237 million charge in the 2016 fiscal year, Markets operating income increased $321 million.
- $244 million increase in Balance Sheet Trading (a subdivision of Markets) driven by tighter credit spreads which generated mark-to-market gains in the first half of 2017, as well as increased income from higher average liquidity portfolio holdings throughout the 2017 fiscal year.
- $227 million increase in Franchise Trading (a subdivision of Markets) primarily attributable to a $229 million gain associated with derivative credit and funding valuation adjustments, net of associated hedges which benefited from decreasing credit spreads and increasing yield curves. The favorable trading conditions seen in 2016 continued in the March 2017 half after the U.S. presidential election, however became more subdued in the September 2017 half.
- $150 million decrease in Franchise Sales (a subdivision of Markets) due to the impact of business transformational initiatives (which include client and product rationalization to align to the strategy of the Institutional division, reduce risk exposures and improve returns) and market conditions limiting client activity particularly for longer tenor hedging as a result of low foreign exchange volatility and the low interest rate environment

Share of associates' profit (-$244 million or -45%)

- $287 million decrease due to cessation of equity accounting for BoT from March 2016 and SRCB from January 2017.

- $44 million net increase in profits from associates of which $38 million relates to P.T. Bank Pan Indonesia.

Economic hedges (-$116 million or -64%)

- For the 2017 fiscal year, the majority of the $296 million loss related to funding related swaps, principally from tightening basis spreads on currency pairs most notably USD/EUR and USD/JPY.
- For the 2016 fiscal year, the majority of the $180 million loss related to funding related swaps, most notably in the first half where losses were impacted due to strengthening of the AUD against a number of major currencies, most notably USD and EUR.

Revenue hedges (+$233 million)

- For the 2017 fiscal year, the gain of $140 million on revenue hedges was attributable to the strengthening of the AUD against the NZD.
- For the 2016 fiscal year, the net loss of $93 million on revenue hedges was principally attributable to a $148 million loss recorded during the second half which was largely due to weakening of the AUD against the NZD exchange rate. This loss was partially offset by a $55 million gain in the first half which resulted from the recycling of prior period losses on USD positions that settled during that period.

Other (-$229 million)

- $310 million decrease as a result of the reclassification to held for sale and partial completion of the Asia Retail and Wealth sales.
- $219 million decrease due to the held for sale reclassification of the investment in SRCB.
- $66 million decrease due to the Esanda Dealer Finance gain on divestment taken in the first half of 2016.
- $29 million decrease due to a valuation gain on cessation of equity accounting for BoT in the first half of 2016.
- $260 million increase due to the impairment of the investment in AmBank in the first half of 2016.
- $114 million increase due to the gain on sale of 100 Queen Street, Melbourne.

Comparison of Originally Reported 2016 with 2015

Other operating income decreased $1,040 million (-16%). Key factors affecting the result were:

Net fee and commission income

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

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

Net funds management and insurance income

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

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

Markets operating income

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

- $47 million favorable impact of foreign currency translation.
- $237 million charge due to the derivative CVA methodology change.
- $130 million (-11%) decrease in Sales income driven by lower rates and foreign exchange income as a result of lower demand for hedging products, as well as decreased commodities income due to lower demand for gold financing from Asian customers.
- $32 million (-8%) decrease in Balance sheet income primarily as a result of higher funding valuation adjustments, partly offset by the benefit of narrowing credit spreads in 2016.
- $17 million (-3%) decrease in Trading income primarily as a result of higher funding valuation adjustments, partly offset by higher credit trading income.

Share of associates' profit

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

- $6 million favorable impact of foreign currency translation.
- $36 million increase in SRCB primarily driven by higher investment and fee income.
- $6 million increase in Metro Card Corporation Inc. driven by lending growth and expense management.
- $76 million decrease in BoT mainly due to cessation of equity accounting in the March 2016 half.

- $36 million decrease in AmBank due to margin contraction, lower fee income and subdued Malaysian economic conditions.
- $17 million decrease in P.T. Bank Pan Indonesia mainly due to higher credit provisions.

Net foreign exchange earnings

Increased by $167 million due to:

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

Economic hedging

Decreased by $436 million. Key factors included:

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

Revenue hedges

Decreased by $97 million. Key factors included:

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

Other

Decreased by $138 million. Key factors included:

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

Operating expenses

	Years ended September 30			
	2017 $M	Restated[1] 2016 $M	Originally Reported[1] 2016 $M	2015 $M
Personnel expenses	**5,178**	5,541	5,541	5,479
Premises expenses	**911**	928	928	922
Technology expenses[1,2]	**1,666**	2,167	2,150	1,462
Restructuring expenses	**62**	278	278	31
Other expenses	**1,631**	1,525	1,525	1,484
Total operating expenses	**9,448**	10,439	10,422	9,378
Full time equivalent staff ("FTE")	**44,896**	46,554	46,554	50,152
Average full time equivalent staff ("FTE")	**46,068**	48,633	48,633	50,953

1. *In the 2017 fiscal year a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to operating expenses). The Originally Reported 2016 and 2015 fiscal year comparative amounts have not been restated.*
2. *Technology expenses include a $556 million charge associated with accelerated amortization from software capitalization policy changes in the 2016 fiscal year. For further information* *refer to page 37.*

Comparison of 2017 with Restated 2016

Operating expenses decreased $991 million (-9%) reflecting a number of large/notable items taken in the 2016 fiscal year.

- Personnel expenses decreased $363 million (-7%) due to a 5% reduction in average FTE partially offset by wage inflation.
- Technology expenses decreased $501 million (-23%) primarily as the result of the software capitalization policy charge of $556 million recognized in 2016. Excluding this, technology expenses increased $55 million (+3%) due to investment in future growth and productivity initiatives.
- Restructuring expenses decreased $216 million (-78%) with larger investment in the 2016 fiscal year as a result of a reset of the Group's strategy.
- Other expenses increased $106 million (+7%) due to non-lending losses and higher technology related consulting expenses.

Comparison of Originally Reported 2016 with 2015

Operating expenses increased $1,044 million (+11%) compared to the 2015 fiscal year primarily due to software capitalization changes and restructuring.

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

Credit Risk

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

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

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

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

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

Credit Impairment Charge

	Years ended September 30					
	2017 $M			Restated 2016 $M[1]		
Division	Individual charge	Collective charge	Total charge	Individual charge	Collective charge	Total charge
Australia	**883**	**14**	**897**	898	22	920
Institutional	**177**	**(97)**	**80**	776	(33)	743
New Zealand	**116**	**(38)**	**78**	104	16	120
Asia Retail & Pacific	**165**	**(21)**	**144**	161	11	172
TSO & Group Center & Other Items	**(1)**	**-**	**(1)**	(27)	1	(26)
Total	**1,340**	**(142)**	**1,198**	**1,912**	**17**	**1,929**

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

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as a result of minor business unit reallocations between the divisions. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated.*

Comparison of 2017 with Restated 2016

- The individual credit impairment charge decreased $572 million (-30%) driven by a $376 million (-15%) decrease in new and existing provisions predominantly in the Institutional division largely arising from portfolio rebalancing, combined with a $196 million (+37%) increase in recoveries and write-backs in the Australia and Institutional divisions from better than expected outcomes in impaired asset workouts.
- The collective credit impairment charge decreased $159 million driven by a reduction in the Institutional division due to portfolio rebalancing, and further improvement in the Institutional and New Zealand divisional risk profiles. This was partially offset by an economic overlay adjustment of $75 million.

Comparison of Originally Reported 2016 with 2015

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

- The collective credit impairment charge decreased $78 million (-82%) due to portfolio contraction in Institutional, lower portfolio growth in Australia division and customer migration from collective to individual provisioning in Institutional, partially offset by release of an economic cycle overlay in 2015 not repeated in 2016.

Provision for credit impairment

	As of September 30					
	2017 $M			Restated 2016 $M[1]		
Division	Individual provision	Collective provision[2]	Total provision	Individual provision	Collective provision[2]	Total provision
Australia	**703**	**1,202**	**1,905**	606	1,188	1,794
Institutional	**282**	**1,004**	**1,286**	569	1,115	1,684
New Zealand	**131**	**323**	**454**	117	374	491
Asia Retail & Pacific	**20**	**130**	**150**	15	196	211
TSO & Group Center & Other Items	**-**	**3**	**3**	-	3	3
Total	**1,136**	**2,662**	**3,798**	**1,307**	**2,876**	**4,183**

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

1. *Certain 2016 amounts (Restated 2016) reported as comparative information* at the divisional level have been restated as a result of minor business unit reallocations between the divisions*. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated.*
2. *The collective provision includes amounts for off-balance sheet credit exposures of $544 million at September 30, 2017 (September 30, 2016: $631 million). The impact on the income statement for the 2017 fiscal year was a $66 million release (2016 fiscal year: $32 million release).*

Impaired assets and loans

	As of September 30		
	2017 $M	2016 $M	2015 $M
Gross impaired assets[1]			
Impaired loans	**2,118**	2,646	2,441
Restructured items[2]	**167**	403	184
Non-performing commitments and contingencies[3]	**99**	124	94
Gross impaired assets	**2,384**	**3,173**	**2,719**
Individual provisions			
Impaired loans	**(1,118)**	(1,278)	(1,038)
Non-performing commitments and contingencies	**(18)**	(29)	(23)
Net impaired assets	**1,248**	**1,866**	**1,658**

1. *Loans and advances as of September 30, 2017 include assets held for sale.*
2. *Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.*
3. *Non-performing commitments and contingencies consist of off balance sheet facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, or guarantees to third parties) and undrawn on balance sheet facilities where the customer is defined as impaired.*

	As of September 30			
		Restated[1]	Originally Reported[1]	
	2017 $M	2016 $M	2016 $M	2015 $M
Gross impaired assets by division[2]				
Australia	**1,310**	1,170	1,170	1,194
Institutional	**624**	1,405	1,403	960
New Zealand	**307**	346	346	338
Asia Retail & Pacific	**143**	252	254	227
Gross impaired assets	**2,384**	**3,173**	**3,173**	**2,719**

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as a result of minor business unit reallocations between the divisions. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated.*
2. *Loans and advances as of September 30, 2017 include assets held for sale.*

	As of September 30		
	2017 $M	2016 $M	2015 $M
Gross impaired assets by size of exposure[1]			
Less than $10 million	**1,622**	1,784	1,748
$10 million to $100 million	**655**	899	708
Greater than $100 million	**107**	490	263
Total gross impaired assets	**2,384**	**3,173**	**2,719**

1. *Loans and advances as of September 30, 2017 include assets held for sale.*

Comparison of 2017 with Restated 2016

- Gross impaired assets decreased $789 million (-25%) driven by the Institutional (-$781 million) and New Zealand (-$39 million) divisions due to higher repayments and upgrades on a small number of large exposures, and the Asia Retail & Pacific division (-$109 million) due to the partial completion of the Asia Retail and Wealth sales. This was partially offset by an increase in the Australia division (+$140 million) driven by Corporate Banking, Small Business Banking and home loan portfolios. The Group's individual provision coverage ratio on impaired assets was 47.7% at September 30, 2017 (September 30, 2016: 41.2%).

Comparison of Originally Reported 2016 with 2015

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

	As of September 30		
	2017 $M	2016 $M	2015 $M
New impaired assets[1]			
Impaired loans	**2,952**	3,267	2,848
Restructured items	**109**	274	30
Non-performing commitments and contingencies	**151**	87	102
Total new impaired assets	**3,212**	**3,628**	**2,980**

1. *Loans and advances as of September 30, 2017 include assets held for sale.*

	As of September 30			
		Restated[1]	Originally Reported[1]	
	2017 $M	2016 $M	2016 $M	2015 $M
New impaired assets by division[2]				
Australia	**1,660**	1,704	1,704	1,618
Institutional	**816**	1,151	1,150	760
New Zealand	**512**	484	484	368
Asia Retail & Pacific	**224**	289	290	234
Total new impaired assets	**3,212**	**3,628**	**3,628**	**2,980**

1. Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as a result of minor business unit reallocations between the divisions. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated.

2. Loans and advances as of September 30, 2017 include assets held for sale.

Comparison of 2017 with Restated 2016

- New impaired assets decreased $416 million (-11%) primarily driven by the Institutional division as a result of an improved risk profile from portfolio rebalancing.

Comparison of Originally Reported 2016 with 2015

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

Other potential problem loans

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

Accruing loans – past due 90 days or more

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

	As of September 30		
	2017 $M	2016 $M	2015 $M
Australia	**2,668**	2,454	2,070
Institutional	**41**	30	35
New Zealand	**188**	145	201
Asia Retail & Pacific	**53**	70	68
TSO & Group Center & Other Items	**3**	4	4
Total accruing loans - past due 90 days or more	**2,953**	2,703	2,378

Comparison of 2017 with 2016

- The 90 days past due but not impaired increased $250 million (+9%) primarily driven by the Australia division due to growth in the home loans portfolio and portfolio deterioration mainly in Western Australia.

Comparison of 2016 with 2015

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

Concentrations of credit risk/loans and advances by industry category

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

For further information related to the Group’s credit risk exposures, refer to Note 16 of the 2017 Financial Statements (attached to this U.S. Disclosure Document as part of Annex A).

Income tax expense

	Years ended September 30		
	2017 $M	**2016 $M**	**2015 $M**
Income tax expense charged to the income statement	3,206	2,458	3,026
Effective tax rate	33.3%	30.1%	28.7%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison of 2017 with 2016

- The effective tax rate increased from 30.1% to 33.3%. The 320 basis point increase was primarily due to adjustments on reclassification of SRCB to held for sale (+179 bps), reduction in equity accounting earnings (+105 bps), a lower average tax rate on decreased offshore earnings (+17 bps) and the non-recurrence of a tax provision release in 2016 (+87 bps). This was partially offset by the non-tax deductible impairment of AmBank recognized in 2016 (-95 bps).

Comparison of 2016 with 2015

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

Condensed balance sheet

	As of September 30			
		Restated[2]	Originally Reported[2]	
	2017 $B	**2016 $B**	**2016 $B**	**2015 $B**
Assets				
Cash / Settlement balances owed to ANZ / Collateral paid	**82.5**	83.3	83.3	82.5
Trading and available-for-sale assets	**113.0**	110.3	110.3	92.7
Derivative financial instruments	**62.5**	87.5	87.5	85.6
Net loans and advances[1]	**574.3**	575.9	575.9	570.2
Investments backing policy liabilities	**38.0**	35.7	35.7	34.8
Assets held for sale[3]	**8.0**	-	-	-
Other	**19.1**	22.2	22.2	24.1
Total assets	**897.3**	914.9	914.9	889.9
Liabilities				
Settlement balances owed by ANZ / Collateral received	**15.8**	17.0	17.0	19.1
Deposits and other borrowings[1]	**595.6**	588.2	588.2	570.8
Derivative financial instruments	**62.3**	88.7	88.7	81.3
Debt issuances[2]	**108.0**	113.1	91.1	93.7
Policy liabilities and external unit holder liabilities	**41.9**	39.5	39.5	38.7
Liabilities held for sale[4]	**4.7**	-	-	-
Other[2]	**10.0**	10.5	32.5	28.9
Total liabilities	**838.3**	857.0	857.0	832.5
Total equity	**59.1**	57.9	57.9	57.4

1. *Balance as of September 30, 2017 excludes assets and liabilities reclassified to held for sale. Net loans and advances balance as of September 30, 2015 includes $8.0 billion Esanda Dealer Finance assets held for sale.*
2. *Subordinated debt was included in other liabilities as of September 30, 2016 and September 30, 2015 and has been reclassified as part of debt issuances as of September 30, 2017. The September 30, 2016 comparatives have been restated. The September 30, 2016 Originally Reported and September 30, 2015 balances have not been restated. For further details on debt issuances, refer to Note 15 of the 2017 Financial Statements (attached to this U.S Disclosure Document as part of Annex A).*
3. *The September 30, 2017 balance of assets held for sale includes: $3.3 billion for Asia Retail and Wealth businesses; $2.8 billion for UDC Finance; $1.7 billion for SRCB and $0.1 billion for MCC.*
4. *The September 30, 2017 balance of liabilities held for sale includes: $3.7 billion for Asia Retail and Wealth businesses and $1.0 billion for UDC Finance.*

Comparison of 2017 with Restated 2016

- Derivative financial assets and liabilities decreased $25.0 billion (-29%) and $26.4 billion (-30%) respectively as interest rate movements resulted in lower derivative fair values.
- Net loans and advances decreased $1.6 billion. Adjusting for a $6.0 billion decrease due to foreign currency translation and a reclassification of $6.0 billion to assets held for sale, the $10.5 billion increase was primarily driven by home loan growth across Australia (+$18.2 billion) and New Zealand (+$3.8 billion) divisions, partially offset by a $7.4 billion reduction in the Asia Retail & Pacific division due to the partial completion of the Asia Retail and Wealth sales and a $4.4 billion decrease in the Institutional division as a result of portfolio rebalancing.
- Deposits and other borrowings increased $7.4 billion (+1%). Adjusting for a $8.7 billion decrease due to foreign currency translation and a reclassification of $4.6 billion to liabilities held for sale, the $20.7 billion increase was driven by growth in customer deposits across the Institutional, Australia and New Zealand divisions (+$38.6 billion), partially offset by a reduction in customer deposits in the Asia Retail & Pacific division due to the partial completion of the Asia Retail and Wealth sales (-$12.9 billion) and reduction in certificates of deposit, deposits from banks and other borrowings (-$4.8 billion).
- Debt issuances decreased $5.1 billion (-5%). Adjusting for a $1.2 billion decrease due to foreign currency translation, the $3.9 billion decrease was primarily driven by a $4.1 billion reduction in subordinated debt.

Comparison of Originally Reported 2016 with 2015

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

Results by division

Comparative information for the Restated 2016 fiscal year at the divisional level reflects the impact of the changes to the TSO model as described under "Principal Activities of the Group" in this U.S. Disclosure Document. These reallocations do not have an impact on comparative information in the income statement or balance sheet at the Group level.

For further information on the composition of the divisions refer to "Section 2: Information on the Group – Principal Activities of the Group".

2017 Fiscal Year

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Center $M	Group $M
Net interest income	8,384	3,068	2,519	9	606	286	**14,872**
Other operating income	1,218	2,346	653	1,077	37	70	**5,401**
Operating income	9,602	5,414	3,172	1,086	643	356	**20,273**
Operating expenses	(3,423)	(2,736)	(1,193)	(743)	(651)	(702)	**(9,448)**
Profit before credit impairment and income tax	6,179	2,678	1,979	343	(8)	(346)	**10,825**
Credit impairment (charge)/release	(897)	(80)	(78)	-	(144)	1	**(1,198)**
Profit before income tax	5,282	2,598	1,901	343	(152)	(345)	**9,627**
Income tax expense and non-controlling interests	(1,587)	(762)	(532)	(105)	4	(239)	**(3,221)**
Profit/(loss) after income tax	3,695	1,836	1,369	238	(148)	(584)	**6,406**

2016 Fiscal Year (Restated)[1,2]

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Center $M	Group $M
Net interest income	8,202	3,447	2,448	11	698	289	**15,095**
Other operating income	1,206	1,733	644	1,244	478	146	**5,451**
Operating income	9,408	5,180	3,092	1,255	1,176	435	**20,546**
Operating expenses	(3,426)	(2,958)	(1,225)	(801)	(808)	(1,221)	**(10,439)**
Profit before credit impairment and income tax	5,982	2,222	1,867	454	368	(786)	**10,107**
Credit impairment (charge)/release	(920)	(743)	(120)	-	(172)	26	**(1,929)**
Profit before income tax	5,062	1,479	1,747	454	196	(760)	**8,178**
Income tax expense and non-controlling interests	(1,515)	(438)	(479)	(130)	(37)	130	**(2,469)**
Profit/(loss) after income tax	3,547	1,041	1,268	324	159	(630)	**5,709**

2016 Fiscal Year (Originally Reported)[1,2]

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

2015 Fiscal Year

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

[1] *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as a result of* changes to the Group's organizational structure. *These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

[2] *In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to other operating income and $17 million increase to operating expenses). The Originally Reported 2016 and 2015 fiscal year comparative amounts have not been restated.*

Australia

	Years ended September 30			
		Restated[1]	Originally Reported[1]	
Australia	**2017 $M**	**2016 $M**	**2016 $M**	**2015 $M**
Net interest income	**8,384**	8,202	8,200	7,698
Other operating income	**1,218**	1,206	1,208	1,214
Operating income	**9,602**	9,408	9,408	8,912
Operating expenses	**(3,423)**	(3,426)	(3,389)	(3,193)
Profit before credit impairment and income tax	**6,179**	5,982	6,019	5,719
Credit impairment charge	**(897)**	(920)	(920)	(852)
Profit before income tax	**5,282**	5,062	5,099	4,867
Income tax expense and non-controlling interests	**(1,587)**	(1,515)	(1,526)	(1,454)
Profit after income tax	**3,695**	**3,547**	**3,573**	**3,413**
Consisting of:				
Retail	**2,555**	2,407	2,423	2,118
Corporate and Commercial Banking	**1,140**	1,140	1,150	1,295
Profit after income tax	**3,695**	**3,547**	**3,573**	**3,413**
Balance Sheet				
Net loans & advances	**345,344**	327,109	327,108	315,080
Other external assets	**3,084**	2,921	2,932	2,916
External assets	**348,428**	330,030	330,040	317,996
Customer deposits	**201,365**	187,667	187,640	177,293
Other external liabilities	**10,847**	11,842	11,674	12,394
External liabilities	**212,212**	199,509	199,314	189,687
Risk weighted assets[2]	**170,632**	157,410	157,381	129,899
Average gross loans and advances	**338,582**	322,614	322,549	302,069
Average deposits and other borrowings	**196,256**	183,196	183,104	170,857
Ratios				
Return on average assets	**1.09%**	1.10%	1.10%	1.13%
Net interest margin[3]	**2.68%**	2.75%	2.55%	2.55%
Operating expenses to operating income	**35.6%**	36.4%	36.0%	35.8%
Operating expenses to average assets	**1.01%**	1.06%	1.05%	1.05%
Individual credit impairment charge/(release)	**883**	898	898	761
Individual credit impairment charge/(release) as a % of average GLA	**0.26%**	0.28%	0.28%	0.25%
Collective credit impairment charge/(release)	**14**	22	22	91
Collective credit impairment charge/(release) as a % of average GLA	**0.00%**	0.01%	0.01%	0.03%
Gross impaired assets	**1,310**	1,170	1,170	1,194
Gross impaired assets as a % of GLA	**0.38%**	0.36%	0.36%	0.38%
Total full time equivalent staff ("FTE")	**11,387**	11,563	8,864	9,161

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Risk weighted assets as of September 30, 2016 includes APRA's revised average mortgage risk weight targets.*
3. *In the 2017 fiscal year, the Group changed its calculation of net interest margin to net Australian home loan deposit offset account balances against average interest earning assets. Average home loan deposit offset account balances for the Australia division were $25,532 million for the fiscal year ended September 30, 2017 (The fiscal year ended September 30, 2016: $23,325 million). The 2016 fiscal year comparatives have been restated. The Originally Reported 2016 and 2015 fiscal year comparative amounts have not been restated. For further information refer to page 40.*

Comparison of 2017 with Restated 2016

Profit after income tax increased by $148 million (+4%).

Key factors affecting the result were:

- Net loans and advances grew primarily in home loans, particularly in New South Wales. Corporate & Commercial Banking volumes grew 1% with Corporate Banking increasing 7%. Customer deposits grew across all portfolios.
- Net interest margin declined 7 basis points as a result of higher average funding costs, lower earnings on deposits due to the lower interest rate environment and the introduction of the Major Bank Levy.
- Operating expenses decreased $3 million due to a 2% reduction in FTE driven by productivity efforts focused on simplifying the business, partially offset by inflation and increased investment in the business, particularly in the second half of 2017.
- Credit impairment charges decreased $23 million (-3%) primarily due to lower single name charges in the Corporate and Commercial Banking subdivision, partially offset by volume growth and higher delinquency rates for home loans in Western Australia.

Comparison of Originally Reported 2016 with 2015

Profit after income tax increased 5% driven by a 6% increase in operating income, partially offset by a 6% increase in operating expenses and a 8% increase in credit impairment charges.

Key factors affecting the result were:

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

Institutional

	Years ended September 30			
		Restated[1]	Originally Reported[1]	
Institutional	**2017 $M**	**2016 $M**	**2016 $M**	**2015 $M**
Net interest income	**3,068**	3,447	3,452	3,585
Other operating income[2]	**2,346**	1,733	1,723	2,177
Operating income	**5,414**	5,180	5,175	5,762
Operating expenses[2]	**(2,736)**	(2,958)	(2,935)	(2,806)
Profit before credit impairment and income tax	**2,678**	2,222	2,240	2,956
Credit impairment charge	**(80)**	(743)	(741)	(198)
Profit before income tax	**2,598**	1,479	1,499	2,758
Income tax expense and non-controlling interests	**(762)**	(438)	(442)	(791)
Profit after income tax	**1,836**	**1,041**	**1,057**	**1,967**
Consisting of:				
Transaction Banking	**465**	382	387	574
Loans & Specialized Finance	**610**	382	384	802
Markets	**749**	379	380	618
Central Functions	**12**	(102)	(94)	(27)
Profit after income tax	**1,836**	**1,041**	**1,057**	**1,967**
Balance Sheet				
Net loans & advances	**119,636**	125,955	125,940	142,196
Other external assets	**254,653**	281,705	281,475	261,308
External assets	**374,289**	**407,660**	**407,415**	**403,504**
Customer deposits	**186,782**	171,155	171,122	183,040
Other external liabilities	**151,973**	177,645	177,399	151,439
External liabilities	**338,755**	**348,800**	**348,521**	**334,479**
Risk weighted assets	**148,881**	168,428	168,254	197,880
Average gross loans and advances	**123,766**	133,753	133,725	144,862
Average deposits and other borrowings	**244,772**	232,959	232,919	229,563
Ratios				
Return on average assets	**0.46%**	0.25%	0.26%	0.51%
Net interest margin	**1.01%**	1.13%	1.13%	1.20%
Net interest margin (excluding Markets)	**2.10%**	2.20%	2.19%	2.06%
Operating expenses to operating income	**50.5%**	57.1%	56.7%	48.7%
Operating expenses to average assets	**0.68%**	0.72%	0.72%	0.73%
Individual credit impairment charge/(release)	**177**	776	774	206
Individual credit impairment charge/(release) as a % of average GLA	**0.14%**	0.58%	0.58%	0.14%
Collective credit impairment charge/(release)	**(97)**	(33)	(33)	(8)
Collective credit impairment charge/(release) as a % of average GLA	**(0.08%)**	(0.02%)	(0.02%)	(0.01%)
Gross impaired assets	**624**	1,405	1,403	960
Gross impaired assets as a % of GLA	**0.52%**	1.10%	1.10%	0.67%
Total full time equivalent staff ("FTE")	**4,754**	5,112	3,640	4,218

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *In the 2017 fiscal year, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. The 2016 fiscal year comparatives have been restated accordingly ($17 million increase to other operating income and $17 million increase to operating expenses). The Originally Reported 2016 and 2015 comparative amounts have not been restated.*

Comparison of 2017 with Restated 2016

Profit after income tax increased by $795 million (+76%).

Key factors affecting the result were:

- Net loans and advances reduced due to portfolio rebalancing mainly in the Loans & Specialized Finance and Transaction Banking subdivisions. Customer deposits grew in the Markets and Transaction Banking subdivision.
- Net interest margin (excluding the Markets business) decreased 12 basis points due to asset pricing competition, the introduction of the Major Bank Levy and the mix impact of lower lending volumes and higher deposit volumes, partially offset by margin improvements in Payments and Cash Management (part of the Transaction Banking subdivision).
- Other operating income increased significantly by $613 million (+35%) due to positive derivative valuation adjustments and higher income as a result of tightening credit spreads in the Markets Balance Sheet subdivision of Markets.
- Operating expenses decreased $222 million (-8%) due to a 7% reduction in FTE as a result of ongoing simplification of the business, partially offset by higher non-lending losses and regulatory and compliance spend.
- Credit impairment charges decreased $663 million (-89%) due to a benign credit environment, higher write-backs and an overall reduction in lending assets driven by portfolio rebalancing.

Comparison of Originally Reported 2016 with 2015

Profit after income tax decreased 46% driven by a 21% decrease in other operating income, 4% decrease in net interest income and higher credit impairment charges.

Key factors affecting the result were:

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

New Zealand

New Zealand	2017 NZD M	Restated[1] 2016 NZD M	Originally Reported[1] 2016 NZD M	2015 NZD M
	Years ended September 30			
Net interest income	**2,686**	2,629	2,632	2,568
Other operating income	**330**	337	329	309
Net funds management and insurance income	**365**	354	357	342
Operating income	**3,381**	3,320	3,318	3,219
Operating expenses	**(1,271)**	(1,316)	(1,315)	(1,291)
Profit before credit impairment and income tax	**2,110**	2,004	2,003	1,928
Credit impairment (charge)/release	**(83)**	(129)	(129)	(59)
Profit before income tax	**2,027**	1,875	1,874	1,869
Income tax expense and non-controlling interests	**(568)**	(514)	(514)	(516)
Profit after income tax	**1,459**	**1,361**	**1,360**	**1,353**
Consisting of:				
Retail	**1,019**	941	941	872
Commercial	**439**	417	413	478
Central Functions	**1**	3	6	3
Profit after income tax	**1,459**	**1,361**	**1,360**	**1,353**
Balance Sheet[2]				
Net loans & advances	**117,242**	113,145	113,145	106,747
Other external assets	**3,869**	4,723	4,398	3,858
External assets	**121,111**	**117,868**	**117,543**	**110,605**
Customer deposits	**81,855**	76,362	76,361	71,395
Other external liabilities	**26,015**	26,852	26,755	26,072
External liabilities	**107,870**	**103,214**	**103,116**	**97,467**
Risk weighted assets	**60,971**	62,523	62,515	60,008
Average gross loans and advances	**115,383**	110,559	110,559	102,278
Average deposits and other borrowings	**84,188**	80,975	80,974	73,424
In-force premiums[3]	**194**	190	190	210
Funds under management ("FUM")[4]	**28,490**	26,485	26,485	22,740
Average funds under management[4]	**27,096**	24,775	24,775	21,669
Ratios[2]				
Return on average assets	**1.22%**	1.19%	1.19%	1.28%
Net interest margin	**2.31%**	2.37%	2.38%	2.50%
Operating expenses to operating income	**37.6%**	39.6%	39.6%	40.1%
Operating expenses to average assets	**1.06%**	1.15%	1.15%	1.22%
Individual credit impairment charge/(release)	**123**	112	112	58
Individual credit impairment charge/(release) as a % of average GLA	**0.11%**	0.10%	0.10%	0.06%
Collective credit impairment charge/(release)	**(40)**	17	17	1
Collective credit impairment charge/(release) as a % of average GLA	**(0.03%)**	0.02%	0.02%	0.00%
Gross impaired assets	**334**	363	363	372
Gross impaired assets as a % of GLA	**0.28%**	0.32%	0.32%	0.35%
Life insurance expenses to Life in-force premiums[3]	**29.9%**	33.4%	32.2%	31.5%
Retail Insurance lapse rates	**14.2%**	15.4%	15.3%	15.5%
Funds Management expenses to average FUM[4]	**0.30%**	0.36%	0.36%	0.29%
Total full time equivalent staff ("FTE")	**6,207**	6,317	5,240	5,359

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance Sheet amounts as of September 30, 2017 include assets and liabilities held for sale.*
3. *In-force premiums reflect the disposal of the New Zealand medical business in the 2016 fiscal year.*
4. *Funds Management expense and FUM excludes The Bonus Bonds Scheme managed by ANZ Investment Services (New Zealand) Limited and Private Bank (a subdivision of Retail).*

New Zealand results and commentary are reported in NZD. AUD results are shown on page 60.

Comparison of 2017 with Restated 2016

Profit after income tax increased by $98 million (+7%).

Key factors affecting the result were:

- Net loans and advances grew primarily in home loans in addition to higher balances in funds under management. Customer deposits grew across all portfolios.
- Net interest margin declined 6 basis points as the result of a higher proportion of lower margin fixed rate lending and term deposits, pricing competition and higher average funding costs.
- Other operating income decreased NZD $7 million (-2%), and net funds management and insurance income increased by NZD $11 million (3%) as a result of higher funds under management balances.
- Operating expenses decreased NZD $45 million (-3%) as the result of a 2% reduction in FTE driven by automation and transaction migration to lower cost channels, partially offset by inflation.
- Credit impairment charges decreased NZD $46 million (-36%) due to an increase in write-backs and credit quality improvements across the Retail and Commercial and Agriculture portfolios, partially offset by increases to new and existing provisions.

Comparison of Originally Reported 2016 with 2015

Profit after income tax increased 1% primarily driven by lending volume growth and disciplined cost management, partially offset by higher credit impairment charges.

Key factors affecting the result were:

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

New Zealand

Table reflects AUD for New Zealand.
NZD results shown on page 58.

New Zealand	2017 $M	Restated[1] 2016 $M	Originally Reported[1] 2016 $M	2015 $M
	Years ended September 30			
Net interest income	**2,519**	2,448	2,451	2,381
Other operating income	**310**	314	306	287
Net funds management and insurance income	**343**	330	333	317
Operating income	**3,172**	3,092	3,090	2,985
Operating expenses	**(1,193)**	(1,225)	(1,225)	(1,197)
Profit before credit impairment and income tax	**1,979**	1,867	1,865	1,788
Credit impairment (charge)/release	**(78)**	(120)	(120)	(55)
Profit before income tax	**1,901**	1,747	1,745	1,733
Income tax expense and non-controlling interests	**(532)**	(479)	(478)	(479)
Profit after income tax	**1,369**	**1,268**	**1,267**	**1,254**
Consisting of:				
Retail	**956**	877	877	808
Commercial	**412**	389	385	443
Central Functions	**1**	2	5	3
Profit after income tax	**1,369**	**1,268**	**1,267**	**1,254**
Balance Sheet[2]				
Net loans & advances	**107,886**	107,893	107,893	97,020
Other external assets	**3,560**	4,505	4,195	3,507
External assets	**111,446**	**112,398**	**112,088**	**100,527**
Customer deposits	**75,323**	72,818	72,818	64,890
Other external liabilities	**23,939**	25,605	25,512	23,696
External liabilities	**99,262**	**98,423**	**98,330**	**88,586**
Risk weighted assets	**56,106**	59,621	59,327	54,540
Average gross loans and advances	**108,229**	102,972	102,972	94,832
Average deposits and other borrowings	**78,968**	75,418	75,417	68,079
In-force premiums[3]	**179**	181	181	191
Funds under management[4]	**26,215**	25,256	25,256	20,668
Average funds under management[4]	**24,934**	23,075	23,075	20,092
Ratios[2]				
Return on average assets	**1.22%**	1.19%	1.19%	1.28%
Net interest margin	**2.31%**	2.37%	2.38%	2.50%
Operating expenses to operating income	**37.6%**	39.6%	39.6%	40.1%
Operating expenses to average assets	**1.06%**	1.15%	1.15%	1.22%
Individual credit impairment charge/(release)	**116**	104	104	54
Individual credit impairment charge/(release) as a % of average GLA	**0.11%**	0.10%	0.10%	0.06%
Collective credit impairment charge/(release)	**(38)**	16	16	1
Collective credit impairment charge/(release) as a % of average GLA	**(0.03%)**	0.02%	0.02%	0.00%
Gross impaired assets	**307**	346	346	338
Gross impaired assets as a % of GLA	**0.28%**	0.32%	0.32%	0.35%
Life insurance expenses to Life in-force premiums[3]	**29.9%**	33.4%	32.2%	31.5%
Retail Insurance lapse rates	**14.2%**	15.4%	15.3%	15.5%
Funds Management expenses to average FUM[4]	**0.30%**	0.36%	0.36%	0.29%
Total full time equivalent staff ("FTE")	**6,207**	6,317	5,240	5,359

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance Sheet amounts as of September 30, 2017 include assets and liabilities held for sale.*
3. *In-force premiums reflect the disposal of the New Zealand medical business in the 2016 fiscal year.*
4. *Funds Management expense and FUM excludes The Bonus Bonds Scheme managed by ANZ Investment Services (New Zealand) Limited and Private Bank (a subdivision of Retail).*

Wealth Australia

	Years ended September 30			
		Restated[1]	Originally Reported[1]	
Wealth Australia	**2017 $M**	**2016 $M**	**2016 $M**	**2015 $M**
Net interest income	**9**	11	10	8
Other operating income	**84**	88	88	87
Net funds management and insurance income	**993**	1,156	1,156	1,178
Operating income	**1,086**	1,255	1,254	1,273
Operating expenses	**(743)**	(801)	(796)	(751)
Profit before income tax	**343**	454	458	522
Income tax expense	**(105)**	(130)	(131)	(94)
Profit after income tax	**238**	324	327	428
Consisting of				
Insurance	**206**	253	255	243
Funds Management	**83**	87	89	130
Corporate and Other[2]	**(51)**	(16)	(17)	55
Profit after income tax	**238**	324	327	428
Income from invested capital[3]	**78**	110	110	107
Key metrics				
In-force premiums				
Life	**1,614**	1,603	1,603	1,516
General Insurance[4]	**231**	226	226	510
Average in-force premiums				
Life	**1,609**	1,560	1,560	1,440
General Insurance[4]	**228**	367	367	505
Funds under management	**49,060**	48,251	48,251	46,801
Average funds under management	**48,808**	47,621	47,621	48,048
Ratios				
Operating expenses to operating income	**68.4%**	63.8%	63.5%	59.0%
Insurance expenses to in-force premiums	**11.7%**	12.1%	11.6%	11.2%
Retail Insurance lapse rates	**14.1%**	14.0%	14.0%	13.3%
Funds Management expenses to average FUM[5]	**0.48%**	0.54%	0.53%	0.51%
Total full time equivalent staff ("FTE")	**2,110**	2,174	1,379	1,532
Aligned adviser numbers[6]	**1,432**	1,545	1,545	1,688

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Corporate and Other includes a one-off tax consolidation benefit of $56 million in the 2015 fiscal year.*
3. *Income from invested capital represents after tax revenue generated from investing all Insurance and Funds Management business's capital balances held for regulatory purposes. The invested capital as of September 30, 2017 was $3.3 billion (September 30, 2016: $3.4 billion; September 30, 2015: $3.3 billion), which comprises fixed interest securities of 49% and cash deposits of 51% (2016 fiscal year: 48% fixed interest securities and 52% cash deposits, 2015 fiscal year: 47% fixed interest securities and 53% cash deposits).*
4. *General insurance in-force premiums reflect the impact of ceasing the underwriting of new home, content travel and motor insurance in September 2015.*
5. *Funds Management expense and FUM relates to the Pensions and Investments business and excludes ANZ Share Investing.*
6. *Includes corporate authorized representatives of dealer groups wholly or partially owned by ANZ Wealth Australia and ANZ employed financial planners.*

Comparison of 2017 with Restated 2016

Profit after income tax decreased by $86 million (-27%).

Key factors affecting the result were:

- $47 million (-19%) decrease in Insurance business income as a result of adverse retail life claims experience and a one-off charge from the exit of a Group Life Insurance plan, partially offset by reinsurance profit share and favorable claims experience in ANZ Lenders Mortgage Insurance Pty. Limited.
- $4 million (-5%) decrease in Funds Management business income in line with the planned strategy to rationalize the legacy portfolio to SmartChoice, a simpler and lower risk model, which is now complete.
- $35 million decrease in Corporate & Other due to realized gains in the 2016 fiscal year which was not repeated and investment market volatility on the guaranteed business.
- Operating expenses decreased $58 million (-7%) due to productivity initiatives that resulted in a 3% reduction in FTE, partially offset by inflation and higher regulatory compliance and remediation spend.

Comparison of Originally Reported 2016 with 2015

Profit after income tax decreased 24%. Excluding the $56 million one-off tax consolidation benefit in the 2015 fiscal year, profit after income tax decreased 12%.

Key factors affecting the result were:

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

Asia Retail & Pacific

Asia Retail & Pacific	2017 $M	Restated [1] 2016 $M	Originally Reported[1] 2016 $M	2015 $M
Net interest income	**606**	698	698	643
Other operating income[2]	**37**	478	477	480
Operating income	**643**	1,176	1,175	1,123
Operating expenses[2]	**(651)**	(808)	(813)	(834)
Profit before credit impairment and income tax	**(8)**	368	362	289
Credit impairment (charge)/release	**(144)**	(172)	(174)	(98)
Profit before income tax	**(152)**	196	188	191
Income tax expense and non-controlling interests[2]	**4**	(37)	(36)	(52)
Profit after income tax	**(148)**	159	152	139
Balance Sheet[3]				
Net loans & advances	**5,666**	13,370	13,379	14,556
Customer deposits	**9,157**	22,782	22,814	24,355
Risk weighted assets	**6,972**	13,372	13,306	13,345
Ratios[3]				
Return on average assets	**(0.71%)**	0.65%	0.65%	0.62%
Net interest margin	**3.03%**	2.96%	3.09%	2.97%
Operating expenses to operating income	**101.2%**	68.7%	69.2%	74.3%
Operating expenses to average assets	**3.11%**	3.30%	3.46%	3.72%
Individual credit impairment charge/(release)	**165**	161	163	86
Individual credit impairment charge/(release) as a % of average GLA	**1.40%**	1.13%	1.14%	0.64%
Collective credit impairment charge/(release)	**(21)**	11	11	12
Collective credit impairment charge/(release) as a % of average GLA	**(0.18%)**	0.08%	0.08%	0.09%
Gross impaired assets	**143**	252	254	227
Gross impaired assets as a % of GLA	**2.46%**	1.86%	1.87%	1.54%
Total full time equivalent staff ("FTE")	**3,981**	4,894	2,925	3,518

Years ended September 30

1. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Includes large/notable items related to restructuring and the impact of the partial completion of the Asia Retail and Wealth sales. For large/notable items breakdown please refer to page 36.*
3. *Balance Sheet amounts as of September 30, 2017 include assets and liabilities held for sale.*

On October 31, 2016, the Group announced it had agreed to sell its Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank Ltd. As a result of the sale agreement, the Group recognized a $324 million charge to impair software, goodwill and fixed assets as well as providing for costs associated with the sale in the March 2017 half. In the September 2017 half, a $14 million gain was recognized in relation to the sale. For further information refer to Note 28 of the 2017 Financial Statements (attached to this U.S. Disclosure Document as part of Annex A). This business is part of the Asia Retail & Pacific division.

At balance date, Retail and Wealth businesses in China, Singapore and Hong Kong have transitioned to DBS Bank Ltd. We expect to transition the remaining businesses in Taiwan and Indonesia will transition early in the 2018 calendar year.

On April 21, 2017, the Group announced it had agreed to sell its Retail business in Vietnam to Shinhan Bank Vietnam. The transfer of the Retail business in Vietnam to Shinhan Bank Vietnam will be completed early in the 2018 calendar year.

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 modelling of funding sources**

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

  - Provide protection against shorter-term extreme market 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.
  - Ensure no undue timing concentrations exist in the Group's funding profile.

  A key component of this framework is the Liquidity Coverage Ratio ("LCR"), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. 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 to offset the shortage of available High Quality Liquid Assets ("HQLA") in Australia and provides an alternative form of contingent liquidity. The total amount of the CLF available to a qualifying ADI is set annually by APRA. From January 1, 2017, ANZ's CLF is $43.8 billion (2016 calendar year end: $50.3 billion).

- **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. HQLA is comprised of three categories, with the definitions consistent with Basel 3 LCR:

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

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

	Fiscal Year Average[1]		
	2017 $B	2016 $B	2015 $B
Market Values Post Discount			
HQLA1[2]	**127.8**	118.5	97.3
HQLA2	**4.5**	3.7	3.2
Internal Residential Mortgage Backed Securities (Australia)[2]	**32.0**	35.2	38.8
Internal Residential Mortgage Backed Securities (New Zealand)[3]	**0.9**	1.3	2.1
Other ALA[4]	**15.3**	18.1	16.1
Total Liquid Assets	**180.5**	176.8	157.5
Cash flows modelled under stress scenario			
Cash outflows	**173.6**	181.9	172.1
Cash inflows	**39.7**	41.1	42.9
Net cash outflows	**133.9**	140.8	129.2
Liquidity Coverage Ratio[5]	**135%**	126%	122%

1. *Average for the year is calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.*
2. *RBA open repo arrangement netted down from CLF, with a corresponding increase in HQLA.*
3. *New Zealand LCR surplus is excluded from NZ internal RMBS, consistent with APS 330 treatment.*
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 A: Liquidity Assets - Prudential Supervision Department Document BS13A12.*
5. *All currency Level 2 LCR.*

Funding

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

$22.0 billion of term wholesale debt (excluding additional Tier 1 capital) with a remaining term greater than one year as of September 30, 2017 was issued during the fiscal year ended September 30, 2017 (September 30, 2016: $32.1 billion; September 30, 2015: $18.8 billion). As of September 30, 2017, the weighted average tenor of new term debt was 5.3 years (2016: 5.5 years; 2015: 4.9 years).

	As of September 30			
		Restated[11]	Originally Reported[11]	
	2017 $M	2016 $M	2016 $M	2015 $M
Customer deposits and other liabilities[1]				
Australia	**201,365**	187,667	187,640	177,293
Institutional	**186,782**	171,155	171,122	183,040
New Zealand	**75,323**	72,818	72,818	64,890
Wealth Australia	**-**	343	343	367
Asia Retail & Pacific	**9,157**	22,782	22,814	24,355
TSO and Group Center[1]	**(4,997)**	(5,142)	(5,114)	(5,361)
Customer deposits	**467,630**	449,623	449,623	444,584
Other funding liabilities[2,3]	**12,838**	14,049	14,531	14,346
Total customer liabilities (funding)	**480,468**	463,672	464,154	458,930
Wholesale funding[4]				
Debt issuances	**90,263**	91,080	91,080	93,347
Subordinated debt	**17,710**	21,964	21,964	17,009
Certificates of deposit	**55,222**	61,429	61,429	63,446
Commercial paper	**18,023**	19,349	19,349	22,987
Other wholesale borrowings[2,5,6]	**65,441**	65,924	65,442	44,558
Total wholesale funding	**246,659**	259,746	259,264	241,347
Shareholders' equity	**59,075**	57,927	57,927	57,353
Total funding	**786,202**	781,345	781,345	757,630

	As of September 30			
		Restated[11]	Originally Reported[11]	
	2017 $M	2016 $M	2016 $M	2015 $M
Funded assets				
Other short term assets & trade finance assets[7]	**58,576**	65,800	65,800	78,879
Liquids[6]	**169,317**	161,302	161,302	135,496
Short term funded assets	**227,893**	227,102	227,102	214,375
Lending & fixed assets[8]	**558,309**	554,243	554,243	543,255
Total funded assets	**786,202**	781,345	781,345	757,630
Funding liabilities[4,6]				
Other short term liabilities[2]	**46,021**	49,288	48,806	27,863
Short term funding	**62,119**	69,028	69,028	73,261
Term funding < 12 months	**18,872**	23,668	23,668	28,138
Other customer and central bank deposits[1,2,9]	**78,652**	79,115	79,597	88,288
Total short term funding liabilities	**205,664**	221,099	221,099	217,550
Stable customer deposits[1,10]	**421,172**	402,146	402,146	387,988
Term funding > 12 months	**91,840**	90,708	90,708	87,316
Shareholders' equity and hybrid debt	**67,526**	67,392	67,392	64,776
Total stable funding	**580,538**	560,246	560,246	540,080
Total funding	**786,202**	781,345	781,345	757,630

1. *Includes term deposits and other deposits and an adjustment recognised in Group Center to eliminate Wealth Australia investments in ANZ deposit products.*
2. *Securities sold under repurchase agreements reclassified to align with current period presentation.*
3. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.*
4. *Excludes liability for acceptances as they do not provide net funding.*
5. *Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.*
6. *Includes 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.*
11. *Certain 2016 amounts (Restated 2016) reported as comparative information at the divisional level have been restated as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported 2016 and 2015 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Term debt maturity profile

The amounts disclosed below represent principal and interest cash flows. Foreign currency denominated debt has been translated using spot foreign exchange rates as of September 30, 2017.

Contractual maturity ($M)	2018	2019	2020	2021	2022	After 2022	Total
Unsubordinated debt	17,354	20,957	21,243	15,396	12,719	13,808	101,478
Subordinated debt[1]	1,518	1,877	478	813	669	3,879	9,235
Total	**18,872**	**22,834**	**21,721**	**16,210**	**13,388**	**17,687**	**110,712**

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

	As of September 30, 2017		
Credit Ratings of ANZBGL	**Short-Term**	**Long-Term**	**Outlook**
Moody's Investor Services	P-1	Aa3	Stable
Standard & Poor's	A-1+	AA-	Negative
Fitch Ratings	F1+	AA-	Stable

Capital management

	APRA Basel 3		
	As of September 30		
Qualifying Capital	2017 $M	2016 $M	2015 $M
Tier 1			
Shareholders' equity and non-controlling interests	**59,075**	57,927	57,353
Prudential adjustments to shareholders' equity	**(481)**	(481)	(387)
Gross Common Equity Tier 1 capital	**58,594**	57,446	56,966
Deductions	**(17,258)**	(18,179)	(18,440)
Common Equity Tier 1 capital	**41,336**	39,267	38,526
Additional Tier 1 capital	**7,988**	9,018	6,958
Tier 1 capital	**49,324**	48,285	45,484
Tier 2 capital	**8,669**	10,328	7,951
Total qualifying capital	**57,993**	58,613	53,435
Capital adequacy ratios			
Common Equity Tier 1	**10.6%**	9.6%	9.6%
Tier 1	**12.6%**	11.8%	11.3%
Tier 2	**2.2%**	2.5%	2.0%
Total	**14.8%**	14.3%	13.3%
Risk weighted assets	**391,113**	408,582	401,937

APRA implementation of Basel 3 capital reforms

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

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

Deductions

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

Risk Weighted Assets ("RWA")

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

Comparison of 2017 with 2016

ANZ's CET1 ratio increased 96 bps to 10.6% during the year. Key drivers of the movement in the CET1 ratio were:

- Net organic capital generation was 228 bps or $9.3 billion. This was primarily driven by statutory profit and a net reduction in underlying RWA growth (excluding foreign exchange impacts, regulatory changes and other one-offs). The RWA reduction was primarily driven by a $16.4 billion decrease in Institutional Credit RWAs from a reduction in lending, due to portfolio rebalancing.
- Payment of the March 2017 Interim and September 2016 Final Dividends (net of shares issued under the DRP, with March 2017 DRP neutralisation) reduced the CET1 ratio by 108 bps.
- The transition of Asia Retail and Wealth businesses in China, Singapore and Hong Kong to DBS Bank Ltd. increased the CET1 ratio by 9 bps.
- Other impacts are mainly driven by net impacts from RWA measurement changes (CET1 ratio reduced by 27 bps principally from changes to ANZ's new capital model for Australian Residential Mortgages). There was a further 6 bps reduction from other impacts mainly associated with movements in net foreign currency translation and other miscellaneous impacts.

Comparison of 2016 with 2015

- ANZ's CET1 ratio increased 2 bps to 9.6% during the year. Key drivers of the movement in the CET1 ratio were:
- Net organic capital generation of +167 bps or $6.7 billion. This was primarily driven by statutory profit and net reduction in underlying RWA growth (excluding regulatory changes), partially offset by other business capital deductions. The RWA reduction was mainly driven by an -$11.9 billion decrease in Institutional Credit RWAs from a reduction in lending, due to strategic repositioning of that business.
- Payment of the March 2016 Interim Dividend and September 2015 Final Dividends (net of shares issued under the DRP) reduced the CET1 ratio by -114 bps.
- The increased capital requirements for Australian residential mortgage exposures reduced CET1 ratio by -60 bps. Other items increased CET1 by +9 bps reflecting movement in other net impacts from RWA measurement changes and net foreign currency translation.

Leverage Ratio

At September 30, 2017, the Group's APRA Leverage Ratio was 5.4% which is above the 3% minimum currently proposed by the Basel Committee on Banking Supervision (BCBS). APRA has not finalized a minimum Leverage Ratio requirement for Australians ADIs. The following table summarizes the Group's Leverage Ratio calculation:

	As of September 30		
	2017 $M	**2016 $M**	**2015 $M**
Tier 1 Capital (net of capital deductions)	**49,324**	48,285	45,484
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	752,347	744,359	733,756
Derivative exposures	31,469	30,600	38,115
Securities financing transaction ("SFT") exposures	28,598	31,417	17,297
Other off-balance sheet exposures	96,765	98,460	107,817
Total exposure measure	**909,179**	904,836	896,985
APRA Leverage Ratio[1]	**5.4%**	5.3%	5.1%

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

Comparison of 2017 with 2016

ANZ's Leverage Ratio increased 9 bps during the year mainly driven by:

- Net organic capital generation from statutory profit net of dividend payments increased the ratio by 30 bps.
- Lower net Additional Tier 1 capital reduced the ratio by 10 bps mainly from redemption of remaining $1.1 billion of transitional CPS2 convertible preference shares on issue in December 2016.
- Net growth in exposures reduced the ratio by 10 bps mainly driven by on balance sheet growth in the Australia division (primarily from growth in home loans) partially offset by the transition of Asia Retail and Wealth businesses to DBS bank Ltd. Other impacts lowered the ratio by 1 bp.

Comparison of 2016 with 2015

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

Guarantees and contingent liabilities

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

These guarantees and contingent liabilities relate to transactions that the Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favor of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfill the non-monetary terms of the contract.

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

	As of September 30		
	2017 $M	**2016 $M**	**2015 $M**
Contract amount of:			
Guarantees and letters of credit	20,009	18,056	18,809
Performance related contingencies	20,830	19,723	21,526
Total	**40,839**	37,779	40,335

For further information on Group's other contingent liabilities, refer to Note 33 of the 2017 Financial Statements (attached to this U.S Disclosure Document as part of Annex A).

Directors

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

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

Director's Name	Position held	Year appointed	Age
Mr. D M Gonski, AC	Chairman, Independent Non-Executive Director	2014	64
Mr. S C Elliott	Chief Executive Officer	2016	53
Ms. I R Atlas	Independent Non-Executive Director	2014	63
Ms. P J Dwyer	Independent Non-Executive Director	2012	57
Ms. S J Halton	Independent Non-Executive Director	2016	57
Mr. Lee Hsien Yang	Independent Non-Executive Director	2009	60
Mr. G R Liebelt	Independent Non-Executive Director	2013	63
Mr. J T Macfarlane	Independent Non-Executive Director	2014	57

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

Directors' Profiles

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

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

Career

Mr. Gonski started his career as a lawyer at Herbert Smith Freehills, and is now one of Australia's most respected business leaders and company directors. He has business experience in Australia and internationally, and is involved in a broad range of organizations in the government and education sectors. He is a leading philanthropist and provides strong community leadership, particularly in relation to education in Australia.

Relevant other Directorships

Chairman: The University of New South Wales Foundation Limited (from 2005, Director from 1999).
Director/Member: Lowy Institute for International Policy (from 2012), Australian Philanthropic Services Limited (from 2012), ASIC External Advisory Panel (from 2013) and Advisory Committee for Optus Limited (from 2013).
Chancellor: University of New South Wales Council (from 2005).
President: Art Gallery of NSW Trust (from 2016).
Chair: Review to Achieve Education Excellence in Australian Schools for the Commonwealth of Australia

Relevant Directorships held in last three years, include

Former Chairman: Coca-Cola Amatil Limited (2001-2017, Director from 1997), Sydney Theatre Company Ltd (2010-2016), Guardians of the Future Fund of Australia (2012-2014), Swiss Re Life & Health Australia Limited (2011-2014), Investec Bank (Australia) Limited (2002-2014), Investec Holdings Australia Limited (2002-2014), Ingeus Limited (2009-2014) and National E-Health Transition Authority Ltd (2008-2014).
Former Director: Singapore Telecommunications Limited (2013-2015), Investec Property Limited (2005-2014) and Infrastructure NSW (2011-2014).

Age: 64. **Residence:** Sydney, Australia.

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

Chief Executive Officer and Executive Director since January 1, 2016.

Career

Mr. Elliott has over 30 years' experience in banking in Australia and overseas, in all aspects of the industry. Mr. Elliott joined ANZ as CEO Institutional in June 2009, and was appointed Chief Financial Officer in 2012.

Prior to joining ANZ, Shayne held senior executive roles at EFG Hermes, the largest investment bank in the Middle East, which included Chief Operating Officer. He started his career with Citibank New Zealand and worked with Citibank/Citigroup for 20 years, holding various senior positions across the UK, USA, Egypt, Australia and Hong Kong.

As a Director of the Financial Markets Foundation for Children, Shayne contributes to the promotion of health and welfare of Australian children. He actively engages in the promotion of Australian economic growth, social progress and public policy development through membership of the Australian Banker's Association and Business Council of Australia. Mr. Elliott will Chair the Australian Bankers' Association from December

2017.

Relevant other Directorships

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

Age: 53. **Residence:** Melbourne, Australia.

MS I R ATLAS, Independent Non-Executive Director and Chair of the Human Resources Committee
BJURIS (HONS), LLB (HONS), LLM

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

Career

Ms. Atlas brings a strong financial services background and legal experience to the Board. Ilana was a partner at law firm Mallesons Stephen Jaques (now King & Wood Mallesons), where in addition to her practice in corporate law, she held a number of management roles in the firm including Executive Partner, People and Information, and Managing Partner. She also worked at Westpac for 10 years, where her roles included Group Secretary and General Counsel and Group Executive, People, where she was responsible for human resources, corporate affairs and sustainability. Ilana has a strong commitment to the community, in particular the arts and education.

Relevant other Directorships

Chairman: Coca-Cola Amatil Limited (from 2017, Director from 2011) and Jawun (from 2017, Director from 2014).
Director: Westfield Corporation Limited (from 2014) and Human Rights Law Centre Ltd (from 2012).
Member: Panel of Adara Partners (from 2015).
Fellow: Senate of the University of Sydney (from 2015).

Relevant Former Directorships held in last three years, include

Former Chairman: The Bell Shakespeare Company Limited (2010-2016, Director 2004-2016).Former Director: Treasury Corporation of New South Wales (2013-2017), Suncorp Group Limited (2011-2014), Suncorp-Metway Limited (2011-2014), GIO General Limited (2011-2013), AAI Limited (2011-2014) and Scentre Group Limited (previously known as Westfield Holdings Limited) (2011-2014).

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

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

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

Career

Ms. Dwyer has extensive experience in financial markets, corporate finance, risk management and investments, having held senior executive roles at Calibre Asset Management, Ord Minnett (now J P Morgan) and at Price Waterhouse (now PricewaterhouseCoopers). Her career as a company director spans financial services, investment, insurance, healthcare, gambling and entertainment, fast moving consumer goods, property and construction and retailing sectors. Paula is a former member of the Takeovers Panel. Paula has a strong interest in education and medical research, having served as a member of the Geelong Grammar School Council and the Business and Economics Faculty at the University of Melbourne and as Deputy Chairman of Baker IDI.

Relevant other Directorships

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

Relevant Former Directorships held in last three years, include

Former Deputy Chairman: Leighton Holdings Limited (2013-2014, Director 2012)
Former Member: John Holland Group Advisory Board (2012-2014), Australian Government Takeovers Panel (2008-2014) and ASIC External Advisory Panel (2012-2015).

Age: 57. **Residence:** Melbourne, Australia.

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

Non-Executive Director since October 2016. Ms. Halton is a member of the Human Resources Committee, Environment, Sustainability and Governance Committee and Digital Business &Technology Committee.

Career

Ms Halton's 33 year career in the public service includes the positions of Secretary of the Australian Department of Finance, Secretary of the Australian Department of Health, Secretary for the Department of Health and Ageing, and Executive Coordinator (Deputy Secretary) of the Department of the Prime Minister and Cabinet. She brings to the Board extensive experience in finance, insurance, risk management, information technology, human resources, health and ageing and public policy. She also has significant international experience.

Jane has contributed extensively to community health through local and international organizations including the World Health Organization and National Aboriginal and Torre Strait Islander Health Council.

Relevant other Directorships

Director: Clayton Utz (from 2017).
Member: Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington (from 2007).
Board Member: Coalition for Epidemic Preparedness Innovations (Norway) (from 2016).
Public Policy Fellow: ANU Crawford School of Public Policy (from 2012).
Adjunct Professor: University of Sydney and University of Canberra.
Council Member: Australian Strategic Policy Institute (from 2016).

Relevant Former Directorships held in last three years, include

Former Chairman: OECD Asian Senior Budget Officials Network (2014-2016) and World Health Organization Executive Board (2013-2014, Member 2004-2007 and 2012-2015).
Former Member: Melbourne Institute Advisory Board (2007-2015), the National E-Health Transition Authority (2005-2014) and Australian Institute of Health and Welfare (2002-2014).
Former Commissioner: Australian Sports Commission (2013-2014).

Age: 57. **Residence:** Canberra, Australia.

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

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

Career

Mr. Lee is an experienced business executive with considerable knowledge of and operating experience in Asia. He has a background in engineering and brings to the Board his international business and management experience across a wide range of sectors including telecommunications, food and beverages, property, publishing and printing, financial services, education, civil aviation and land transport. His contribution to community education activities includes membership of the Governing Board of Lee Kuan Yew School of Public Policy.

Relevant other Directorships

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

Relevant Former Directorships held in last three years, include

Former Director: Singapore Exchange Limited (2004-2016).
Former Consultant: Capital International Inc Advisory Board (2007-2016).

Age: 60. **Residence:** Singapore.

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

Non-Executive Director since July 2013. Mr. Liebelt is a member of the Audit Committee and Human Resources Committee.

Career

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

Relevant other Directorships

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

Relevant Former Directorships held in last three years, include

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

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

MR J T MACFARLANE Independent Non-Executive Director
BCOM, MCOM (HONS)

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

Career

Mr. Macfarlane is one of Australia's most experienced international bankers having previously served as Executive Chairman of Deutsche Bank Australia and New Zealand, and CEO of Deutsche Bank Australia. Mr. Macfarlane has also worked in the USA, Japan and PNG, and brings to the Board a depth of banking experience in ANZ's key markets in Australia, New Zealand and the Asia Pacific.
He is committed to community health, and is a Director of St Vincent's Institute of Medical Research (from 2008) and the Aikenhead Centre of Medical Discovery Limited (from 2016).

Relevant other Directorships

Director: Craigs Investment Partners Limited (from 2013), Colmac Group Pty Ltd (from 2014) and AGInvest Holdings Limited (MyFarm Limited) (from 2014, Chairman 2014-2016).

Relevant Former Directorships held in last three years, include

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

Age: 57. **Residence:** Melbourne, Australia

Senior Management and Executives

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

Executive Officers	Position held	Appointed to position	Joined Group
S Elliott Age – 53	Chief Executive Officer Over 30 years' experience in the banking and financial services industry. Previous roles within ANZ include: Chief Financial Officer; Chief Financial Officer (Designate); Chief Executive Officer, Institutional. Roles prior to ANZ include: Head of Business Development, EFG Hermes; Chief Operating Officer, EFG Hermes; various senior positions at Citigroup across geographies and business sectors over the course of 20 years which include: CEO Global Transaction Services Asia Pacific; CEO Corporate Bank Australia/NZ & Country Corporate Officer; CEO Egypt; Vice President Strategic Planning New York; Head of Investor Derivative Sales London; and Head of NZ Derivatives Sales and Trading.	January 2016	June 2009
M Carnegie Age – 48	Group Executive, Digital Banking Roles prior to ANZ include: Managing Director, Google Australia and New Zealand; Managing Director, Proctor and Gamble, Australia and New Zealand.	June 2016	June 2016
F Faruqui Age – 53	Group Executive, International Over 25 years' experience in the financial services industry. Previous roles within ANZ include: CEO International Banking. Roles prior to ANZ include: Head of Corporate and Commercial Banking, Asia – Citi; Head of Global Loans & Leveraged Finance, Asia Pacific and Head of Fixed Income, Capital Markets – Citi.	February 2016	August 2014
G Florian Age – 52	Group Executive, Technology Over 30 years' experience in technology. Roles prior to ANZ include: Chief Strategy Officer: ITaaS, Dimension Data; Senior Vice President – Strategy and Engagement: ITaaS, Dimension Data; Chief Product Officer: Cloud Business Unit, Dimension Data; Chief Marketing Office, Dimension Data; Chief Technology Officer, Dimension Data.	January 2017	January 2017
A George Age – 53	Group Executive, Wealth Australia Over 20 years' experience in the financial services industry. Previous roles within ANZ include: Managing Director, Wealth Australia; Managing Director, Insurance. Roles prior to ANZ include: Various senior roles with ING Group which include CEO Czech Republic and Slovakia, responsible for banking, insurance and funds management and Regional COO, Asia responsible for Product, Marketing, IT and Operations.	December 2016	December 2013
D Hisco Age – 54	Group Executive and Chief Executive Officer, New Zealand Over 35 years' experience in the banking and financial services industry. Previous roles within ANZ include Group Managing Director, Commercial Banking; Managing Director, Esanda and Managing Director, Retail Banking.	October 2010	July 1980
G K Hodges Age – 62	Deputy Chief Executive Officer Over 35 years' experience across Corporate Banking and Commercial Banking. Previous roles within ANZ include: Chief Executive Officer, Australia (Acting), Chief Executive and Director of ANZ National Bank, Group Managing Director Corporate, Managing Director Corporate and Small to Medium Business, Head of Corporate Banking, Chief Economist.	May 2009	January 1991
M Jablko Age – 45	Chief Financial Officer Over 16 years' experience in investment banking. Roles prior to ANZ include: Managing Director and Co-Head, Greenhill, Australia; Managing Director, UBS Australia; Lawyer, Allens Linklaters (formerly Allens Arthur Robinson), Australia.	July 2016	July 2016
F Ohlsson Age – 46	Group Executive, Australia Over 15 years' experience in the financial services industry. Previous roles within ANZ include Managing Director, Retail and Business Banking New Zealand; Managing Director, Business Banking and Strategy New Zealand; General Manager Commercial Products, Australia; Head of Products and Marketing, Esanda.	February 2016	December 2001
K van der Merwe Age – 43	Group Executive, Talent and Culture Over 14 years' experience focused on leading business transformations. Roles prior to ANZ include: Vice President, Bain & Company	May 2017	May 2017
M Whelan Age – 57	Group Executive, Institutional Over 32 years' experience in banking and has vast experience in the Asian Market and Institutional Banking. Previous roles within ANZ include: Chief Executive Officer, Australia; Managing Director, Commercial Banking Australia; Managing Director, Asia, Europe & America, Institutional; Managing Director, Institutional Asia, Managing Director Markets; Head of Sales, Markets.	February 2016	November 2004
N Williams Age – 55	Chief Risk Officer Over 32 years' experience in the financial services industry. Previous roles within ANZ include: Managing Director, Australia Institutional; Managing Director, Institutional, Corporate and Commercial Banking, New Zealand; Managing Director, Institutional New Zealand; Managing Director Institutional Markets ANZ National Bank Limited.	December 2011	November 1984

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

Corporate Governance

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) during the 2017 fiscal year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, has been lodged with the ASX. They can be found on our website at: *http://shareholder.anz.com/reviews/usdebtinvestors-files* and are incorporated by reference and form part of this U.S. Disclosure Document. Information incorporated by reference into, or contained in or accessible through any web site referred to in, the Corporate Governance Statement or the related ASX Appendix 4G does not form part of this U.S. Disclosure Document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document.

Employees

As of September 30, 2017, ANZ employed 44,896 people worldwide (September 30, 2016: 46,554) on a full-time equivalent ("FTEs") basis.

	As of September 30			
		Restated[1]	Originally Reported[1]	
Division	**2017**	**2016**	**2016**	**2015**
Australia	11,387	11,563	8,864	9,161
Institutional	4,754	5,112	3,640	4,218
New Zealand	6,207	6,317	5,240	5,359
Wealth Australia	2,110	2,174	1,379	1,532
Asia Retail & Pacific	3,981	4,894	2,925	3,518
TSO & Group Center	16,457	16,494	24,506	26,364
Totals	44,896	46,554	46,554	50,152

1. *September 30, 2016 full time equivalent staff comparative information has been restated at the divisional level to reflect the impact of the changes to the TSO operation model as described in "Section 2: Information on the Group – Principal Activities of the Group".*

Industrial Relations

Australia

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

The *ANZ Enterprise Agreement 2015-2016 (Australia)* commenced operation on December 29, 2015. The agreement was approved by the Fair Work Commission following an employee ballot in which a majority of 89% voted to endorse it. The agreement replaced the *ANZ Enterprise Agreement 2013-2014 (Australia)* and sets the minimum terms and conditions of employment for ANZ's Australian Group 4, 5 and 6 employees (i.e. junior management and non-management employees). The agreement also governs the pay increase arrangements for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2015 and 2016 performance and remuneration reviews and contains the salary ranges applicable to these employees.

On September 19, 2017, a 94% majority of employees voted to endorse a proposed variation to the agreement which would extend its operation for another year and provide pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2017 performance and remuneration reviews and include updated salary ranges for these employees. The Fair Work Commission approved this variation on October 31, 2017.

In Australia, there are no significant disputes between management and labor unions.

New Zealand

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

Asia Pacific, Europe & America

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

Superannuation

The Group has established a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. For further information on ANZ's superannuation obligations, refer to Note 30 of the 2017 Financial Statements (attached to this U.S Disclosure Document as part of Annex A).

Employee Equity

ANZ operates a number of employee share and option schemes that operate under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan. For further information on ANZ's employee share and option plans, refer to Note 31 of the 2017 Financial Statements (attached to this U.S Disclosure Document as part of Annex A).

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 have been made aware of one entity who is the beneficial owner of 5% or more of our ordinary shares. We have been made aware that on May 12, 2017, BlackRock Group became a substantial shareholder, with an interest in 148,984,864 ordinary shares (5.07%) in the Company.

Refer to the Remuneration Report section of our 2017 Annual Report (extracts attached to this U.S. Disclosure Document as Annex A) for further information (as of the relevant dates referred to therein) regarding share and option holdings by key management personnel (including directors).

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

Description of Ordinary Shares and Constituent Documents

Constitution

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

Dividend rights

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

The Company must not pay a dividend unless:

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

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

Voting rights

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

Right to share in surplus assets

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

Rights to redemption

Ordinary shareholders have no right to redeem their shares.

Further calls

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

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

Preference shares

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

Changes to the rights of shareholders

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

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

Share rights – American Depositary Shares (“ADSs”)

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

Convening of and admission to general meetings

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

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

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

Transfer

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

Limitations on ownership and changes in control

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

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

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

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

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

Constitution provisions governing disclosure of shareholdings

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

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

Changes in capital

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

Change in Control

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

Related Party Transactions

Loans made to directors of the Company and other Key Management Personnel (“KMP”) of the Group are made in the ordinary course of business and on normal commercial terms and conditions that are 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, we disclose only those transactions 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 32 of the 2017 Financial Statements (attached as the Annex A to this 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 +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Legal proceedings

The information below is consistent with Note 33 (Other contingent liabilities and contingent assets) of the 2017 Financial Statements (attached to this U.S. Disclosure Document as part of Annex A).

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 33 of the 2017 Financial Statements for a description of contingent liabilities and contingent assets as of September 30, 2017.

A summary of some of those contingent liabilities, and new contingent liabilities that have arisen in the current reporting period, is set out below.

- **Bank fees litigation**

  A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. A further action, limited to late payment fees only, commenced in August 2014.

  The penalty and statutory claims in the March 2013 class action failed and the claims have been dismissed. The August 2014 action was discontinued in October 2016.

  The original claims in the 2010 class action have been dismissed. A new claim has been added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees.

- **Benchmark/rate actions**

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

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

- **Regulatory reviews and customer exposures**

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

- **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.

- **Clearing and settlement obligations**

  Under the following arrangements, the Company has a commitment to comply with rules which could result in a bilateral exposure and loss if a member institution fails to settle: the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Acquirers Community and the High Value Clearing System (HVCS). The Company's potential exposure arising from these arrangements is unquantifiable in advance.

  Under the Austraclear System Regulations (Austraclear), and the CLS Bank International Rules, the Company has a commitment to participate in loss sharing arrangements if a member institution fails to settle. The Company's potential exposure arising from these arrangements is unquantifiable in advance. For HVCS and Austraclear, the above obligation arises in only limited circumstances.

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

Subsequent events since the end of the financial period

On October 17, 2017, the Group announced it had agreed to sell OnePath P&I and aligned dealer groups business to IOOF for $975 million. Completion is expected in the March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. As part of the agreement, ANZ will also enter into a 20–year strategic alliance to make available certain IOOF superannuation and investment products to ANZ customers. The expected accounting loss on sale of ~A$120 million is anticipated as a result of the sale, however the final gain/loss on sale will be determined at completion and will be impacted by transaction and separation costs, final determination of goodwill to be disposed, other balances and final taxation impacts.

On October 18, 2017, the Group announced it had entered into an agreement with its joint venture partner Metrobank regarding the sale of its 40% stake in the Philippines based MCC. The Group has agreed to sell one half of its 40% stake in MCC to Metrobank for US$144 million (A$184 million), which is expected to settle late in the 2017 calendar year. The Group also entered into a put option to sell its remaining 20% stake in MCC to Metrobank, exercisable in the September 2018 half on the same terms and for the same consideration. If exercised, the put option would deliver a total sale price of US$288 million (A$368 million). The sale is subject to customary regulatory approvals.

On October 23, 2017, the Group announced it had reached a confidential in-principle agreement with ASIC to settle court action in respect of interbank trading and BBSW. On October 30, 2017, ANZ informed the Court that agreement with ASIC had been concluded. The financial impact to ANZ has been reflected in the Group's 2017 Financial Statements. On November 10, 2017, there will be a hearing to determine whether the Court is prepared to make the orders which ANZ and ASIC seek so as to give effect to the settlement.

Other than the matters described above, there have been no significant events since September 30, 2017 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 2017 final dividend. For the 2017 final dividend, ANZ intends to provide shares under the DRP through an on market purchase and BOP through the issue of new shares. The 'Acquisition Price' to be used in determining the number of shares to be provided under the DRP and BOP will be calculated by reference to the arithmetic average of the daily volume weighted average sale price of all fully paid ANZ ordinary shares sold in the ordinary course of trading on the ASX during the ten trading days commencing on November 17, 2017, 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. Economic and trade sanctions 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 Act 2011 of Australia and 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, entities or vessels 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, including current and former ministers, senior officials in security or corrections agencies and current or former military officers of particular ranks;
   (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.

4. Under Part 4 of the Charter of the United Nations Act 1945 of Australia, the Charter of the United Nations ("Dealing 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) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008 of Australia);
   (b) 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);

(c) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008 of Australia);

(d) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulations 2016 of Australia);

(e) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008 of Australia);

(f) 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);

(g) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008 of Australia);

(h) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008 of Australia);

(i) Eritrea (see the Charter of the United Nations (Sanctions – Eritrea) Regulations 2010 of Australia);

(j) Libya (see the Charter of the United Nations (Sanctions – Libya) Regulations 2011 of Australia);

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

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

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

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

5. 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 listed company or an unlisted company with more than 50 members 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 such a company if, because of the acquisition, the person's or someone else's voting power in the company increases:

  – from 20% or below to more than 20%; or

  – from a starting point that is above 20% and below 90%.

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

  – throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and

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

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

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

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

Divestment of shares in relation to control transactions

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

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

Restrictions on voting under the Corporations Act and ASX Listing Rules

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

Other restrictions relating to shares

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

- Competition and Consumer Act 2010 of Australia

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

Withholding taxes

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

Constitution

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

Material contracts

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

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.

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.

Covered bonds are bonds issued by an ADI to external investors secured against a pool of the ADI's assets (the cover pool) assigned to a bankruptcy remote special purpose entity. The primary assets forming the cover pool are mortgage loans. The mortgages remain on the issuer's balance sheet. The covered bond holders have dual recourse to the issuer and the cover pool assets. The mortgages included in the cover pool cannot be otherwise pledged or disposed of but may be repurchased and substituted in order to maintain the credit quality of the pool. The Group issues covered bonds as part of its funding activities.

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

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

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

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

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

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

IFRS – International Financial Reporting Standards.

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

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

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

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

- 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;
- Basis risk - the risk to earnings or market value arising from volatility in the interest margin applicable to banking book items; and
- 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.

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.

Return on average assets is the profit attributable to shareholders of the Company, adjusted for the amount of preference share dividends paid, divided by average total assets.

Return on average ordinary shareholders' equity is the profit attributable to shareholders of the Company, adjusted for the amount of preference share dividends paid, divided by average ordinary shareholders' equity.

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

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

ANNEX A: THE 2017 REMUNERATION REPORT, THE 2017 FINANCIAL REPORT OF THE GROUP, AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2017 FINANCIAL REPORT OF THE GROUP (EXTRACTS FROM THE 2017 ANNUAL REPORT)

ANNEX B: THE 2017 FINANCIAL REPORT OF THE COMPANY AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2017 FINANCIAL REPORT OF THE COMPANY

ANNEX C: THE 2016 REMUNERATION REPORT, THE 2016 FINANCIAL REPORT OF THE GROUP AND THE COMPANY, AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2016 FINANCIAL REPORT OF THE GROUP AND THE COMPANY (EXTRACTS FROM THE 2016 ANNUAL REPORT)

2017 ANNUAL REPORT

REMUNERATION REPORT

Dear Shareholder,

2017 Remuneration Report (audited)

I am pleased to present our Remuneration Report for the year ending 30 September 2017.

2017 Outcomes — Strong link between performance and remuneration outcomes

The Board assesses the performance of the Group, the Chief Executive Officer (CEO) and each Disclosed Executive at the end of each year. The assessments include a review of performance against annual targets and progress towards achieving longer term strategic goals.

In 2017 ANZ produced good results for shareholders, customers and the communities in which we operate. Cash profit increased by 18% and good progress was made towards becoming a better balanced, better capitalised and more efficient bank. ANZ has maintained a strong cost management discipline, achieved sound risk management and compliance outcomes, improved capital efficiency and credit quality, and rebalanced the business portfolio to improve capital allocation and returns. While performance was good, it is recognised that there is more to do to rebuild community trust and improve the customer experience.

Taking into consideration Group, business and individual performance, the Board determines remuneration outcomes for the Chief Executive Officer and Disclosed Executives. In relation to variable remuneration at risk, we set stretching yet achievable objectives and targets for each executive. When executives deliver on target performance at a Group and individual level (taking into consideration ANZ Values and risk/compliance standards), then variable remuneration awards are likely to be around the target.

- For 2017, variable remuneration outcomes averaged 96% of target overall (64% of maximum opportunity), with significant differentiation at an individual level (ranging from 76% to 136% of target).
- The performance rights awarded in November 2013 were tested in November 2016, but as the relative Total Shareholder Return performance hurdles were not met these performance rights lapsed and executives received no value from this award.

Changes to this year's Remuneration Report

We have consolidated and simplified this year's Remuneration Report to help readers understand our remuneration framework and how we determine remuneration outcomes based on performance.

We've included a new overview section: 'Remuneration at a glance' on page 38, the weighting of the different elements in the Group performance outcomes section, and two new tables which detail 1) the variable remuneration awarded; and 2) the remuneration actually received by the CEO and current Disclosed Executives during the 2017 performance year.

In 2018 we are reviewing our reward framework to ensure it continues to support ANZ's strategic direction, culture and new ways of working. The review will also take into consideration the new Banking Executive Accountability Regime.

On behalf of the Board, I invite you to read our refreshed Remuneration Report which will be presented to shareholders for adoption at the 2017 Annual General Meeting.

Ilana Atlas
Chair — Human Resources Committee

CONTENTS

1. WHO IS COVERED BY THIS REPORT

The Key Management Personnel (KMP) whose remuneration is disclosed in this year's report are:

Non-Executive Directors (NEDs) — Current

D Gonski	Chairman
I Atlas	Director
P Dwyer	Director
J Halton	Director — appointed 21 October 2016
H Lee	Director
G Liebelt	Director
J Macfarlane	Director

Non-Executive Directors (NEDs) — Former

I Macfarlane	Director — retired 16 December 2016

Chief Executive Officer (CEO) and Disclosed Executives — Current

S Elliott	Chief Executive Officer and Executive Director
M Carnegie	Group Executive, Digital Banking
A George	Group Executive, Wealth Australia — appointed 1 December 2016
D Hisco	Group Executive and Chief Executive Officer, New Zealand
G Hodges	Deputy Chief Executive Officer
M Jablko	Chief Financial Officer
F Ohlsson	Group Executive, Australia
M Whelan	Group Executive, Institutional
N Williams	Chief Risk Officer

Disclosed Executives — Former

A Currie	Former Chief Operating Officer — concluded in role 31 October 2016, ceased employment 1 July 2017

The Remuneration Report for the Group outlines our remuneration strategy and framework and the remuneration practices that apply to KMP.

This report has been prepared, and audited, as required by the Corporations Act 2001. It forms part of the Directors' Report.

REMUNERATION REPORT (continued)

2. REMUNERATION AT A GLANCE

ANZ'S PURPOSE AND STRATEGY[1]

UNDERPINNED BY:

OUR REMUNERATION POLICY/PRINCIPLES:	Attract, motivate and retain talent	Support the best interests of our customers and sound risk management	Reward for performance and behaviours aligned with ANZ's Values	Focus on both short and longer term performance/ value creation

DELIVERED TO OUR CEO AND DISCLOSED EXECUTIVES THROUGH:

OUR CORE REMUNERATION COMPONENTS[2]:	**Fixed remuneration**	**Variable remuneration delivered as**		
		Cash	Deferred shares	Performance rights
		At risk		

REINFORCED BY:

ALIGNING REMUNERATION AND RISK:	Assessing behaviours based on ANZ's Values and risk/compliance standards	Risk is a key input in determining variable remuneration	Applying Board discretion on performance and remuneration outcomes	Being able to downward adjust deferred remuneration (including to zero)	Prohibiting the hedging of unvested equity

WHILE SUPPORTING THE ALIGNMENT OF EXECUTIVES AND SHAREHOLDERS THROUGH:

SHAREHOLDER ALIGNMENT:	Substantial shareholding requirements	Significant incentive deferral (up to four years) in ANZ equity	Use of relative and absolute Total Shareholder Return (TSR) hurdles	Use of Economic Profit as a key input in determining the incentive pool

DRIVING PERFORMANCE THROUGH OBJECTIVES WITHIN THE GROUP PERFORMANCE FRAMEWORK TO DETERMINE THE INCENTIVE POOL:

GROUP PERFORMANCE CATEGORIES:	**Risk**	**Financial and Discipline** (50% weighting)	**Customer** (30% weighting)	**People and Reputation** (20% weighting)
	(overall adjustment)	(combined weighting 100%)		

ANZ'S 2017 PERFORMANCE OVERALL: (refer to section 5.1)

The 2017 result is a good outcome which demonstrates further progress in becoming a better balanced, better capitalised, more efficient bank.

ANZ's overall performance assessment was slightly below target and this is reflected in the variable remuneration outcomes.

2017 FIXED REMUNERATION CHANGES:

No change to the CEO's and Disclosed Executives' fixed remuneration for 2017.

Fixed remuneration for new appointments has been set lower than prior incumbent.

Fixed remuneration has remained unchanged since 2014 for a number of Disclosed Executives.

No change to NED fees for 2017.

INDIVIDUAL PERFORMANCE OUTCOMES REFLECT THE PERFORMANCE OF THE GROUP, DIVISION AND INDIVIDUAL:

2017 VARIABLE REMUNERATION OUTCOMES[3]: (refer to sections 5.2 and 5.3)

CEO
Annual Variable Remuneration: 95% of target (63% of max)
Long Term Variable Remuneration: \$2.1m/\$4.2m (face value)[4] at threshold/full vesting subject to shareholder approval

Disclosed Executives
Variable Remuneration outcomes:

	% of target	% of max
Average:	96%	64%
Range:	76% - 136%	51% - 91%

Nov 2013 performance rights fully lapsed. Executives received no value from this award.

1. Refer to the 'About our Business' and 'Our Strategy' sections of the Annual Report.
2. The structure of our remuneration framework is aligned with our remuneration principles and has been designed to support ANZ's purpose and strategy.
3. Variable remuneration outcomes appropriately reflect the Group's performance against the indicators in the Group performance framework, and also the individual's performance against their own targets, which are appropriately stretching.
4. Face value at threshold/full vesting (50%/100% vesting).

3. COMPOSITION OF EXECUTIVE REMUNERATION

3.1 REMUNERATION STRUCTURE

There are two core components of remuneration at ANZ:

- fixed remuneration; and
- at risk variable remuneration.

In structuring remuneration, the Board aims to find a balance between:

- fixed remuneration and at risk variable remuneration;
- cash and deferred equity; and
- short, medium, and long-term rewards in line with ANZ's performance cycle.

In 2016 the Human Resources (HR) Committee reviewed the CEO and Disclosed Executives' remuneration frameworks to ensure they support the achievement of ANZ's strategic objectives. The review considered a range of factors including market practice, changes in market conditions, regulatory developments, feedback from shareholders and proxy advisors, and our overarching remuneration principles.

The review resulted in (as disclosed in the 2016 Remuneration Report):

- changes to the variable remuneration framework for Disclosed Executives and how we deliver variable remuneration to the CEO, effective from the 2016 year; and
- an increase to the Variable Remuneration (VR) opportunity for Disclosed Executives (excluding the Chief Risk Officer (CRO)) effective from 1 October 2016 to 200% of their fixed remuneration, in order to better align with the external market. As a result a greater proportion of total remuneration will be at risk (67% compared to 63% previously). This change also aligns the proportion of fixed remuneration and at risk remuneration for the Disclosed Executives with the CEO.

The CEO's variable remuneration framework is slightly different to the Disclosed Executives, as follows:

- **CEO** We reward the CEO on separate Annual Variable Remuneration (AVR) and Long Term Variable Remuneration (LTVR) frameworks, in accordance with his employment contract (as disclosed to the market at the time of his appointment) and this is also more consistent with external market practice. LTVR reinforces the CEO's focus on achieving longer term strategic objectives and creating long-term value for all stakeholders.

  The HR Committee and the Board:

  - determine the CEO's AVR outcome (half of which is deferred over one to four years); and
  - seek shareholder approval for the CEO's LTVR.

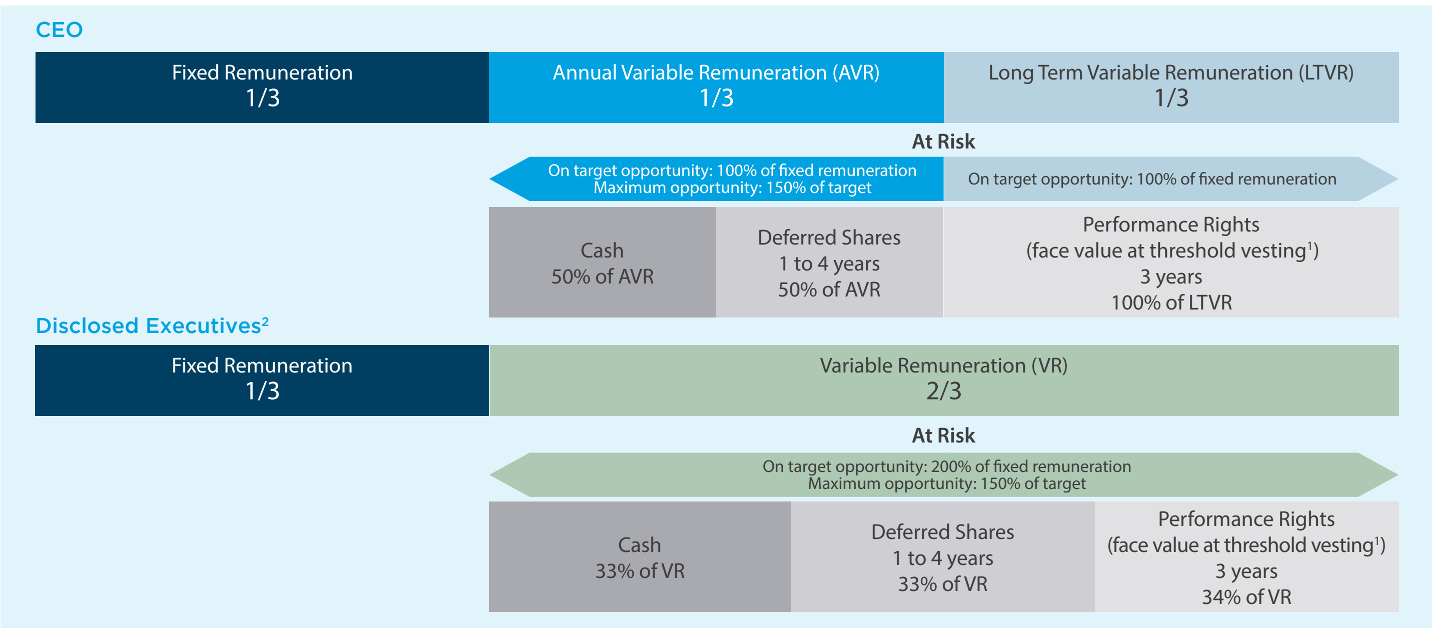
- **Disclosed Executives** We reward the Disclosed Executives under a single VR framework. This approach enables us to:

  - provide the appropriate mix of short and long-term rewards (including performance hurdles) to drive performance, and attract and retain talent;
  - tie the full VR award to the performance of ANZ; and
  - defer VR over the short, medium and longer term (with shares deferred over four years and the performance rights tested against their hurdles after three years).

  The HR Committee and the Board determines the VR outcome for each Disclosed Executive. The delivery of VR to Disclosed Executives in relation to the deferral periods and performance hurdles is aligned to that of the CEO.

The Board can, on the basis of each executive's performance, adjust the executive's variable remuneration down, potentially to zero.

We structure the CEO and Disclosed Executives' remuneration based on the following target remuneration mix. The CEO and Disclosed Executives may be awarded amounts above or below the target for variable remuneration.



1. 50% vesting.
2. The CRO's remuneration arrangements have been structured differently to preserve the independence of this role and to minimise any conflicts of interest in carrying out the risk control function across ANZ. The CRO's target remuneration has a slightly different mix: fixed remuneration (37%) and VR (63%). VR is delivered as 33% cash, 33% deferred shares and 34% deferred share rights (instead of performance rights). The CRO has a VR target of 170% of fixed remuneration and a maximum opportunity of 150% of target.

REMUNERATION REPORT (continued)

3. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

By deferring a significant portion of an executive's remuneration, we ensure that their variable remuneration:

- is linked to performance;
- has significant retention elements;
- aligns their interests with shareholders' to deliver against strategic objectives; and
- can be adjusted downwards including to zero (if appropriate).

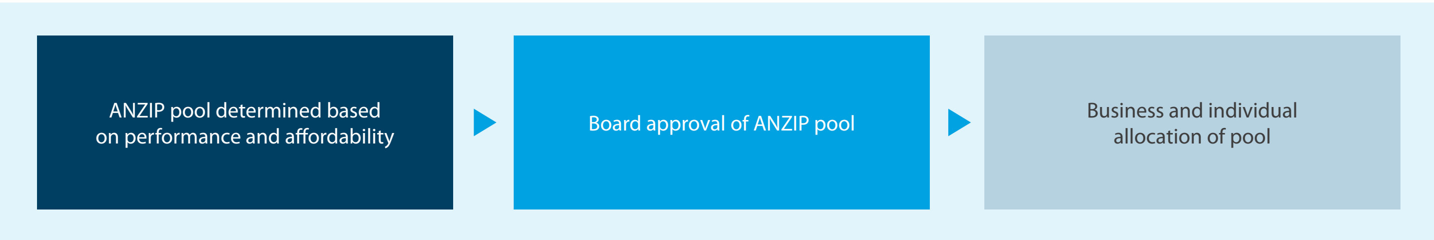
3.2 FIXED REMUNERATION

We express fixed remuneration as a total dollar amount which is delivered as cash salary and superannuation contributions. The Board sets (and reviews annually) the CEO's and Disclosed Executives' fixed remuneration based on financial services market relativities reflecting their responsibilities, performance, qualifications, experience and location. In addition, for new appointments we have looked to set fixed remuneration lower than that of the prior incumbent (following the trend established with the CEO appointment).

3.3 VARIABLE REMUNERATION

The ANZ Incentive Plan (ANZIP) is our main variable remuneration plan covering the majority of employees, including the CEO and Disclosed Executives.

ANZIP pool sizing and allocation process



3.3.1 HOW DO WE DETERMINE THE VARIABLE REMUNERATION POOL AT A GROUP LEVEL?

ANZIP incentive pool based on performance

As managing risk appropriately is fundamental to the way ANZ operates, it is a key element in how we measure and assess performance at a Group, Division and individual level. The size of the overall incentive pool is determined considering Economic Profit performance (a risk adjusted financial measure) and also our performance against the Group performance categories (Risk, Financial and Discipline, Customer, and People and Reputation).

ANZ uses a Group performance framework approach to measure the overall performance of the Group in relation to the ANZIP. The Group performance framework is designed around three key inputs:

- Creating a safe bank with sound risk practices;
- Achieving our agreed annual and longer term goals; and
- Realising our strategic vision.

This approach provides indicators under the categories of:

- Risk — separate measure which can adjust the overall performance assessment;
- Financial and Discipline (50% weighting);
- Customer (30% weighting); and
- People and Reputation (20% weighting).

The indicators within each category encourage our people to be focused on both annual priorities and on broader long-term strategies to deliver shareholder value.

The performance indicators are designed to be stretching yet achievable: they are approved by the Board and are set considering prior year performance, industry standards and ANZ's strategic objectives. Many of our indicators also focus on targets which are set for the current year in context of progress towards longer term goals. As the specific targets and features relating to all these indicators are commercially sensitive, we have not provided them in detail.

3. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

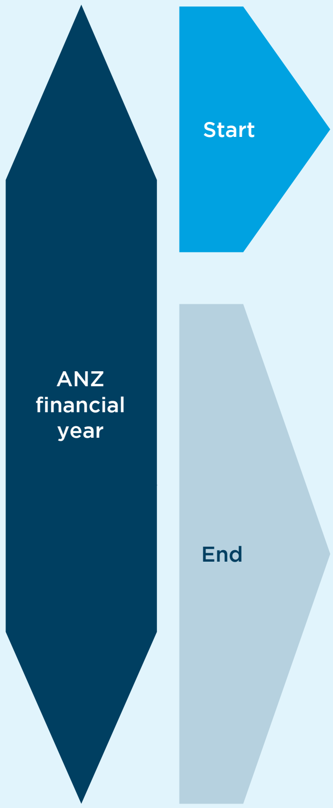
Determination of ANZIP Pool for Allocation

At the end of each financial year the HR Committee:

- Assesses performance against the Group performance framework (which was set at the start of the year), with input from the CEO, CRO and Chief Financial Officer (CFO);
- Considers the pool size based on overall Group performance and affordability (for example above target performance is likely to result in an above target pool);
- Makes a recommendation to the Board for approval, with the final ANZIP incentive pool determined by the Board.

3.3.2 HOW DO WE DETERMINE VARIABLE REMUNERATION AT AN INDIVIDUAL LEVEL?

Variable remuneration is designed to focus our CEO and Disclosed Executives on key performance measures supporting our business strategy, and encourage the delivery of value for shareholders.



Performance objectives set

- Individual objectives are agreed for the CEO and Disclosed Executives, using a balanced scorecard approach under the four categories of (i) Risk, (ii) Financial and Discipline, (iii) Customer, and (iv) People and Reputation.
- The weighting of measures varies to reflect the responsibilities of each individual's role.
- Many of these measures relate to the contribution towards medium to longer term performance outcomes aligned to ANZ's strategic objectives.
- This methodology is replicated across ANZ for all employees reflecting the individual's responsibilities.

Performance assessed against objectives

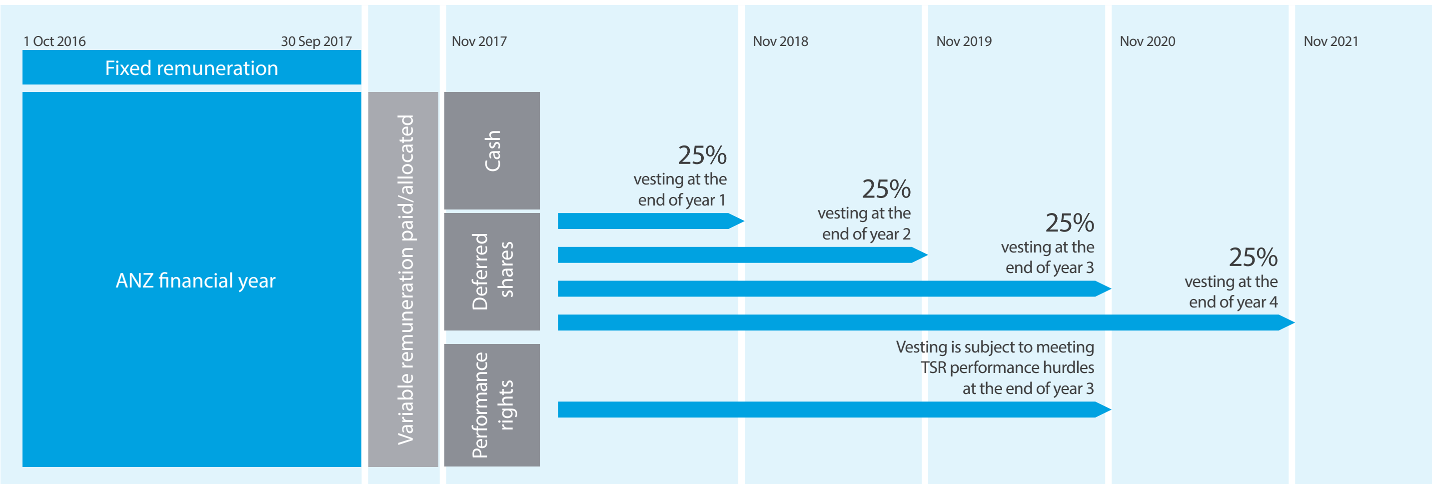
- The performance of the CEO and each Disclosed Executive is assessed against their objectives, ANZ's Values and ANZ's risk and compliance standards.
- The HR Committee seeks input from the CEO, CRO (on risk management), CFO (on financial performance) and Group General Manager Internal Audit (on internal audit matters).
- The HR Committee reviews (and the Board reviews and approves) the performance outcomes for the CEO and each Disclosed Executive.

Determination of remuneration outcomes

- The HR Committee considers the performance of the Group, Division and individual to determine remuneration recommendations for the CEO and Disclosed Executives respectively.
- Where the CEO and Disclosed Executives deliver on target performance at a Group and individual level (taking into consideration ANZ Values and risk/compliance standards), then variable remuneration recommendations are likely to be around target opportunity. Recommendations will be adjusted up or down in line with performance.
- The Committee's recommendations are then reviewed and ultimately approved by the Board.

3.3.3 HOW IS VARIABLE REMUNERATION DELIVERED?

As the table below shows, variable remuneration is delivered partly in cash, partly in shares deferred evenly over four years, and partly in performance rights. The performance rights are subject to performance hurdles which determine whether they vest in three years' time.



REMUNERATION REPORT (continued)

3. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

Cash

The cash component is paid to executives at the end of the annual Performance and Remuneration Review (usually in late November).

Deferred shares

Deferred shares are ordinary shares and are deferred evenly over one to four years. By deferring part of an executives' remuneration over time (and it remaining subject to downward adjustment), we enable a substantial amount of their remuneration to be directly linked to delivering long-term shareholder value. We grant deferred shares in respect of the 1 October to 30 September performance period in late November each year.

We calculate the number of deferred shares to be granted based on the Volume Weighted Average Price (VWAP) of the shares traded on the ASX in the week leading up to and including the date of grant. For disclosure and expensing purposes, we use the one day VWAP to determine the fair value.

In some cases (generally due to regulatory/tax reasons), we may grant deferred share rights to executives instead of deferred shares. Each deferred share right entitles the holder to one ordinary share.

Performance rights — CEO (LTVR) and Disclosed Executives (VR) excluding the CRO[1]

What is a performance right?	A performance right is a right to acquire one ordinary ANZ share at nil cost — as long as time and performance hurdles are met. The future value of performance rights may range from zero to an indeterminate value depending on performance against the hurdles and the share price at the time of exercise.
What is the performance period?	Performance rights have a three year performance period. For the 2017 grant (to be granted in November/December 2017), the performance period is from 22 November 2017 to 21 November 2020. We use a three year performance period as it: aligns to our business planning cycle, provides sufficient time for longer term performance to be reflected, while balancing a reasonable timeframe for executives to find the award meaningful and motivating.
What are the performance hurdles and why?	We will apply two Total Shareholder Return (TSR) performance hurdles for the 2017 grants of performance rights (as we did in 2016): • 75% will be measured against a relative TSR hurdle (tranche 1); • 25% will be measured against an absolute TSR hurdle (tranche 2). TSR represents the change in value of a share plus the value of reinvested dividends paid. We regard it as the most appropriate long-term measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The combination of relative and absolute TSR hurdles provides balance to the plan by: • Relative: rewarding executives for performance that exceeds that of peer companies; and • Absolute: ensuring there is a continued focus on providing positive growth — even when the market is declining. The two hurdles measure separate aspects of performance: • the relative TSR hurdle measures our TSR compared to that of the Select Financial Services comparator group, comprising of core local and global competitors. This comparator group is chosen to broadly reflect the geographies and business segments in which ANZ competes for revenue; and • the absolute Compound Annual Growth Rate (CAGR) TSR hurdle provides executives with a more direct line of sight to the level of shareholder return to be achieved. It also provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes. We will measure ANZ's TSR against each hurdle at the end of the three year performance period to determine whether each tranche of performance rights become exercisable. We measure each tranche independently from the other, so one tranche may vest fully or partially but another tranche may not vest.

3. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

Performance rights — CEO (LTVR) and Disclosed Executives (VR) excluding the CRO[1]

What is the relative TSR performance hurdle?

(Also refer to ANZ TSR performance in section 5.1 and hurdle outcomes in section 5.3)

Relative TSR is an external hurdle that measures our TSR against that of the Select Financial Services comparator group over three years.

The Select Financial Services comparator group is made up of: Bank of Queensland Limited; Bendigo and Adelaide Bank Limited; Commonwealth Bank of Australia Limited; DBS Bank Limited; Macquarie Group Limited; National Australia Bank Limited; Standard Chartered PLC; Suncorp Group Limited; and Westpac Banking Corporation.

If our TSR when compared to the TSR of the comparator group ▶	then the percentage of performance rights that vest
is less than the 50th percentile	is nil
reaches at least the 50th percentile, but is less than the 75th percentile	is 50% plus 2% for every one percentile increase above the 50th percentile
reaches or exceeds the 75th percentile	is 100%

What is the absolute TSR performance hurdle?

Absolute CAGR TSR is an internal hurdle of whether ANZ achieves or exceeds a threshold level of growth the Board sets at the start of the performance period.

The HR Committee recommends the absolute TSR targets for that year's award to the Board for approval. In recommending the targets the Committee considers factors including: the risk free bond rate; historical volatility of ANZ's share price relative to the market; and the market risk premium.

If the absolute CAGR of our TSR ▶	then the percentage of performance rights that vest
is less than 9.5%	is nil
is 9.5%	is 50%
reaches at least 9.5%, but is less than 14.3%	is progressively increased on a pro-rata, straight-line, basis from 50% to 100%
reaches or exceeds 14.3%	is 100%

How do we calculate TSR performance?

When calculating performance against TSR, we:

- reduce the impact of share price volatility, by using an averaging calculation over a 90 day period for start and end values;
- ensure an independent measurement, by engaging the services of an external organisation (Mercer Consulting (Australia) Pty Ltd) to calculate ANZ's performance against the TSR hurdles; and
- test the performance against the relevant hurdle once only at the end of the three year performance period — the rights lapse if the performance hurdle is not met.

How do we calculate the number of performance rights?

The number of performance rights we grant is calculated using a face value basis (i.e. the full share price). Face value at full (100%) vesting is split into two tranches. Each tranche value is then divided by the market price (five trading day VWAP of ANZ shares at the start of the performance period) to determine the number of performance rights we award in each tranche.

Performance rights are allocated in November for Disclosed Executives and December for the CEO (subject to shareholder approval).

How do we expense performance rights?

ANZ engages an external expert to independently determine the fair value of:

- performance rights, for expensing purposes; and
- deferred share rights, for allocation and expensing purposes.

They consider factors including: the performance conditions; share price volatility; life of the instrument; dividend yield; and share price at grant date.

1. Excluding the CRO who receives deferred share rights instead of performance rights to preserve the independence of this role and to minimise any conflicts of interest in carrying out the risk control function across the organisation. These deferred share rights are subject to a time-based vesting hurdle of three years. The value used to determine the number of deferred share rights to be allocated is based on an independent fair value calculation.

REMUNERATION REPORT (continued)

3. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

3.3.4 DOWNWARD ADJUSTMENT OF DEFERRED REMUNERATION — BOARD DISCRETION

Any deferred remuneration we award is subject — even after it has been granted — to the Board's on-going and absolute discretion to adjust deferred remuneration downward, including to zero at any time. The Board may do that if it:

- considers such an adjustment is necessary, or appropriate, to protect the financial soundness of ANZ or to meet unforeseen regulatory requirements; or
- considers that having regard to information which has come to light after the grant of the remuneration, the remuneration was either not justified at the time, or should not vest because of employee behaviour or conduct before, on, or after, the date of grant.

If the Board makes such an adjustment, then the relevant deferred remuneration is immediately and automatically forfeited and will not vest.

Accordingly, before any scheduled release of deferred remuneration, the Board considers whether any downward adjustment (or deferral of vesting for a further period or periods) should be made.

No downward adjustment was applied to the deferred remuneration of the CEO and Disclosed Executives during 2017.

4. APPLICATION OF OUR REMUNERATION PRINCIPLES

Our remuneration policy and principles are a key consideration when making decisions pertaining to our remuneration frameworks.

Summary of our remuneration principles		For example, in relation to our variable remuneration frameworks
Attract, motivate and retain talent	✓	Variable remuneration targets are set taking into consideration the external market, with variable remuneration outcomes adjusted up or down in line with performance.
Support the best interests of our customers and sound risk management	✓	Performance objectives include customer and risk measures, in addition to financial and people measures.
Reward for performance and behaviours aligned with ANZ's Values	✓	Performance assessments and remuneration outcomes take into consideration performance assessed against individuals' objectives, ANZ's Values and our risk and compliance standards.
Focus on both short and longer term performance/value creation	✓	Variable remuneration is determined based on performance within the financial year and progress towards achieving longer term strategic goals. A substantial portion is deferred in ANZ equity over the longer term and the performance rights component will only vest where the hurdles are achieved when tested after three years.

5. 2017 OUTCOMES

5.1 ANZ PERFORMANCE OUTCOMES

How we assessed the Group's performance for the 2017 financial year

An overall assessment of performance is undertaken against the Group performance framework. The framework provides a set of indicative measures which are used as a guide to analyse the quality of the outcomes delivered against the Group's strategic goals. The indicative measures provide a structure to help assess performance however in respect of the overall assessment, judgement is applied given the measures may not be of equal weight. Risk outcomes form an integral part of the assessment as to the quality of the management of ANZ. The focus on creating a safe bank with sound risk practices is reinforced by having the Risk assessment directly impact the overall assessment of the Group's performance (i.e. a multiplier effect).

The 2017 ANZIP pool reflects the overall assessment of Group performance, the change in performance year-on-year, the composition of earnings (i.e. the quality of the result), progress against strategy, and affordability.

Summary of Group Performance Assessment

Risk	×	[Financial & Discipline	+	Customer	+	People & Reputation]	=	Group Performance Assessment
Overall Adjustment Assessment: Target		*50% weight* Assessment: Above Target		*30% weight* Assessment: Target		*20% weight* Assessment: Below Target		Overall Assessment Outcome: Slightly Below Target

5. 2017 OUTCOMES (continued)

Performance framework: Overview of indicative measures informing our assessment of performance

The table below provides an overview of some of the indicative measures used to inform the overall assessment for each of the key performance categories.

Indicative Measure	Performance against Indicative Measures [+/=/- refers to outcome against target]
Risk	
Overall assessment: Target	
Risk performance was assessed as on target taking into consideration performance against key risk indicators and an overall assessment of risk management. There has been a strong tone from the top on Risk and Compliance and setting the right culture in line with our objectives to: a. Maintain a culture where we understand, measure and proactively manage risk and compliance operations; b. Ensure employees live the ANZ Values and ensure strict adherence to legal, compliance, regulatory and health/safety requirements (underpinned by robust staff training programs); and c. Ensure ANZ's products, services and processes are responsible and fair for customers and ANZ.	
• No material breaches of relevant regulations (e.g. anti-money laundering, know your customer, sanctions)	• + No material breaches with positive feedback from principal regulators on ANZ's proactive collaboration and transparency
• Nil adverse audit trend — stretch target	• – 4: none material or systemic across bank
• >99% of employees to complete mandatory learning	• + 99.7% completion rate, reflecting the cultural importance of mandatory learning in ensuring we understand our regulatory obligations
• Annual credit reviews are a key credit control. Therefore we target to have <3% of total customer group reviews overdue	• + We continued to improve our performance in 2017 with <1% overdue
• Customer complaints referred to external dispute resolution	• = Assessed as on target, although recognised there is more we can do to improve the customer experience
Financial and Discipline	
Overall assessment: Above Target	
Group financial performance improved on 2016, with significant progress in implementing strategic priorities including ongoing expense discipline resulting in an absolute reduction in operating costs year-on-year (without sacrificing investment in the business) and rebalancing Group capital through a significant reduction in Institutional capital intensity. Today, circa 53% of Group Capital is allocated to the Retail and Commercial businesses in Australia and New Zealand up from 44% two years ago. Strong organic capital generation along with the announcement of a number of divestments in 2017 means ANZ reported an APRA CET1 ratio of 10.6%, well in advance of APRA's unquestionably strong CET1 requirements.	
Strategy Execution	
• Reshaping of the Institutional business through the reduction of Risk Weighted assets to improve capital efficiency	• + Substantial reweighting of capital usage reflecting a reduction in credit risk weighted assets in Institutional — down $18bn. Aggregate reduction of $46bn over two years
• >3 transactions agreed and announced	• + Transactions announced are sale of Retail and Wealth in 6 Asian countries, sale of Shanghai Rural Commercial Bank, UDC[1], Wealth Pension and Investments and Aligned Dealer Group businesses, as well as the sale of shareholding in Metrobank Card Corporation[2]. In aggregate these will contribute ~90 bps of CET1 capital (of which 9 bps was realised in 2017)
• Increase proportion of investment spend within total spend while reducing costs in absolute terms	• + Group expenses decreased 9% (or 1.5% after adjusting for large/notable items) year-on-year within which expensed investment opex was up 4%
Profitability	
• Reduction in operating expenses	• + 9% year-on-year reduction of operating expenditure (1.5% year-on-year reduction after adjusting for 2016 large/notable items)
Returns	
• Total shareholder returns (TSR) relative to peers	• + Top quartile of peers
• Return on equity (ROE)	• = ROE up 159 bps to 11.9% driven by improved profit performance and the impact of rebalancing the asset portfolio on capital consumption
Funding and Liquidity	
• Core funding and CET1 ratio	• + Funding and liquidity have been managed well, with core funding ratio above target, and CET1 up 96 bps to 10.6% against a target of 9.5%

REMUNERATION REPORT (continued)

5. 2017 OUTCOMES (continued)

Performance framework: Overview of indicative measures informing our assessment of performance

Indicative Measure	Performance against Indicative Measures [+/=/- refers to outcome against target]
Customer	
Overall assessment: Target	
Despite a challenging external environment, customer performance was strong, with particular highlights including the strong uplift in digital sales, the launch of a series of innovative and industry leading services like BladePay™ and the extension of our mobile payments leadership with the launch of Samsung Pay and FitBit™ Pay (established with Apple Pay™ and Android Pay™). The Group also carefully managed the impact of reshaping the Institutional business (which involved the exit of a large number of client relationships delivering significant reduction in the size of the asset book and an improvement in risk adjusted return in the Institutional business).	
Customers as Advocates	
• Improve Net Promoter Score (NPS)[3]	• – In aggregate the NPS score was maintained or decreased. Australia/NZ Corporate and Commercial Banking, and NZ Retail scores maintained, Australia Retail and Australia/NZ Institutional decreased
• Maintain or improve position in respect of relevant customer satisfaction/relationship strength indices	• = Position maintained or improved
Diversification of sales channels	
• Increase brand strength	• = Increased brand index and gap closed relative to market leader
• Launch customer innovations	• + A number of key innovations launched across the business (e.g. BladePay™, Android Pay™, FitBit™ Pay) which have proven effective in increasing customer numbers and strengthening relationships
• Increase profit contribution and diversity to less capital intensive revenue streams in Institutional	• – Average risk weighted assets increased from 0.6% to 1.1% and the high returning cash management business is now 21% of Institutional income, however there is more to be done to grow the customer franchise business following a period of customer exits and product rationalisation
• Increase the proportion of digital sales	• + Digital sales as % of total sales increased in Australia Retail, NZ Retail, and Australia Corporate and Commercial Banking
Market Share	
• Increase Australia and NZ market share (in deposits, in clients doing business outside of Australia/NZ, and revenue in Australia/NZ from international clients)	• = Increased year-on-year
• Reduce customer attrition	• = Customer attrition has reduced in Australia Retail and was relatively flat in NZ Retail
People and Reputation	
Overall assessment: Below Target	
The complex and fast changing internal and external environments created a challenging year for our people. While there are a number of highlights such as the commencement of a program of work designed to lift productivity and embed new ways of working, there is more work to be done in the areas of engagement and improving the reputation of the Banking and Finance industry.	
Diversifying our workforce	
• Improving gender diversity in management — increase representation of women in management	• – Stable at 41.5%. However % of female Senior Managers, Executives and Senior Executives increased by 0.6%, 2.3% and 1.9% respectively
Engaging our People	
• Improve staff engagement	• The 2017 pulse survey showed a result of 72% (sent to 10% of bank, with 57% response rate)[4]
Retention and Performance Management	
• Reduce staff attrition in the pool identified as 'key talent'	• – 9.9% turnover of key talent — can improve further
• 50% reduction in the number of employees with consecutive years of poor performance outcomes	• – 46% reduction year-on-year — can improve further
Sustainability	
• Australia and New Zealand Randstad employer of choice ratings	• – Target achieved in Australia, with improvement required in NZ
• Maintain strong performance on Dow Jones Sustainability Indices	• = Retained our place as a sector global leader (in the top four banks globally)

1. UDC provides asset based finance in NZ.
2. The remaining divestments are subject to regulatory approvals.
3. NPS is a customer loyalty metric used globally to evaluate a company's brand, products or services. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
4. No assessment has been included as year-on-year outcomes are not directly comparable.

5. 2017 OUTCOMES (continued)

ANZ's Financial Performance 2013 – 2017

	2013	2014	2015	2016	2017
Statutory profit ($m)	6,310	7,271	7,493	5,709	6,406
Cash profit ($m, unaudited)	6,492	7,117	7,216	5,889	6,938
Cash return on equity (ROE) (%) (unaudited)	15.3%	15.4%	14.0%	10.3%	11.9%
Cash earnings per share (EPS) (unaudited)	238.3	260.3	260.3	202.6	237.1
Share price at 30 September ($) (On 1 October 2012, opening share price was $24.62)	30.78	30.92	27.08	27.63	29.60
Total dividend (cents per share)	164	178	181	160	160
Total shareholder return (12 month %)	31.5	5.9	(7.5)	9.2	13.1

Since 1 October 2012, the Group has used cash profit as a measure of performance for the Group's ongoing business activities, and provides a basis to assess Group and Divisional performance against earlier periods and against peer institutions.

- We calculate cash profit by adjusting statutory profit for non-core items, consistent with prior years.
- Although cash profit is not audited, the external auditor has informed the Audit Committee that recurring adjustments have been determined on a consistent basis across each period presented, and the additional adjustment for Shanghai Rural Commercial Bank as held for sale in the March 2017 half is appropriate.
- While cash profit forms part of the Financial and Discipline performance assessment, the sizing of the ANZIP pool takes account of both cash profit and Economic Profit. Importantly, Economic Profit takes into consideration credit losses across an economic cycle.

ANZ TSR performance (1 to 10 years)

The table below compares ANZ's TSR performance against the median TSR and upper quartile TSR of the performance rights Select Financial Services (SFS) comparator group over one to ten years. ANZ's TSR performance was below the median TSR of the SFS Comparator Group when comparing over one, three and five years, and above the median over ten years to 30 September 2017.

	Years to 30 September 2017			
	1	3	5	10
ANZ	13.1%	12.5%	58.9%	78.7%
Median TSR SFS	17.2%	18.0%	78.8%	59.1%
Upper Quartile TSR SFS	21.0%	24.9%	104.0%	85.4%

REMUNERATION REPORT (continued)

5. 2017 OUTCOMES (continued)

5.2 CEO'S AND DISCLOSED EXECUTIVES' REMUNERATION OUTCOMES

The CEO and Disclosed Executives' fixed remuneration was reviewed, with no change for the year ending 30 September 2017.

The Board approved the CEO's 2017 AVR and the Disclosed Executives' 2017 VR outcomes. In doing so, it considered the performance of the individual, the business and overall Group performance, and the shareholder experience.

At the start of each year, stretching yet achievable performance objectives are set for the CEO and each Disclosed Executive. When executives deliver on target performance at a Group and individual level (taking into consideration ANZ Values and risk/compliance standards), then variable remuneration awards are likely to be around the target.

At year end, each executive's performance is assessed against their objectives for the year and also taking into consideration risk/compliance standards and their demonstration of the ANZ Values. The CEO assesses the performance of the Disclosed Executives and makes recommendations to the HR Committee. The HR Committee assesses the performance of the CEO and makes recommendations to the Board on both the CEO and the Disclosed Executives' performance and remuneration outcomes.

Average VR for Disclosed Executives is 96% of target (64% of maximum), which is well aligned with overall ANZ performance. The VR differentiation at an individual level ranges between 76% to 136% of target. The differentiation in outcomes reflects the relative performance of the different areas/individuals and also demonstrates the at risk nature of VR. These VR outcomes (which are paid/granted in November 2017), demonstrate a clear link between performance and reward at both an ANZ and individual level for the 2017 financial year. Whether the portion of 2017 VR delivered as performance rights vests will be subject to ANZ's TSR performance over a three year performance period, in line with our business planning cycle.

The CEO's proposed 2017 LTVR of $2.1 million/$4.2 million (performance rights face value at threshold/full vesting) is subject to shareholder approval at the 2017 Annual General Meeting.

The TSR performance hurdles reflect the importance of focusing on achieving longer term strategic objectives and aligning executives' and shareholders' interests.

Year-on-year Remuneration awarded

This table shows a year-on-year comparison of remuneration awarded to the CEO and Disclosed Executives for the 2016 and 2017 performance periods. However it should be noted that year-on-year comparisons are not comparable for those shaded (Elliott, Carnegie, Jablko and Ohlsson) as they were only in their current role for part of the 2016 year.

There were no increases to fixed remuneration for 2017. The year-on-year differences for Elliott and Whelan reflect the fixed remuneration increases at the time they were appointed to their new roles in 2016, while for Hisco it reflects differences in exchange rates when converting NZD to AUD. The differences for Carnegie, Jablko and Ohlsson are due to having only worked part of the 2016 year as a Disclosed Executive.

	Financial Year		Fixed remuneration $	Variable remuneration awarded $	Total remuneration awarded $
CEO and Current Disclosed Executives					
S Elliott	2017		2,100,000	4,100,000	6,200,000
	2016	(9 months as CEO)	1,887,500	3,650,000	5,537,500
M Carnegie	2017		1,000,000	1,700,000	2,700,000
	2016	(~3 months in role)	260,000	400,000	660,000
A George	2017	(10 months in role)	664,000	913,000	1,577,000
D Hisco	2017		1,195,013	2,200,550	3,395,563
	2016		1,186,570	2,199,905	3,386,475
G Hodges	2017		1,050,000	2,220,000	3,270,000
	2016		1,050,000	1,785,000	2,835,000
M Jablko	2017		1,000,000	2,240,000	3,240,000
	2016	(~2.5 months in role)	200,000	400,000	600,000
F Ohlsson	2017		1,000,000	1,620,000	2,620,000
	2016	(8 months in role)	660,000	848,100	1,508,100
M Whelan	2017		1,200,000	3,275,000	4,475,000
	2016		1,166,000	2,275,000	3,441,000
N Williams	2017		1,350,000	1,900,000	3,250,000
	2016		1,350,000	2,150,000	3,500,000

This table supplements, and is different to, the Statutory Remuneration table which presents the accounting expense for both vested and unvested awards in accordance with the Australian Accounting Standards.

A further breakdown of the variable remuneration awarded for 2017 is provided on the next page.

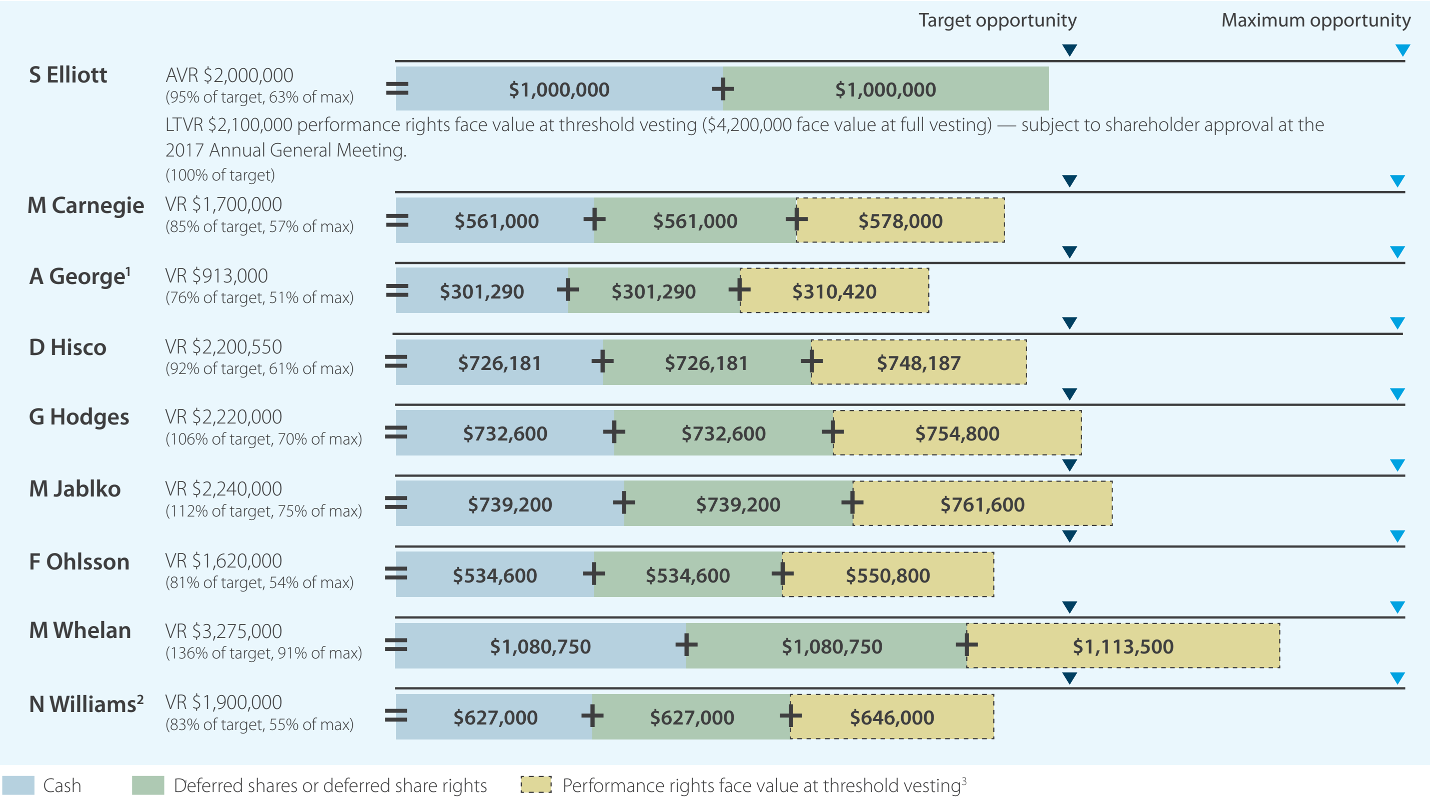
5. 2017 OUTCOMES (continued)

2017 Variable Remuneration awarded

This table shows the VR awarded to the CEO and Disclosed Executives for the year ending 30 September 2017 and what this represents as a % of their target opportunity and maximum opportunity.

The average variable remuneration awarded to the CEO and Disclosed Executives is 96% of target (64% of maximum) which is well aligned with the Group performance assessment outcome.

Only the cash component will be received now, the deferred shares will vest over four years and the performance rights may or may not vest when tested against the hurdles after three years.



1. Remuneration disclosed from commencement in Disclosed Executive role.
2. As CRO, receives deferred share rights instead of performance rights.
3. Multiply by two to convert to face value at full vesting.

2017 Actual Remuneration received

This table shows the remuneration actually received by the CEO and current Disclosed Executives in relation to the 2017 performance year as cash, or in the case of prior equity awards, the value which vested in 2017. The final column also shows the value of prior equity awards which lapsed in 2017 (these awards reflect the 2013 performance rights which failed to meet the performance hurdles when tested in November 2016).

Only the cash component of the 2017 VR award appears in this table, as the other components are deferred and may/may not vest in future years.

	Fixed remuneration $	Cash variable remuneration $	Total cash $	Deferred variable remuneration which vested during the year[1] $	Other deferred remuneration which vested during the year[1] $	Actual remuneration received $	Deferred variable remuneration which lapsed/ forfeited during the year[1] $
CEO and Current Disclosed Executives							
S Elliott	2,100,000	1,000,000	3,100,000	1,161,588	-	4,261,588	(1,929,199)
M Carnegie	1,000,000	561,000	1,561,000	-	2,783,169	4,344,169	-
A George[2]	664,000	301,290	965,290	-	250,000	1,215,290	-
D Hisco[3]	1,195,013	726,181	1,921,194	1,102,772	-	3,023,966	(1,348,887)
G Hodges	1,050,000	732,600	1,782,600	677,607	-	2,460,207	(964,586)
M Jablko	1,000,000	739,200	1,739,200	-	1,004,553	2,743,753	-
F Ohlsson	1,000,000	534,600	1,534,600	694,592	-	2,229,192	(254,839)
M Whelan	1,200,000	1,080,750	2,280,750	1,154,038	-	3,434,788	(385,812)
N Williams	1,350,000	627,000	1,977,000	1,621,508	-	3,598,508	-

1. The point in time value of previously deferred remuneration granted as shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting or lapsing/forfeiture multiplied by the number of shares/share rights and/or performance rights. The amount paid as deferred cash is the value included.
2. Remuneration disclosed from commencement in Disclosed Executive role (1 December 2016).
3. Paid in NZD and converted to AUD.

This table supplements, and is different to, the Statutory Remuneration table which presents the accounting expense for both vested and unvested awards in accordance with the Australian Accounting Standards.

REMUNERATION REPORT (continued)

5. 2017 OUTCOMES (continued)

2017 Statutory Remuneration — CEO and Disclosed Executives

The following table outlines the statutory remuneration disclosed in accordance with the Australian Accounting Standards.

		Short-Term Employee Benefits				Post-Employment	
	Financial Year	Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3] $	Other cash $	Super contributions $	Retirement benefit accrued during year[4] $
CEO and Current Disclosed Executives							
S Elliott	2017	1,917,808	16,995	1,000,000	-	182,192	-
	2016	1,723,744	17,110	775,000	-	163,756	-
M Carnegie[7]	2017	913,242	29,920	561,000	100,000	87,258	-
	2016	237,443	7,072	132,000	736,000	22,557	-
A George[8]	2017	614,521	22,468	301,290	250,000	58,107	-
D Hisco[9, 10]	2017	1,195,013	465,103	726,181	-	-	7,636
	2016	1,186,570	472,574	725,969	-	-	7,034
G Hodges	2017	958,904	17,753	732,600	-	91,096	4,565
	2016	958,904	17,110	589,050	-	91,096	4,522
M Jablko[11]	2017	913,242	15,515	739,200	268,082	87,258	-
	2016	182,648	-	132,000	-	17,352	-
F Ohlsson[10, 12]	2017	913,242	46,848	534,600	-	86,758	-
	2016	602,740	30,072	279,873	-	57,260	-
M Whelan[13]	2017	1,095,890	11,995	1,080,750	-	104,110	-
	2016	1,064,840	11,610	750,750	-	101,160	-
N Williams	2017	1,232,877	19,359	627,000	-	117,123	5,870
	2016	1,232,877	19,707	709,500	-	117,123	5,814
Former Disclosed Executive							
A Currie[14]	2017	753,425	192,565	-	-	71,575	-
	2016	966,077	17,110	495,000	-	95,434	-

1. Cash salary includes any adjustments required to reflect the use of ANZ's Lifestyle Leave Policy.
2. Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services.
3. The total cash incentive relates to the cash component only. The relevant amortisation of the AVR/VR deferred components is included in share-based payments and has been amortised over the vesting period. The total AVR/VR was approved by the Board on 25 October 2017. 100% of the cash component of the AVR/VR awarded for the 2016 and 2017 years vested to the Disclosed Executive in the applicable financial year.
4. Accrual relates to Retirement Allowance. As a result of being employed with ANZ before November 1992, D Hisco, G Hodges and N Williams are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as three months of preserved notional salary (which is 65% of fixed remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years less the total accrual value of long service leave (including taken and untaken).
5. As required by AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration is neither related to, nor indicative of, the benefit (if any) that the executive may ultimately realise if the equity becomes exercisable.
6. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice payable on termination.
7. M Carnegie commenced in a Disclosed Executive role on 27 June 2016, so 2016 remuneration reflects a partial service year. As part of M Carnegie's employment arrangement, she received $836,000 in cash (of which $736,000 was paid in 2016 and $100,000 was paid in 2017) and $3.264 million in deferred equity vesting from November 2016 to June 2018, as compensation for bonus opportunity foregone and deferred remuneration forfeited (as disclosed in 2016).

Long-Term Employee Benefits	Share-Based Payments[5]					
	Total amortisation value of					
	Variable remuneration			Other equity allocations		
Long service leave accrued during the year $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits[6] $	Grand total remuneration $
31,819	1,105,401	-	1,380,645	-	-	5,634,860
113,522	1,211,322	-	1,065,203	-	-	5,069,657
15,152	225,446	-	177,089	2,794,880	-	4,903,987
3,985	14,282	-	10,496	689,853	-	1,853,688
15,405	262,448	-	120,594	-	-	1,644,833
21,319	-	669,039	757,389	533	-	3,842,213
19,566	-	865,109	788,989	710	-	4,066,521
15,910	554,318	-	610,999	-	-	2,986,145
16,203	607,475	-	587,186	-	-	2,871,546
15,152	281,374	-	221,998	952,292	-	3,494,113
3,113	11,486	-	8,340	181,983	-	536,922
15,152	162,978	299,530	331,818	533	-	2,391,459
68,843	-	333,975	163,593	469	-	1,536,825
18,182	827,073	-	661,203	-	-	3,799,203
51,210	950,540	-	442,551	-	-	3,372,661
20,455	600,960	867,287	-	-	-	3,490,931
20,511	757,057	918,106	-	-	-	3,780,695
-	212,661	343,775	504,180	-	563,015	2,641,196
16,713	538,038	151,198	783,998	-	-	3,063,568

8. A George commenced in a Disclosed Executive role on 1 December 2016, so 2017 remuneration reflects a partial service year. In relation to A George's role prior to her appointment to the Group Executive Committee, in July 2016 the Board approved a cash retention award of $500,000 with partial vesting in June 2017 ($250,000) and December 2017 ($250,000).

9. D Hisco's fixed remuneration is paid in NZD and converted to AUD. The year-on-year difference in cash salary relates to fluctuations in the exchange rate.

10. D Hisco and F Ohlsson were eligible in 2016, to receive shares in relation to the Employee Share Offer. That offer provides a grant of ANZ shares in each financial year to eligible employees subject to Board approval. Refer to Note 31 Employee Share and Option Plans for further details on the Employee Share Offer.

11. M Jablko commenced in a Disclosed Executive role on 18 July 2016, so 2016 remuneration reflects a partial service year. As part of M Jablko's employment arrangement, she received $268,082 in cash and $1,657,082 in deferred equity vesting from November 2017 to February 2021, as compensation for bonus opportunity foregone and deferred remuneration forfeited (as disclosed in 2016).

12. F Ohlsson commenced in a Disclosed Executive role on 1 February 2016, so 2016 remuneration reflects amounts prorated for the partial service year.

13. M Whelan's fixed remuneration was adjusted in February 2016 when he changed Disclosed Executive roles. The year-on-year difference in cash salary and superannuation contribution reflects this change.

14. A Currie concluded in his role on 31 October 2016 and ceased employment on 1 July 2017. Statutory remuneration table reflects his remuneration up to his date of termination, 1 July 2017.

REMUNERATION REPORT (continued)

5. 2017 OUTCOMES (continued)

5.3 PERFORMANCE RIGHTS VESTING OUTCOMES

Performance rights granted to the CEO and Disclosed Executives (excluding the CRO) in November 2013 reached the end of their performance period in November 2016.

Hurdle	Grant date	First date exercisable	ANZ TSR over three years	Median TSR over three years	% vested	Outcome
Relative TSR — Select Financial Services Comparator Group	22-Nov-13	22-Nov-16	4.07%	18.01%	0%	Performance rights lapsed
Relative TSR — ASX 50 Comparator Group	22-Nov-13	22-Nov-16	4.07%	19.14%	0%	Performance rights lapsed

It is likely that the performance rights we awarded our executives in late 2014 will also lapse when we test them in November 2017.

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

The Board reviewed and determined not to increase NED fees for 2017.

NEDs receive a fee for being a Director of the Board, and additional fees for either chairing, or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for serving on a Board Committee.

In setting Board and Committee fees consideration is given to: general industry practice; best principles of corporate governance; the responsibilities and risks attached to the NED role; the time commitment expected of NEDs on Group and Company matters; and fees paid to NEDs of comparable companies.

ANZ compares NED fees to a comparator group of Australian listed companies with a similar market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size, nature of work and time commitment by NEDs.

This table shows the NED fee structure for 2017 (unchanged from 2016):

	Board[1]	Audit Committee	Risk Committee	Human Resources Committee	Digital Business & Technology Committee	Environment, Sustainability & Governance Committee
Chair fee	\$825,000	\$65,000	\$62,000	\$57,000	\$35,000	\$35,000
Member fee	\$240,000	\$32,500	\$31,000	\$29,000	\$15,000	\$15,000

1. Including superannuation.

To maintain NED independence and impartiality:

- NED fees are not linked to the performance of the Group; and
- NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

The current aggregate fee pool for NEDs of \$4 million was approved by shareholders at the 2012 Annual General Meeting. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.

We expect our NEDs to hold ANZ shares

NEDs are required:

- to accumulate shares — over a five year period from their appointment — to the value of 100% (200% for the Chairman) of the NED fee for a Board member; and
- to maintain this shareholding while they are a Director of ANZ.

All NEDs have met — or, if appointed within the last five years, are on track to meet — their minimum shareholding requirement.

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION (continued)

2017 Statutory Remuneration — NEDs

	Financial Year	Short-Term NED Benefits Fees[1] $	Post-Employment Super contributions[1] $	Total remuneration[2] $
Current Non-Executive Directors				
D Gonski	2017	805,276	19,724	825,000
	2016	805,615	19,385	825,000
I Atlas	2017	317,776	19,724	337,500
	2016	297,115	19,385	316,500
P Dwyer	2017	345,276	19,724	365,000
	2016	345,615	19,385	365,000
J Halton[3]	2017	241,063	18,894	259,957
H Lee	2017	315,276	19,724	335,000
	2016	315,615	19,385	335,000
G Liebelt	2017	343,151	19,724	362,875
	2016	338,615	19,385	358,000
J Macfarlane	2017	298,776	19,724	318,500
	2016	299,115	19,385	318,500
Former Non-Executive Director				
I Macfarlane[4]	2017	68,225	4,904	73,129
	2016	330,115	19,385	349,500
Total of all Non-Executive Directors	2017	2,734,819	142,142	2,876,961
	2016	2,731,805	135,695	2,867,500

1. Year-on-year differences in fees relate to changes in Committee memberships and changes to the superannuation maximum contribution base.
2. Long-term benefits and share-based payments do not apply for the Non-Executive Directors. There were no non monetary benefits or termination benefits for the Non-Executive Directors in either 2016 or 2017.
3. J Halton commenced as a Non-Executive Director on 21 October 2016, so 2017 remuneration reflects a partial service year.
4. I Macfarlane retired as a NED on 16 December 2016. Statutory remuneration table reflects his expense up to his date of retirement.

7. REMUNERATION GOVERNANCE

7.1 THE HUMAN RESOURCES (HR) COMMITTEE

Role The HR Committee supports the Board on remuneration and other HR matters. They review the remuneration policies and practices of the Group, monitor market practice and also regulatory and compliance requirements in Australia and overseas.

The HR Committee has a strong focus on the relationship between business performance, risk management and remuneration. During the year the HR Committee met on four occasions and reviewed and approved or made recommendations to the Board on matters including:

- remuneration for the CEO and other key executives (broader than those disclosed in the Remuneration Report) covered by the ANZ Remuneration Policy;
- the design of significant variable remuneration plans — for example: the ANZIP;
- the Group performance framework (objectives setting and assessment) and annual variable remuneration spend;
- performance and reward outcomes for key senior executives;
- key senior executive appointments and terminations;
- the effectiveness of the ANZ Remuneration Policy;
- succession plans for key senior executives; and
- diversity and inclusion, employee engagement, and health and safety.

More details about the role of the HR Committee, including its Charter, can be found on our website. Go to anz.com > about us > our company > corporate governance > ANZ Human Resources Committee Charter.

REMUNERATION REPORT (continued)

7. REMUNERATION GOVERNANCE (continued)

Link between remuneration and risk To further reflect the importance of the link between remuneration and risk:

- the Board had two NEDs in 2017 (increasing to three in 2018) who serve on both the HR Committee and the Risk Committee;
- the HR Committee has free and unfettered access to risk and financial control personnel; and
- the HR Committee can engage independent external advisors as needed.

External advisors provided information but not recommendations Throughout the year, the HR Committee and management received information from the following external providers: Aon Hewitt, Ashurst, Ernst & Young, Mercer Consulting (Australia) Pty Ltd and PricewaterhouseCoopers. This information related to market data, market practices, legislative requirements and the interpretation of governance and regulatory requirements.

During the year, the HR Committee did not receive any remuneration recommendations from consultants about the remuneration of KMP.

ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee and the Board. When doing so, they consider market information provided by external providers. The Board made its decisions independently, using the information provided and with careful regard to ANZ's strategic objectives, risk appetite and the ANZ Remuneration Policy and principles.

7.2 INTERNAL GOVERNANCE

Hedging prohibition

All deferred equity must remain at risk until it has fully vested. Accordingly, executives and their associated persons must not enter into any schemes that specifically protect the unvested value of equity allocated. If they do so, then they forfeit the relevant equity.

Shareholding guidelines

We expect the CEO and each Disclosed Executive to, over a five year period:

- accumulate ANZ shares to the value of 200% of their fixed remuneration; and
- maintain this shareholding level while they are an executive of ANZ.

For this purpose, shareholdings include all vested, and unvested, equity that is not subject to performance hurdles.

Based on equity holdings as at 30 September 2017, the CEO and all Disclosed Executives:

- who have been with us for at least five years, meet this requirement; and
- who have been with us for less than five years, are on track to meet it.

CEO and Disclosed Executives' Contract Terms and equity treatment

The details of the contract terms and also the equity treatment on termination (in accordance with the Conditions of Grant) relating to the CEO and Disclosed Executives are below. Although they are similar, they vary in some cases to suit different circumstances.

Type of contract	Permanent ongoing employment contract.
Notice on resignation	• 12 months' by CEO; • 6 months' by Disclosed Executives.
Notice on termination by ANZ	• 12 months' by ANZ. However, ANZ may immediately terminate an individual's employment at any time in the case of serious misconduct. In that case, the individual will be entitled only to payment of fixed remuneration up to the date of termination.
How unvested equity is treated on leaving ANZ	Executives who resign or are terminated will forfeit all their unvested deferred equity — unless the Board determines otherwise. Where an executive is terminated due to redundancy or they are classified as a 'good leaver', then: • their deferred shares/rights are released at the original vesting date; and • their performance rights[1] are prorated for service to the full notice termination date and released at the original vesting date (if performance hurdles are met). On an executive's death or total and permanent disablement, their deferred equity vests.
Change of control (applicable for the CEO only)	If a change of control or other similar event occurs, then we will test the performance conditions applying to the CEO's performance rights. They will vest to the extent that the performance conditions are satisfied.

1. Or deferred share rights granted to the CRO instead of performance rights.

8. OTHER INFORMATION

8.1 EQUITY HOLDINGS

For the equity granted to the CEO and Disclosed Executives in November/December 2016, all deferred shares were purchased on the market. For deferred share rights and performance rights, we will determine our approach to satisfying awards closer to the time of vesting.

The table below sets out details of deferred shares and rights that we granted to the CEO and Disclosed Executives:

- during the 2017 year; or
- in prior years and that then vested, were exercised/sold or which lapsed/were forfeited during the 2017 year.

CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2017 grants only) $	Grant date	First date exercis-able	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/Forfeited Number	Lapsed/Forfeited %	Lapsed/Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exer-cisable as at 30 Sep 2017[3]	Unexer-cisable as at 30 Sep 2017[4]
CEO and Current Disclosed Executives																	
S Elliott	Deferred shares	18,814		21-Nov-14	21-Nov-16	-	18,814	100	524,399	-	-	-	(18,814)	100	541,100	-	-
	Deferred shares	22,796		18-Nov-15	18-Nov-16	-	22,796	100	637,189	-	-	-	(22,796)	100	655,624	-	-
	Deferred shares	6,941	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	6,941
	Deferred shares	6,941	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	6,941
	Deferred shares	6,941	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	6,941
	Deferred shares	6,941	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	6,941
	Performance rights	36,049		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(36,049)	100	(1,008,420)	-	-	-	-	-
	Performance rights	32,916		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(32,916)	100	(920,779)	-	-	-	-	-
	Performance rights	112,862	14.01	16-Dec-16	16-Dec-19	16-Dec-21	-	-	-	-	-	-	-	-	-	-	112,862
	Performance rights	37,620	12.28	16-Dec-16	16-Dec-19	16-Dec-21	-	-	-	-	-	-	-	-	-	-	37,620
M Carnegie	Deferred shares	24,247		20-Aug-16	21-Nov-16	-	24,247	100	675,832	-	-	-	(24,247)	100	731,900	-	-
	Deferred shares	24,336		20-Aug-16	01-Jun-17	-	24,336	100	680,040	-	-	-	(24,300)	100	698,316	36	-
	Deferred shares	24,292		20-Aug-16	27-Feb-17	-	24,292	100	749,102	-	-	-	(24,292)	100	767,620	-	-
	Deferred shares	19,336		20-Aug-16	20-Aug-17	-	19,336	100	578,195	-	-	-	-	-	-	19,336	-
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	1,182
	Performance rights	7,309	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	7,309
	Performance rights	2,436	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	2,436
A George[5]																	
D Hisco	Deferred shares	7,000		31-Oct-08	31-Oct-11	-	-	-	-	-	-	-	(7,000)	100	211,871	-	-
	Employee Share Offer	25		04-Dec-13	04-Dec-16	-	25	100	714	-	-	-	-	-	-	25	-
	Deferred share rights	18,370		21-Nov-14	21-Nov-16	21-Nov-18	18,370	100	512,023	-	-	-	(18,370)	100	580,486	-	-
	Deferred share rights	21,109		18-Nov-15	18-Nov-16	18-Nov-18	21,109	100	590,035	-	-	-	(21,109)	100	667,038	-	-
	Deferred share rights	6,935	26.17	22-Nov-16	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	6,935
	Deferred share rights	7,386	24.57	22-Nov-16	22-Nov-18	22-Nov-20	-	-	-	-	-	-	-	-	-	-	7,386
	Deferred share rights	7,867	23.07	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	7,867
	Deferred share rights	8,379	21.66	22-Nov-16	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	8,379
	Performance rights	25,205		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(25,205)	100	(705,075)	-	-	-	-	-
	Performance rights	23,015		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(23,015)	100	(643,812)	-	-	-	-	-
	Performance rights	40,198	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	40,198
	Performance rights	13,399	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	13,399

REMUNERATION REPORT (continued)

8. OTHER INFORMATION (continued)

CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2017 grants only) $	Grant date	First date exercis-able	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/Forfeited Number	Lapsed/Forfeited %	Lapsed/Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exer-cisable as at 30 Sep 2017[3]	Unexer-cisable as at 30 Sep 2017[4]
CEO and Current Disclosed Executives																	
G Hodges	Deferred shares	11,102		12-Nov-12	12-Nov-13	-	-	-	-	-	-	-	(11,102)	100	332,567	-	-
	Deferred shares	9,055		22-Nov-13	22-Nov-14	-	-	-	-	-	-	-	(9,055)	100	271,248	-	-
	Deferred shares	10,975		21-Nov-14	21-Nov-16	-	10,975	100	305,904	-	-	-	-	-	-	10,975	-
	Deferred shares	13,298		18-Nov-15	18-Nov-16	-	13,298	100	371,703	-	-	-	-	-	-	13,298	-
	Deferred shares	5,276	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	5,276
	Deferred shares	5,276	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	5,276
	Deferred shares	5,276	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	5,276
	Deferred shares	5,276	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	5,276
	Performance rights	18,024		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(18,024)	100	(504,196)	-	-	-	-	-
	Performance rights	16,458		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(16,458)	100	(460,390)	-	-	-	-	-
	Performance rights	32,617	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	32,617
	Performance rights	10,872	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	10,872
M Jablko	Deferred shares	20,825		20-Aug-16	27-Feb-17	-	20,825	100	642,189	-	-	-	(20,825)	100	646,941	-	-
	Deferred shares	3,153		20-Aug-16	20-Aug-17	-	3,153	100	94,283	-	-	-	-	-	-	3,153	-
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	1,182
	Deferred shares	1,182	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	1,182
	Performance rights	7,309	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	7,309
	Performance rights	2,436	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	2,436
F Ohlsson	Employee Share Offer	25		04-Dec-13	04-Dec-16	-	25	100	714	-	-	-	-	-	-	25	-
	Deferred share rights	7,361		22-Nov-13	22-Nov-16	21-Nov-18	7,361	100	205,914	-	-	-	-	-	-	7,361	-
	Deferred share rights	4,861		22-Nov-13	22-Nov-16	21-Nov-18	4,861	100	135,980	-	-	-	-	-	-	4,861	-
	Deferred share rights	4,406		21-Nov-14	21-Nov-16	21-Nov-18	4,406	100	122,808	-	-	-	-	-	-	4,406	-
	Deferred share rights	8,199		18 -Nov-15	18-Nov-16	18-Nov-18	8,199	100	229,177	-	-	-	-	-	-	8,199	-
	Deferred share rights	4,050	26.17	22-Nov-16	22-Nov-17	29-Nov-17	-	-	-	-	-	-	-	-	-	-	4,050
	Deferred share rights	4,314	24.57	22-Nov-16	22-Nov-18	29-Nov-18	-	-	-	-	-	-	-	-	-	-	4,314
	Deferred share rights	4,595	23.07	22-Nov-16	22-Nov-19	29-Nov-19	-	-	-	-	-	-	-	-	-	-	4,595
	Deferred share rights	4,894	21.66	22-Nov-16	22-Nov-20	29-Nov-20	-	-	-	-	-	-	-	-	-	-	4,894
	Performance rights	4,762		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(4,762)	100	(133,210)	-	-	-	-	-
	Performance rights	4,348		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(4,348)	100	(121,629)	-	-	-	-	-
	Performance rights	23,480	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	23,480
	Performance rights	7,826	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	7,826

8. OTHER INFORMATION (continued)

CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2017 grants only) $	Grant date	First date exercis-able	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/ Forfeited Number	Lapsed/ Forfeited %	Lapsed/ Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exer-cisable as at 30 Sep 2017[3]	Unexer-cisable as at 30 Sep 2017[4]
CEO and Current Disclosed Executives																	
M Whelan	Deferred shares	46,565		31-Oct-08	31-Oct-11	-	-	-	-	-	-	-	(46,565)	100	1,337,445	-	-
	Deferred shares	6,299		22-Nov-13	22-Nov-16	-	6,299	100	176,206	-	-	-	(6,299)	100	177,367	-	-
	Deferred shares	9,448		22-Nov-13	22-Nov-16	-	9,448	100	264,295	-	-	-	(9,448)	100	266,037	-	-
	Deferred shares	9,407		21-Nov-14	21-Nov-16	-	9,407	100	262,199	-	-	-	(9,407)	100	264,882	-	-
	Deferred shares	16,147		18-Nov-15	18-Nov-16	-	16,147	100	451,338	-	-	-	(16,147)	100	454,667	-	-
	Deferred shares	6,724	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	6,724
	Deferred shares	6,724	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	6,724
	Deferred shares	6,724	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	6,724
	Deferred shares	6,724	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	6,724
	Performance rights	7,209		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(7,209)	100	(201,662)	-	-	-	-	-
	Performance rights	6,583		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(6,583)	100	(184,150)	-	-	-	-	-
	Performance rights	41,571	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	41,571
	Performance rights	13,857	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	13,857
N Williams	Deferred shares	13,327		21-Nov-14	21-Nov-16	-	13,327	100	371,461	-	-	-	(13,327)	100	398,477	-	-
	Deferred shares	17,097		18-Nov-15	18-Nov-16	-	17,097	100	477,892	-	-	-	(17,097)	100	511,200	-	-
	Deferred shares	6,355	27.98	22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	-	-	-	-	6,355
	Deferred shares	6,355	27.98	22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	6,355
	Deferred shares	6,355	27.98	22-Nov-16	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	6,355
	Deferred shares	6,355	27.98	22-Nov-16	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	6,355
	Deferred share rights	27,603		22-Nov-13	22-Nov-16	21-Nov-18	27,603	100	772,155	-	-	-	(27,603)	100	825,330	-	-
	Deferred share rights	31,686	23.07	22-Nov-16	22-Nov-19	29-Nov-19	-	-	-	-	-	-	-	-	-	-	31,686
Former Disclosed Executive																	
A Currie[6]	Deferred shares	13,327		21-Nov-14	21-Nov-16	-	13,327	100	371,461	-	-	-	(13,327)	100	375,262	-	-
	Deferred shares	17,097		18-Nov-15	18-Nov-16	-	17,097	100	477,892	-	-	-	(17,097)	100	481,417	-	-
	Deferred share rights	4,728	26.17	22-Nov-16	22-Nov-17	29-Nov-17	-	-	-	-	-	-	-	-	-	-	4,728
	Deferred share rights	5,036	24.57	22-Nov-16	22-Nov-18	29-Nov-18	-	-	-	-	-	-	-	-	-	-	5,036
	Deferred share rights	5,364	23.07	22-Nov-16	22-Nov-19	29-Nov-19	-	-	-	-	-	-	-	-	-	-	5,364
	Deferred share rights	5,713	21.66	22-Nov-16	22-Nov-20	29-Nov-20	-	-	-	-	-	-	-	-	-	-	5,713
	Performance rights	27,036		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(27,036)	100	(756,294)	-	-	-	-	-
	Performance rights	24,687		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	(24,687)	100	(690,584)	-	-	-	-	-
	Performance rights	26,334		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(505)	2	(14,496)	-	-	-	-	25,829
	Performance rights	24,240		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(465)	2	(13,347)	-	-	-	-	23,775
	Performance rights	18,996		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(6,639)	35	(190,567)	-	-	-	-	12,357
	Performance rights	18,996		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(6,639)	35	(190,567)	-	-	-	-	12,357
	Performance rights	18,996		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(6,639)	35	(190,567)	-	-	-	-	12,357
	Performance rights	27,409	14.14	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(18,824)	69	(540,326)	-	-	-	-	8,585
	Performance rights	9,136	10.38	22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(6,275)	69	(180,118)	-	-	-	-	2,861

REMUNERATION REPORT (continued)

8. OTHER INFORMATION (continued)

CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

1. Executives, for the purpose of the five highest paid executive disclosures, are defined as Disclosed Executives or other members of the Group Executive Committee. For the 2017 financial year the five highest paid executives include four Disclosed Executives and the Group Executive, International (F Faruqui). Rights granted to Disclosed Executives as remuneration in 2017 are included in the table. Rights granted to F Faruqui as remuneration in 2017 include four tranches of deferred share rights and two tranches of performance rights granted on 22 Nov 2016. (6,935 (tranche 1) deferred share rights first exercisable 22 Nov 2017, expiring 29 Nov 2017; 7,387 (tranche 2) deferred share rights first exercisable 22 Nov 2018, expiring 29 Nov 2018; 7,867 (tranche 3) deferred share rights first exercisable 22 Nov 2019, expiring 29 Nov 2019; 8,379 (tranche 4) deferred share rights first exercisable 22 Nov 2020, expiring 29 Nov 2020; 40,202 (tranche 1) and 13,400 (tranche 2) performance rights first exercisable 22 Nov 2019 subject to meeting performance hurdles, expiring 22 Nov 2021). No rights have been granted to the CEO, Disclosed Executives or the five highest paid executives since the end of 2017 up to the Directors' Report sign-off date.
2. The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights. The exercise price for all share rights/performance rights is $0.00.
3. The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.
4. Performance rights granted in prior years (by grant date) that remained unexerciseable at 30 Sep 2017 include:

	Nov-14	Nov-15	Nov-16
S Elliott	53,945	159,573	150,482
M Carnegie	-	-	9,745
A George	5,225	5,772	4,738
D Hisco	47,152	53,133	53,597
G Hodges	33,716	37,992	43,489
M Jablko	-	-	9,745
F Ohlsson	13,798	10,910	31,306
M Whelan	13,486	53,190	55,428
N Williams	-	-	-
A Currie	49,604	37,071	11,446

5. Equity disclosed from commencement in Disclosed Executive role. There are no disclosable transactions since commencement.
6. Equity transactions disclosed up to termination date.

NED, CEO and Disclosed Executives equity holdings

The table below sets out details of equity held directly, indirectly or beneficially by each NED, the CEO and each Disclosed Executive, including their related parties.

Name	Type	Opening balance at 1 Oct 2016	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2017[3, 4]
Current Non-Executive Directors						
D Gonski	Ordinary shares	31,488	-	-	-	31,488
I Atlas	Ordinary shares	7,360	-	-	-	7,360
P Dwyer	Ordinary shares	15,000	-	-	-	15,000
J Halton[5]	Ordinary shares	-	-	-	2,830	2,830
H Lee	Directors' Share Plan	2,382	-	-	136	2,518
	Ordinary shares	8,000	-	-	-	8,000
G Liebelt	Ordinary shares	10,315	-	-	10,000	20,315
	Capital notes 1	1,500	-	-	-	1,500
	Capital notes 2	2,500	-	-	-	2,500
J Macfarlane	Ordinary shares	12,851	-	-	5,000	17,851
	Capital notes 2	2,000	-	-	-	2,000
	Capital notes 3	5,000	-	-	-	5,000
CEO and Current Disclosed Executives						
S Elliott	Deferred shares	66,482	27,764	-	(40,340)	53,906
	Ordinary shares	87,993	-	-	43,686	131,679
	Performance rights	282,483	150,482	-	(68,965)	364,000
M Carnegie	Deferred shares	144,420	4,728	-	(69,063)	80,085
	Ordinary shares	14	-	-	-	14
	Performance rights	-	9,745	-	-	9,745

8. OTHER INFORMATION (continued)

NED, CEO and Disclosed Executive equity holdings

Name	Type	Opening balance at 1 Oct 2016	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2017[3,4]
CEO and Current Disclosed Executives						
A George[5]	Deferred shares	29,438	-	-	1,188	30,626
	Ordinary shares	2,678	-	-	-	2,678
	Capital notes 1	802	-	-	-	802
	Performance rights	15,735	-	-	-	15,735
D Hisco	Deferred shares	7,000	-	-	(7,000)	-
	Employee Share Offer	74	-	-	-	74
	Ordinary shares	211,178	-	39,479	(55,000)	195,657
	Deferred share rights	61,906	30,567	(39,479)	-	52,994
	Performance rights	148,505	53,597	-	(48,220)	153,882
G Hodges	Deferred shares	208,692	21,104	-	(24,170)	205,626
	Capital notes 4	1,350	-	-	-	1,350
	Ordinary shares	70,639	-	-	-	70,639
	Performance rights	106,190	43,489	-	(34,482)	115,197
M Jablko	Deferred shares	62,176	4,728	-	(20,335)	46,569
	Performance rights	-	9,745	-	-	9,745
F Ohlsson	Employee Share Offer	74	-	-	-	74
	Deferred share rights	45,718	17,853	-	-	63,571
	Performance rights	33,818	31,306	-	(9,110)	56,014
M Whelan	Deferred shares	112,715	26,896	-	(87,813)	51,798
	Performance rights	80,468	55,428	-	(13,792)	122,104
N Williams	Deferred shares	50,525	25,420	-	(30,772)	45,173
	Ordinary shares	-	-	27,603	(27,603)	-
	Deferred share rights	88,920	31,686	(27,603)	-	93,003
Former Non-Executive Director						
I Macfarlane[6]	Ordinary shares	18,183	-	-	-	18,183
	Capital notes 1	1,500	-	-	-	1,500
	Capital notes 4	1,000	-	-	500	1,500
	Convertible preference shares (CPS3)	1,000	-	-	-	1,000
Former Disclosed Executive						
A Currie[6]	Deferred shares	50,463	-	-	(31,418)	19,045
	Ordinary shares	1,042	-	-	-	1,042
	Deferred share rights	-	20,841	-	-	20,841
	Performance rights	159,285	36,545	-	(97,709)	98,121

1. Details of options/rights granted as remuneration during 2017 are provided in the previous table.
2. Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), forfeited, sold or acquired under the Dividend Reinvestment Plan.
3. The following shares (included in the holdings above) were held on behalf of the NEDs, CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2017: D Gonski - 31,488, I Atlas - 7,360, P Dwyer - 15,000, J Halton - 0, H Lee - 2,518, G Liebelt - 24,315, J Macfarlane - 24,851, S Elliott - 185,585, M Carnegie - 80,085, A George - 34,106, D Hisco - 106,074, G Hodges - 249,711, M Jablko - 46,569, F Ohlsson - 74, M Whelan - 51,798, N Williams - 45,173, I Macfarlane - 22,183 and A Currie - 19,045.
4. No options/rights were vested and exercisable as at 30 September 2017, except for 24,827 deferred share rights for F Ohlsson. No options/rights were vested and unexerciseable as at 30 September 2017. There was no change in the balance as at the Directors' Report sign-off date, except for 188,638 ordinary shares for D Hisco.
5. Commencing balance is based on holdings as at the date of commencement in a KMP role.
6. Concluding balance is based on holdings as at the date of retirement/termination.

REMUNERATION REPORT (continued)

8. OTHER INFORMATION (continued)

8.2 LOANS

When we lend to NEDs, the CEO or Disclosed Executives, we do so: in the ordinary course of business; and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers — this includes the term of the loan, the security required and the interest rate.

The table below sets out details of loans outstanding, to NEDs, the CEO and Disclosed Executives including their related parties, if — at any time during the year — the individual's aggregate loan balance exceeded $100,000.

Other than the loans disclosed below, no other loans were made, guaranteed or secured by any entity in the Group to the NEDs, the CEO and Disclosed Executives, including their related parties.

NED, CEO and Disclosed Executives loan transactions

Name	Opening balance at 1 Oct 2016[1] $	Closing balance at 30 Sep 2017 $	Interest paid and payable in the reporting period[2] $	Highest balance in the reporting period $
Current Non-Executive Directors				
J Macfarlane	8,851,891	9,413,444	370,147	14,743,617
CEO and Current Disclosed Executives				
S Elliott	2,598,510	3,095,492	84,517	3,098,510
A George	2,600,000	1,988,132	54,499	2,600,000
D Hisco	2,114,163	78,704	36,664	2,114,163
G Hodges	3,231,536	3,258,912	125,332	4,272,560
F Ohlsson	3,000,000	2,945,973	92,089	3,000,000
M Whelan	1,718,615	1,729,311	73,614	1,769,220
N Williams	39,192	45,337	122	545,337
Former Disclosed Executive				
A Currie[3]	3,668,573	1,395,178	103,319	3,888,424
Total	**27,822,480**	**23,950,483**	**940,303**	**36,031,831**

1. For KMP who commenced during the 2017 financial year, opening balances are as at date of commencement.
2. Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.
3. Concluding balance is based on balance as at the date of termination.

8.3 OTHER TRANSACTIONS

All other transactions involving the NEDs, the CEO and Disclosed Executives and their related parties are conducted on normal commercial terms and conditions that are no more favourable than those given to other employees or customers. Any that are on foot, are trivial or domestic in nature.

DIRECTORS' REPORT

The Directors' Report for the financial year ended 30 September 2017 has been prepared in accordance with the requirements of the Corporations Act 2001. The information below forms part of this Directors' Report:

- Principal activities on page 11
- Operating and financial review on pages 14 to 23
- Dividends on page 17
- Information on the Directors, Company Secretaries and Directors' meetings on pages 24 to 32
- Remuneration report on pages 36 to 61

Significant changes in state of affairs

There have been no significant changes in the Group's state of affairs.

Events since the end of the financial year

On 17 October 2017, the Group announced it had agreed to sell OnePath pensions and investments (OnePath P&I) and aligned dealer groups (ADG) business to IOOF Holdings Limited (IOOF) for $975 million. Completion is expected in March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. An expected accounting loss on sale of ~$120 million is anticipated as a result of the sale, however the final gain/loss on sale will be determined at completion and will be impacted by transaction and separation costs, final determination of goodwill to be disposed, other balances and final taxation impacts.

On 18 October 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company (Metrobank) regarding the sale of its 40% stake in the Philippines based Metrobank Card Corporation (MCC). The Group has agreed to sell one half of its 40% stake in MCC to Metrobank, for US$144 million (A$184 million) expected to settle in late 2017. The Group also entered into a put option to sell its remaining 20% stake to Metrobank, exercisable in the September 2018 half on the same terms and for the same consideration. If exercised, this would deliver a total sale price of US$288 million (A$368 million). The sale is subject to customary regulatory approvals.

On 23 October 2017, the Group announced it had reached a confidential in-principle agreement with the Australian Securities and Investments Commission (ASIC) to settle court action in respect of interbank trading and the bank bill swap rate (BBSW). On 30 October 2017, ANZ informed the Court that agreement with ASIC had been concluded. By consent of ASIC and ANZ, the Court referred it for a hearing on penalty approval on 10 November 2017. The financial impact to ANZ has been reflected in the financial statements.

Other than the matters above, there have been no significant events from 30 September 2017 to the date of signing this report.

Political donations

The Board has agreed that ANZ will donate $150,000 to each of the Liberal Party of Australia and the Australian Labor Party during the 2017 calendar year. All political donations are reviewed and approved by the Board, and the matter is annually reviewed.

Environmental Regulation

ANZ recognises the expectations of its stakeholders – customers, shareholders, staff and the community – to operate in a way that mitigates its environmental impact.

In Australia, ANZ meets the requirements of the National Greenhouse and Energy Reporting Act 2007 (Cth), which imposes reporting obligations where energy production, usage or greenhouse gas emissions trigger specified thresholds.

ANZ holds a licence under the Water Act 1989 (Vic), allowing it to extract water from the Yarra River for thermal regulation of its Melbourne head office building. The licence specifies daily and annual limits for the extraction of water from the Yarra River with which ANZ fully complies. The extraction of river water reduces reliance on the high quality potable water supply and is one of several environmental initiatives that ANZ has introduced at its Melbourne head office building.

The Group does not believe that its operations are subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or of an Australian State or Territory. It may become subject to environmental regulation as a result of its lending activities in the ordinary course of business and has developed policies to identify and manage such environmental matters.

Having made due enquiry, and to the best of ANZ's knowledge, no entity of the Group has incurred any material environmental liability during the year.

Further details of ANZ's environmental performance, including progress against its targets and details of its emissions profile, are available on anz.com>About us>Corporate Sustainability.

Corporate Governance Statement

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) (ASX Governance Principles) during the 2017 financial year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, can be viewed at anz.com/CorporateGovernance and has been lodged with the ASX.

As an overseas listed issuer on the NZX, ANZ is deemed to comply with the NZX Listing Rules provided that it remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX. ANZ met those requirements during the year.

The ASX Governance Principles may materially differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Code. More information about the corporate governance rules and principles of the ASX can be found at asx.com and, in respect of the NZX, at nzx.com.

Pillar 3 information

ANZ provides information required by APS 330: Public Disclosure in the Regulatory Disclosures section at shareholder.anz.com/pages/regulatory-disclosure.

Non-audit services

The Group's Stakeholder Engagement Model for Relationship with the External Auditor (the Policy), which incorporates requirements of the Corporations Act 2001 and industry best practice, prevents the external auditor from providing services that are perceived to be in conflict with the role of the external auditor or breach independence requirements. This includes consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

Specifically the Policy:

- limits the scope of non-audit services that may be provided;
- requires that audit, audit-related and permitted non-audit services be considered in light of independence requirements and for any potential conflicts of interest before they are approved by the Audit Committee, or approved by the Chair of the Audit Committee (or delegate) and notified to the Audit Committee; and
- requires pre-approval before the external auditor can commence any engagement for the Group.

Further details about the Policy can be found in the Corporate Governance Statement.

The external auditor has confirmed to the Audit Committee that it has:

- implemented procedures to ensure it complies with independence rules in applicable jurisdictions, including Australia and the United States; and
- complied with applicable policies and regulations regarding the provision of non-audit services including those applicable in Australia, those prescribed by the US Securities and Exchange Commission, and the Policy.

The Audit Committee has reviewed the non-audit services provided by the external auditor during financial year 2017, and has confirmed that the provision of these services is consistent with the Policy, compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Corporations Act 2001. This has been formally advised by the Audit Committee to the Board of Directors.

The categories of non-audit services supplied to the Group during the year ended 30 September 2017 by the external auditor, KPMG, or by another person or firm on KPMG's behalf, and the amounts paid or payable (including GST) by the Group are as follows:

	Amount paid/payable $'000	
Non-audit services	2017	2016
General market or regulatory insights	91	-
Training related services	8	368
Controls related assessments	165	137
Methodology and procedural reviews	478	52
Total	742	557

Further details on the compensation paid to KPMG is provided in Note 34 Compensation of Auditors to the financial statements including details of audit-related services provided during the year of $6.17 million (2016: $5.68 million).

For the reasons set out above, the Directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 September 2017 is compatible with the general standard of independence for external auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Corporations Act 2001.

Directors' and Officers' indemnity

The Company's Constitution (Rule 11.1) permits the Company to:

- indemnify any officer or employee of the Company, against liabilities (so far as may be permitted under applicable law) incurred as such by an officer or employee, including liabilities incurred as a result of appointment or nomination by the Company as a trustee or as an officer or employee of another corporation; and
- make payments in respect of legal costs incurred by an officer or employee in defending an action for a liability incurred as such by an officer, employee or in resisting or responding to actions taken by a government agency, a duly constituted Royal Commission or other official inquiry, a liquidator, administrator, trustee in bankruptcy or other authorised official.

It is the Company's policy that its employees should be protected from any liability they incur as a result of acting in the course of their employment, subject to appropriate conditions.

Under the policy, the Company will indemnify employees and former employees against any liability they incur to any third party as a result of acting in the course of their employment with the Company or a subsidiary of the Company and this extends to liability incurred as a result of their appointment/nomination by or at the request of the Group as an officer or employee of another corporation or body or as trustee.

The indemnity is subject to applicable law and in addition will not apply to liability arising from:

- serious misconduct, gross negligence or lack of good faith;
- illegal, dishonest or fraudulent conduct; or
- material non-compliance with the Company's policies, processes or discretions.

The Company has entered into Indemnity Deeds with each of its Directors, with certain secretaries and former Directors of the Company, and with certain employees and other individuals who act as directors or officers of related bodies corporate or of another company, to indemnify them against liabilities and legal costs of the kind mentioned in the Company's constitution. In accordance with Mr Elliott's Deed, the Company has paid legal expenses incurred by the Company, Mr Elliott and another executive in defending defamation proceedings brought against them by a third party. The proceedings have been resolved with no payment by the Company on behalf of Mr Elliott or the other executive.

DIRECTORS' REPORT (continued)

During the financial year, the Company has paid premiums for insurance for the benefit of the directors and employees of the Company and related bodies corporate of the Company. In accordance with common commercial practice, the insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Key management personnel and employee share and option plans

The Remuneration Report contains details of Non-executive Directors, Chief Executive Officer and Disclosed Executives equity holdings and options/rights issued during the 2017 financial year and as at the date of this report.

Note 31 Employee Share and Option Plans to the 2017 Financial Report contains details of the 2017 financial year and as at the date of this report:

- Options/rights issued over shares granted to employees;
- Shares issued as a result of the exercise of options/rights granted to employees; and
- Other details about share options/rights issued, including any rights to participate in any share issues of the Company.

The names of all persons who currently hold options/rights are entered in the register kept by the Company pursuant to section 170 of the Corporations Act 2001. This register may be inspected free of charge.

Rounding of amounts

The Company is a company of the kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the consolidated financial statements and this Directors' Report have been rounded to the nearest million dollars unless specifically stated otherwise.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

David M Gonski, AC Chairman	Shayne Elliott Director

2 November 2017

Lead Auditor's Independence Declaration

The Lead Auditors Independence Declaration given under Section 307C of the Corporations Act 2001 is set out below and forms part of the Directors Report for the year ended 30 September 2017.

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 audit for the financial year ended 30 September 2017, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG	Alison Kitchen *Partner*

2 November 2017

FINANCIAL REPORT

In 2017, we have re-designed our Financial Report to better communicate our performance to stakeholders by reducing complexity and simplifying our financial note disclosures.

Consolidated Financial Statements

Notes to The Consolidated Financial Statements

FINANCIAL REPORT

INCOME STATEMENT

For the year ended 30 September	Note	2017 $m	2016 $m
Interest income		29,120	29,951
Interest expense		(14,248)	(14,856)
Net interest income	2	14,872	15,095
Other operating income[1]	2	3,601	3,146
Net funds management and insurance income	2	1,500	1,764
Share of associates' profit	2	300	541
Operating income		20,273	20,546
Operating expenses[1]	3	(9,448)	(10,439)
Profit before credit impairment and income tax		10,825	10,107
Credit impairment charge	13	(1,198)	(1,929)
Profit before income tax		9,627	8,178
Income tax expense	4	(3,206)	(2,458)
Profit for the year		6,421	5,720
Comprising:			
Profit attributable to shareholders of the Company		6,406	5,709
Profit attributable to non-controlling interests		15	11
Earnings per ordinary share (cents)			
Basic	6	220.1	197.4
Diluted	6	210.8	189.3
Dividend per ordinary share (cents)	5	160.0	160.0

1. In 2017, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).

The notes appearing on pages 71 to 154 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2017 $m	2016 $m
Profit for the year	6,421	5,720
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	26	(82)
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve:		
Exchange differences taken to equity[1]	(748)	(456)
Exchange differences transferred to Income Statement	-	(126)
Other reserve movements	(339)	75
Income tax attributable to the above items	20	-
Share of associates' other comprehensive income[2]	1	4
Other comprehensive income net of tax	(1,040)	(585)
Total comprehensive income for the year	5,381	5,135
Comprising total comprehensive income attributable to:		
Shareholders of the Company	5,372	5,131
Non-controlling interests	9	4

1. Includes foreign currency translation differences attributable to non-controlling interests of $6 million loss (2016: $7 million loss).
2. Share of associates' other comprehensive income includes an available-for-sale revaluation reserve loss of $1 million (2016: $10 million gain) and a foreign currency translation reserve gain of $2 million (2016: $nil) that may be reclassified subsequently to profit or loss, and the remeasurement of defined benefit plans of $nil (2016: $6 million loss) that will not be reclassified subsequently to profit or loss.

The notes appearing on pages 71 to 154 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

BALANCE SHEET

As at 30 September	Note	2017 $m	2016 $m
Assets			
Cash and cash equivalents	8	68,048	66,220
Settlement balances owed to ANZ		5,504	4,406
Collateral paid		8,987	12,723
Trading securities	9	43,605	47,188
Derivative financial instruments	10	62,518	87,496
Available-for-sale assets	11	69,384	63,113
Net loans and advances	12	574,331	575,852
Regulatory deposits		2,015	2,296
Assets held for sale	28	7,970	-
Investments in associates	25	2,248	4,272
Current tax assets		30	126
Deferred tax assets		675	623
Goodwill and other intangible assets	20	6,970	7,672
Investments backing policy liabilities	29	37,964	35,656
Premises and equipment		1,965	2,205
Other assets		5,112	5,021
Total assets		897,326	914,869
Liabilities			
Settlement balances owed by ANZ		9,914	10,625
Collateral received		5,919	6,386
Deposits and other borrowings	14	595,611	588,195
Derivative financial instruments	10	62,252	88,725
Current tax liabilities		241	188
Deferred tax liabilities		257	227
Liabilities held for sale	28	4,693	-
Policy liabilities	29	37,448	36,145
External unit holder liabilities (life insurance funds)		4,435	3,333
Payables and other liabilities		8,350	8,865
Employee entitlements		530	543
Other provisions		628	666
Debt issuances	15	107,973	113,044
Total liabilities		838,251	856,942
Net assets		59,075	57,927
Shareholders' equity			
Ordinary share capital	21	29,088	28,765
Reserves	21	37	1,078
Retained earnings	21	29,834	27,975
Share capital and reserves attributable to shareholders of the Company		58,959	57,818
Non-controlling interests	21	116	109
Total shareholders' equity		59,075	57,927

The notes appearing on pages 71 to 154 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2017 $m	2016 $m
Profit after income tax	6,421	5,720
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Provision for credit impairment	1,198	1,929
Depreciation and amortisation	972	1,475
Profit on sale of premises and equipment	(114)	(4)
Net derivatives/foreign exchange adjustment	(3,409)	(1,434)
Profit on Esanda Dealer Finance divestment	-	(66)
Impairment of investment in AmBank	-	260
Reclassification of SRCB to held for sale	231	-
Sale of Asia Retail and Wealth businesses	338	-
Other non-cash movements	(242)	(338)
Net(increase)/decrease in operating assets:		
Collateral paid	3,533	(3,183)
Trading securities	2,081	332
Net loans and advances	(17,838)	(14,797)
Investments backing policy liabilities	(2,122)	(2,062)
Other assets	509	(441)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	30,904	23,128
Settlement balances owed by ANZ	(627)	(589)
Collateral received	(310)	(1,027)
Life insurance contract policy liabilities	2,260	1,921
Other liabilities	187	17
Total adjustments	17,551	5,121
Net cash provided by operating activities[1]	23,972	10,841
Cash flows from investing activities		
Available-for-sale assets:		
Purchases	(27,220)	(44,182)
Proceeds from sale or maturity	19,751	23,745
Esanda Dealer Finance divestment	-	6,682
Sale of Asia Retail and Wealth businesses	(5,213)	-
Other assets	(148)	(655)
Net cash (used in) investing activities	(12,830)	(14,410)
Cash flows from financing activities		
Debt issuances:		
Issue proceeds	25,128	35,381
Redemptions	(27,409)	(28,859)
Dividends paid	(4,210)	(4,564)
Share buy-back	(176)	-
Net cash (used in)/provided by financing activities	(6,667)	1,958
Net increase/(decrease) in cash and cash equivalents	4,475	(1,611)
Cash and cash equivalents at beginning of year	66,220	69,278
Effects of exchange rate changes on cash and cash equivalents	(2,647)	(1,447)
Cash and cash equivalents at end of year	68,048	66,220

1. Net cash provided by/(used in) operating activities includes income taxes paid of $2,864 million (2016: $2,840 million).

The notes appearing on pages 71 to 154 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves[1] $m	Retained earnings $m	Shareholders' equity attributable to equity holders of the Group $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2015	28,367	1,571	27,309	57,247	106	57,353
Profit or loss	-	-	5,709	5,709	11	5,720
Other comprehensive income for the year	-	(504)	(74)	(578)	(7)	(585)
Total comprehensive income for the year	-	(504)	5,635	5,131	4	5,135
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(5,001)	(5,001)	(1)	(5,002)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	24	24	-	24
Dividend reinvestment plan	413	-	-	413	-	413
Other equity movements:						
Treasury shares Wealth Australia adjustment	(153)	-	-	(153)	-	(153)
Group employee share acquisition scheme	138	-	-	138	-	138
Other items	-	11	8	19	-	19
As at 30 September 2016	28,765	1,078	27,975	57,818	109	57,927
Profit or loss	-	-	6,406	6,406	15	6,421
Other comprehensive income for the year	-	(1,049)	15	(1,034)	(6)	(1,040)
Total comprehensive income for the year	-	(1,049)	6,421	5,372	9	5,381
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(4,609)	(4,609)	(1)	(4,610)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	26	26	-	26
Dividend reinvestment plan	374	-	-	374	-	374
Group share buy-back[2]	(176)	-	-	(176)	-	(176)
Other equity movements:						
Treasury shares Wealth Australia adjustment	69	-	-	69	-	69
Group employee share acquisition scheme	56	-	-	56	-	56
Other items	-	8	21	29	(1)	28
As at 30 September 2017	29,088	37	29,834	58,959	116	59,075

1. Further information on individual reserves is disclosed in Note 21 Shareholders' Equity to the financial statements.
2. Following the issue of $176 million shares under the Dividend Reinvestment Plan for the 2017 interim dividend, the Company repurchased $176 million of shares via an on-market share buy-back.

The notes appearing on pages 71 to 154 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (together, 'the Group' or 'ANZ') for the year ended 30 September 2017. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 2 November 2017, the Directors resolved to authorise the issue of these financial statements.

In 2017, we reviewed the content and structure of the financial statements with the aim of increasing their relevance to shareholders. This review has resulted in a number of changes to the financial statements from previous years, including:

- preparation of separate financial statements for the Company and removing these from the Group's Annual Report - they are available at anz.com;
- re-organising disclosures into sections with common themes that are aligned with how we manage our business;
- information about the Group's recognition and measurement policies and key judgements and estimates has been relocated and is now disclosed within the relevant notes to the financial statements;
- removing immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

BASIS OF MEASUREMENT

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

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment is made on the underlying hedged exposure;
- available-for-sale financial assets;
- financial instruments held for trading;
- other financial assets and liabilities designated at fair value through profit or loss; and
- certain other assets and liabilities held for sale where the fair value less cost of disposal is less than their carrying value (except for certain assets and liabilities held for sale which are exempt from this requirement).

In accordance with AASB 1038 *Life Insurance Contracts* (AASB 1038) we have measured life insurance liabilities using the Margin on Services (MoS) model. In accordance with AASB 119 *Employee Benefits* (AASB 119) we have measured defined benefit obligations using the Projected Unit Credit Method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity.

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

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

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

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

FIDUCIARY ACTIVITIES

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

KEY JUDGEMENTS AND ESTIMATES

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

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by the Group in preparing these financial statements.

We have identified four standards where this applies to the Group and further details are set out below.

AASB 9 *Financial Instruments* (AASB 9)

AASB 9 was issued in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) and includes requirements for impairment, classification and measurement and general hedge accounting.

Impairment

AASB 9 replaces the incurred loss model under AASB 139 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under AASB 9, a three-stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under AASB 9 are largely consistent with AASB 139 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Group from 1 October 2013.

General hedge accounting

AASB 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

Transition and impact

Other than noted above under classification and measurement, AASB 9 has a date of initial application for the Group of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. ANZ does not intend to restate comparatives.

AASB 9 provides an accounting policy choice to continue with AASB 139 hedge accounting given the International Accounting Standards Board's ongoing project on macro hedge accounting. The Group's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

The Group is in the process of assessing the impact of the application of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

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

AASB 15 was issued in December 2014 and is not effective for the Group until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue.

The standard requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of the Group's revenue is outside the scope of AASB 15, certain revenue streams are in the scope of the standard. The Group is in the process of assessing the impact of the application of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Group has not determined which transition approach it will adopt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

AASB 16 *Leases* (AASB 16)

The final version of AASB 16 was issued in February 2016 and is not effective for the Group until 1 October 2019. AASB 16 requires a lessee to recognise its:

- right to use the underlying leased asset, as a right-of-use asset; and
- obligation to make lease payments as a lease liability.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases* (AASB 117).

The Group is in the process of assessing the impact of the application of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

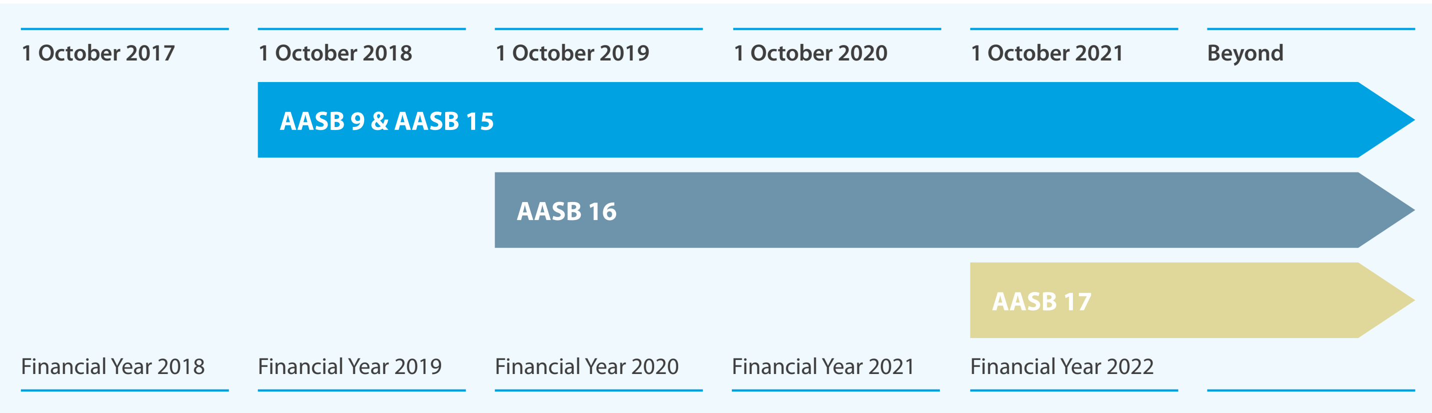
AASB 17 *Insurance Contracts* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Group until 1 October 2021. It will replace AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts.* AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

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

The Group is not yet able to reasonably estimate the impact of AASB 17 on its financial statements.

Mandatory Application of New Accounting Standards to the Group



2. OPERATING INCOME

	2017 $m	2016 $m
Net interest income		
Interest income by type of financial asset		
Financial assets not at fair value through profit or loss	26,790	27,621
Trading securites	1,099	1,288
Available-for-sale assets	1,223	1,028
Financial assets designated at fair value through profit or loss	8	14
Interest income	29,120	29,951
Interest expense by type of financial liability		
Financial liabilities not at fair value through profit or loss	(13,839)	(14,379)
Securities sold short	(131)	(166)
Financial liabilities designated at fair value through profit or loss	(192)	(311)
Interest expense	(14,162)	(14,856)
Major bank levy	(86)	-
Net interest income	14,872	15,095
Other operating income		
i) Fee and commission income		
Lending fees[1]	732	779
Non-lending fees and commissions[2]	2,993	2,928
Fee and commission income	3,725	3,707
Fee and commission expense	(1,272)	(1,162)
Net fee and commission income	2,453	2,545
ii) Other income		
Net foreign exchange earnings and other financial instruments income	1,216	969
Impairment of AmBank	-	(260)
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	-	29
Gain on the Esanda Dealer Finance divestment	-	66
Derivative CVA methodology change	-	(237)
Derivative valuation adjustments	229	(102)
Gain on sale of 100 Queen Street, Melbourne	114	-
Loss on sale of Asia Retail and Wealth businesses	(310)	-
Reclassification of SRCB to held for sale	(231)	-
Other	130	136
Other income	1,148	601
Other operating income[3]	3,601	3,146
Net funds management and insurance income		
Funds management income	964	932
Investment income	2,471	2,350
Insurance premium income	1,703	1,562
Commission expense	(554)	(457)
Claims	(763)	(734)
Changes in policy liabilities[4]	(2,260)	(1,843)
Elimination of treasury share gain	(61)	(46)
Net funds management and insurance income	1,500	1,764
Share of associates' profit	300	541
Operating income	20,273	20,546

1. Lending fees exclude fees treated as part of the effective yield calculation of interest income.
2. In 2017, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).
3. Other operating income includes external dividend income of $27.3 million (2016: $27.3 million).
4. Includes policyholder tax gross up, which represents contribution tax (recovered at 15% on the superannuation contributions made by members) debited to the policyholder account once a year in July when the policyholder annual statement is issued to members at the end of the 30 June financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

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

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

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major Bank Levy') was introduced in 2017 and is effective from 1 July 2017. The Levy applies a rate of 0.06% to certain liabilities of the Company. The Group has determined that the levy represents a finance cost for the Group and is included as a component of net interest income. This is presented within interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities) as income over the period the service is provided.

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

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

Gain or Loss on Disposal of Non-Financial Assets

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

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET FUNDS MANAGEMENT AND INSURANCE INCOME

Funds Management Income

We recognise the fees we charge to policyholders in connection with life insurance and life investment contracts when we have provided the service.

Investment Income

Investment income primarily relates to gains and losses on investments held to back policy liabilities (Refer to Note 29 Life Insurance Business). Investment income excludes gains and losses on treasury shares and intercompany balances including cash and term deposits held as policyholder or shareholder assets.

Insurance Premium Income

We recognise:

- premiums with a regular due date as income on an accruals basis;
- unpaid premiums as income and include them as receivables in the balance sheet only during the grace periods in the contract, or for longer only where secured by the surrender value of the policy; and
- premiums with no due date (such as one off premiums) in income when the premiums are received.

We show these insurance premiums net of any reinsurance premium, which we account for on the same basis as the underlying direct insurance premium.

Claims

Insurance claims relate to us paying benefits to policyholders. We recognise these on an accruals basis once our liability to the policyholder has been confirmed under the terms of the contract. We show these insurance claims net of reinsurance, which we account for on the same basis as the underlying direct insurance claims.

Changes in Policy Liabilities

Change in policyholder liabilities represents the movement of the life insurance contract liability. Under the Margin of Service (MoS) model, this movement represents:

- the release of the planned profit margin for the year on existing life insurance policies;
- offset by the recognition of contracts in an expected loss position; and
- the deferral of expected future profit margins on new life insurance policies.

We recognise the movement as the service is provided and we show this change in policyholder liabilities net of reinsurance.

Life Insurance Acquisition Costs

The Group incurs life insurance acquisition costs to acquire new business. We recognise those costs in the profit or loss as incurred. In addition, these acquisition costs form part of the calculation to determine a contract's planned profit margin under the MoS model (see Changes in Policy Liabilities above).

SHARE OF ASSOCIATES' PROFIT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. OPERATING EXPENSES

	2017 $m	2016 $m
i) Personnel		
Salaries and related costs	4,556	4,879
Superannuation costs	322	337
Other	300	325
Personnel expenses	5,178	5,541
ii) Premises		
Rent	500	485
Other	411	443
Premises expenses	911	928
iii) Technology		
Depreciation and amortisation[1]	727	1,198
Licences and outsourced services[2]	637	614
Other	302	355
Technology expenses	1,666	2,167
iv) Restructuring	62	278
v) Other		
Advertising and public relations	254	261
Professional fees	453	413
Freight, stationery, postage and telephone	266	277
Other	658	574
Other expenses	1,631	1,525
Operating expenses	9,448	10,439

1. In 2016, the Group recorded a $556 million charge for accelerated amortisation associated with a software capitalisation policy change.
2. In 2017, certain fees payable have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT

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

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

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

4. INCOME TAX

INCOME TAX EXPENSE

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

	2017 $m	2016 $m
Profit before income tax	9,627	8,178
Prima facie income tax expense at 30%	2,888	2,453
Tax effect of permanent differences:		
Wealth Australia – policyholder income and contributions tax	194	152
Share of associates' profit	(90)	(162)
Write-down of investment in AmBank	-	78
Reclassification of SRCB to held for sale	172	-
Tax provisions no longer required	-	(71)
Interest on convertible instruments	69	70
Overseas tax rate differential	(37)	(45)
Gain on cessation of equity accounting for BoT	-	(9)
Other	29	15
Subtotal	3,225	2,481
Income tax over provided in previous years	(19)	(23)
Income tax expense	3,206	2,458
Current tax expense	3,094	2,738
Adjustments recognised in the current year in relation to the current tax of prior years	(19)	(23)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	131	(257)
Income tax expense	3,206	2,458
Australia	2,349	1,752
Overseas	857	706
Income tax expense	3,206	2,458
Effective tax rate	33.3%	30.1%

4. INCOME TAX (continued)

TAX CONSOLIDATION

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

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

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

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $4 million (2016: $4 million). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches and subsidiaries are repatriated) total $413 million (2016: $416 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

We offset current and deferred tax assets and liabilities only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

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

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2016			
2015 final dividend paid		95.0 cents	2,758
2016 interim dividend paid		80.0 cents	2,334
Bonus option plan adjustment			(91)
Dividends paid during the year ended 30 September 2016			5,001
Cash	91.7%		4,588
Dividend reinvestment plan	8.3%		413
Dividends paid during the year ended 30 September 2016			5,001
Financial Year 2017			
2016 final dividend paid		80.0 cents	2,342
2017 interim dividend paid		80.0 cents	2,349
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2017			4,609
Cash	91.9%		4,235
Dividend reinvestment plan	8.1%		374
Dividends paid during the year ended 30 September 2017			4,609

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2017 final dividend (fully franked at 30%, New Zealand imputation credits NZD 10 cents per share)	18 December 2017	80.0 cents	2,350

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2017 final dividend, DRP participation will be satisfied by an on-market purchase of shares (as approved by APRA) and BOP participation will be satisfied by an issue of ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

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

DIVIDEND FRANKING ACCOUNT

	Currency	2017 $m	2016 $m
Australian franking credits available at 30% (2016: 30%) tax rate	AUD	171	118
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	3,680	3,494

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. DIVIDENDS (continued)

The final proposed 2017 dividend will utilise the entire balance of $171 million franking credits available at 30 September 2017. Instalment tax payments on account of the 2018 financial year which will be made after 30 September 2017 will generate sufficient franking credits to enable the final 2017 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Group that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends:

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

The terms of the ANZ Convertible Preference Shares limit payments of dividends on those securities if as a result of the payment the Company becomes, or is likely to become, insolvent or breaches specified capital ratios or if APRA objects to the payment.

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

6. EARNINGS PER ORDINARY SHARE

Earnings per ordinary share (EPS)	2017 cents	2016 cents
Basic	220.1	197.4
Diluted	210.8	189.3

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (after eliminating treasury shares). Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of dilutive potential ordinary shares.

Reconciliation of earnings used in EPS calculations	2017 $m	2016 $m
Profit for the year	6,421	5,720
Less: Profit attributable to non-controlling interests	(15)	(11)
Earnings used in calculating basic earnings per share	6,406	5,709
Add: Interest on convertible subordinated debt	288	297
Earnings used in calculating diluted earnings per share	6,694	6,006

Reconciliation of weighted average number of ordinary shares (WANOS) used in EPS calculations	2017 millions	2016 millions
WANOS before elimination of treasury shares	2,934.6	2,917.3
Less: Weighted average number of treasury shares held	(24.3)	(25.6)
WANOS used in calculating basic earnings per share	2,910.3	2,891.7
Add: Weighted average number of dilutive potential ordinary shares:		
Convertible subordinated debt	253.3	273.9
Share based payments (options, rights and deferred shares)	11.9	6.8
WANOS used in calculating diluted earnings per share	3,175.5	3,172.4

7. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

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

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

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

Australia

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

- Retail provides products and services to consumer and private banking customers in Australia via the branch network, mortgage specialists, the contact centres, a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third party brokers.
- C&CB provides a full range of banking services including traditional relationship banking and sophisticated financial solutions 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 & Specialised Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance, structured trade and 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 a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.
- Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions (including asset financing) through dedicated managers focusing on privately owned medium to large enterprises and the agricultural business segment.

Wealth Australia

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

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

Asia Retail & Pacific

The Asia Retail & Pacific division comprises the Asia Retail & 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 via relationship managers, branches, contact centres 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. Refer to Note 28 Assets and Liabilities Held for Sale for details on the sale of Asia Retail and Wealth businesses.
- Pacific provides products and services to retail customers, small to medium-sized enterprises, institutional customers and Governments located in the Pacific Islands. Products and services include retail products provided to customers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

Technology, Services & Operations (TSO) and Group Centre

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

During 2017, the Group made changes to the Group's operating model for technology, operations and shared services to accelerate delivery of its technology and digital roadmap, bringing operations closer to its customers and continuing to drive operational efficiency gains. As a result of these organisational changes, divisional operations from Technology, Services & Operations (TSO) and Group Centre have been realigned to divisions. The residual TSO and Group Centre now contains Group Technology, Group Hubs, Enterprise Services and Group Property and the Group Centre.

Year ended 30 September 2017	Australia $m	Institutional $m	New Zealand $m	Wealth Australia $m	Asia Retail & Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Interest income	15,886	6,960	5,398	73	685	118	-	29,120
Interest expense	(7,502)	(3,892)	(2,879)	(64)	(79)	168	-	(14,248)
Net interest income	8,384	3,068	2,519	9	606	286	-	14,872
Other operating income	1,218	2,346	653	1,077	37	286	(216)	5,401
Operating income	9,602	5,414	3,172	1,086	643	572	(216)	20,273
Operating expenses	(3,423)	(2,736)	(1,193)	(743)	(651)	(702)	-	(9,448)
Profit before credit impairment and income tax	6,179	2,678	1,979	343	(8)	(130)	(216)	10,825
Credit impairment (charge)/release	(897)	(80)	(78)	-	(144)	-	1	(1,198)
Profit before income tax	5,282	2,598	1,901	343	(152)	(130)	(215)	9,627
Income tax expense and non-controlling interests	(1,587)	(762)	(532)	(105)	4	78	(317)	(3,221)
Profit after income tax attributable to shareholders	3,695	1,836	1,369	238	(148)	(52)	(532)	6,406
Non-cash items								
Share of associates' profit	2	(1)	5	-	-	294	-	300
Depreciation and amortisation	(184)	(201)	(49)	(77)	(14)	(447)	-	(972)
Equity-settled share based payment expenses	(18)	(91)	(8)	(5)	(4)	(32)	-	(158)
Credit impairment (charge)/release	(897)	(80)	(78)	-	(144)	-	1	(1,198)
Financial position								
Goodwill	5	1,077	1,868	1,452	45	-	-	4,447
Investments in associates	19	2	7	2	-	2,218	-	2,248
Year ended 30 September 2016								
Interest income	16,153	7,079	5,627	82	810	200	-	29,951
Interest expense	(7,951)	(3,632)	(3,179)	(71)	(112)	89	-	(14,856)
Net interest income	8,202	3,447	2,448	11	698	289	-	15,095
Other operating income	1,206	1,733	644	1,244	478	194	(48)	5,451
Operating income	9,408	5,180	3,092	1,255	1,176	483	(48)	20,546
Operating expenses	(3,426)	(2,958)	(1,225)	(801)	(808)	(1,221)	-	(10,439)
Profit before credit impairment and income tax	5,982	2,222	1,867	454	368	(738)	(48)	10,107
Credit impairment (charge)/release	(920)	(743)	(120)	-	(172)	(1)	27	(1,929)
Profit before income tax	5,062	1,479	1,747	454	196	(739)	(21)	8,178
Income tax expense and non-controlling interests	(1,515)	(438)	(479)	(130)	(37)	289	(159)	(2,469)
Profit after income tax attributable to shareholders	3,547	1,041	1,268	324	159	(450)	(180)	5,709
Non-cash items								
Share of associates' profit	3	(3)	5	-	-	536	-	541
Depreciation and amortisation	(177)	(198)	(48)	(79)	(24)	(949)	-	(1,475)
Equity-settled share based payment expenses	(19)	(106)	(11)	(7)	(5)	(34)	-	(182)
Credit impairment (charge)/release	(920)	(743)	(120)	-	(172)	(1)	27	(1,929)
Financial position								
Goodwill	-	1,119	2,061	1,452	97	-	-	4,729
Investments in associates	17	4	6	3	-	4,242	-	4,272

1. Cash profit represents ANZ's preferred measure of the results of the segments. We remove certain other items from the statutory profit if we consider them not integral to the ongoing performance of the segment.

7. SEGMENT REPORTING (continued)

OTHER ITEMS

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

		Profit after tax	
Item	Related segment	2017 $m	2016 $m
Treasury shares adjustment	Wealth Australia	(58)	(44)
Revaluation of policy liabilities	Wealth Australia and New Zealand Division	(34)	54
Economic hedges	Institutional, TSO and Group Centre	(209)	(102)
Revenue hedges	TSO and Group Centre	99	(92)
Structured credit intermediation trades	Institutional	3	4
Reclassification of SRCB to held for sale	TSO and Group Centre	(333)	-
Total		(532)	(180)

SEGMENT INCOME BY PRODUCTS AND SERVICES

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

GEOGRAPHICAL INFORMATION

The following table sets out total operating income earned and assets to be recovered in more than one year based on the geographical regions in which the Group operates. The assets consist of available-for-sale assets, net loans and advances and investments backing policy liabilities.

	Australia		Asia Pacific, Europe & Americas		New Zealand		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Total operating income	13,603	13,281	2,945	3,688	3,725	3,577	20,273	20,546
Assets to be recovered in more than one year	387,954	378,774	42,266	48,479	96,453	92,006	526,673	519,259

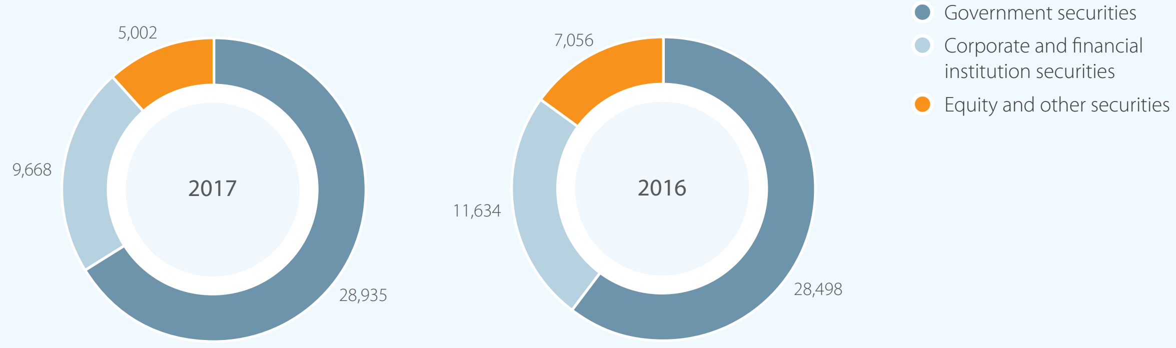
8. CASH AND CASH EQUIVALENTS

	2017 $m	2016 $m
Coins, notes and cash at bank	1,544	1,457
Money at call, bills receivable and remittances in transit	108	98
Securities purchased under agreements to resell in less than 3 months	21,479	21,200
Balances with central banks	24,039	25,920
Settlement balances owed to ANZ within 3 months	20,878	17,545
Cash and cash equivalents	68,048	66,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADING SECURITIES

Trading securities ($m)



	2017 $m	2016 $m
Government securities	28,935	28,498
Corporate and financial institution securities	9,668	11,634
Equity and other securities	5,002	7,056
Trading securities	43,605	47,188

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 17 Fair Value of Financial Assets and Liabilities for further details.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Derivative financial instruments - held for trading	60,387	(59,602)	83,787	(85,174)
Derivative financial instruments - designated in hedging relationships	2,131	(2,650)	3,709	(3,551)
Derivative financial instruments	62,518	(62,252)	87,496	(88,725)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

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

TYPES

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

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

RISKS MANAGED

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Interest rate contracts				
Forward rate agreements	2	(1)	12	(17)
Futures contracts	102	(56)	28	(107)
Swap agreements	31,331	(30,814)	57,656	(55,475)
Options purchased	746	-	1,098	-
Options sold	-	(1,365)	-	(2,076)
Total	32,181	(32,236)	58,794	(57,675)
Foreign exchange contracts				
Spot and forward contracts	15,232	(14,943)	10,957	(10,791)
Swap agreements	10,298	(10,374)	10,678	(14,309)
Options purchased	517	-	887	-
Options sold	-	(475)	-	(802)
Total	26,047	(25,792)	22,522	(25,902)
Commodity contracts	1,991	(1,398)	2,294	(1,395)
Credit default swaps				
Structured credit derivative purchased	52	-	40	-
Other credit derivatives purchased	13	(110)	117	(125)
Credit derivatives purchased	65	(110)	157	(125)
Structured credit derivatives sold	-	(58)	-	(50)
Other credit derivatives sold	103	(8)	20	(27)
Credit derivatives sold	103	(66)	20	(77)
Total	168	(176)	177	(202)
Derivative financial instruments - held for trading	60,387	(59,602)	83,787	(85,174)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

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

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

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

Fair Value	Hedge accounting type	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Foreign exchange swap agreements	Fair value	1	-	2	-
Interest rate swap agreements	Fair value	1,366	(2,114)	2,661	(2,616)
Interest rate futures contracts	Fair value	80	-	5	(12)
Interest rate swap agreements	Cash flow	638	(476)	1,038	(920)
Foreign exchange swap agreements	Cash flow	35	(49)	-	-
Foreign exchange spot and forward contracts	Cash flow	-	(5)	-	-
Foreign exchange spot and forward contracts	Net investment	11	(6)	3	(3)
Derivative financial instruments - designated in hedging relationships		2,131	(2,650)	3,709	(3,551)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2017 $m	2016 $m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	122	469
Hedging instrument	Fair value	(128)	(428)
Ineffective portion of hedged instrument	Cash flow	(18)	5

RECOGNITION AND MEASUREMENT

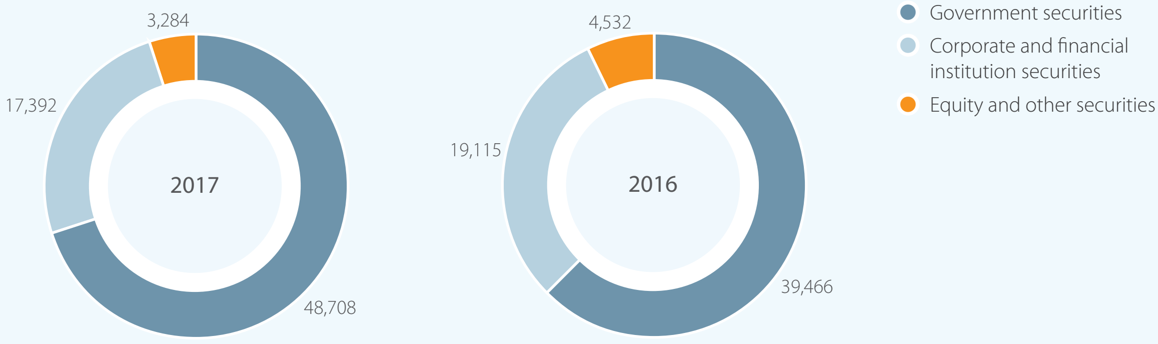
Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a derivative credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Group's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is trading or is designated into a hedging relationship.
Trading	We recognise gains or losses from the change in the fair value of trading securities in profit or loss as other operating income in the period in which they occur. Contracted interest payments are included in interest income and expense.
Hedging	For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 89 for profit or loss treatment depending on the hedge type.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 17 Fair Value of Financial Assets and Liabilities for further details.

11. AVAILABLE-FOR-SALE ASSETS

Available-for-sale-assets ($m)



Period	Security type	2017 Government securities $m	2017 Corporate and financial institution securities $m	2017 Equity and other securities $m	2017 Total $m	2016 Government securities $m	2016 Corporate and financial institution securities $m	2016 Equity and other securities $m	2016 Total $m
Less than 3 months		6,745	1,201	-	7,946	3,760	1,457	-	5,217
Between 3 and 12 months		5,576	2,738	-	8,314	2,483	2,729	-	5,212
Between 1 and 5 years		19,302	12,960	403	32,665	9,762	14,045	592	24,399
Greater than 5 years		17,085	493	2,134	19,712	23,461	884	3,085	27,430
No maturity		-	-	747	747	-	-	855	855
Available-for-sale-assets		48,708	17,392	3,284	69,384	39,466	19,115	4,532	63,113

During the year, the Group recognised a net gain (before tax) in respect of available-for-sale (AFS) assets of $15 million (2016: $48 million) in other operating income.

The carrying value of AFS equity securities is $747 million (2016: $855 million). This includes the Group's $676 million (2016: $795 million) investment in the Bank of Tianjin (BoT) that ceased being classified as an associate in March 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. AVAILABLE-FOR-SALE ASSETS (continued)

RECOGNITION AND MEASUREMENT

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of AFS assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 17 Fair Value of Financial Assets and Liabilities for further details.

12. NET LOANS AND ADVANCES

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

	2017 $m	2016 $m
Overdrafts	7,345	8,153
Credit cards	11,009	11,846
Commercial bills	11,068	12,592
Term loans – housing	337,309	323,144
Term loans – non-housing	213,308	219,198
Other	3,405	4,011
Subtotal	583,444	578,944
Unearned income	(411)	(544)
Capitalised brokerage/mortgage origination fees	1,058	1,064
Customer liability for acceptances[1]	-	571
Gross loans and advances (including assets classified as held for sale)	584,091	580,035
Provision for credit impairment (refer to Note 13)	(3,798)	(4,183)
Net loans and advances (including assets classified as held for sale)	580,293	575,852
Less: Net loans and advances classified as held for sale (refer to Note 28)	(5,962)	-
Net loans and advances	574,331	575,852
Residual contractual maturity:		
Within one year	108,555	116,135
After more than one year	465,776	459,717
Net loans and advances	574,331	575,852
Carried on Balance Sheet at:		
Amortised cost	574,175	575,440
Fair value through profit or loss (designated on initial recognition)	156	397
Fair value through profit or loss (held for trading)	-	15
Net loans and advances	574,331	575,852

1. Customer liability for acceptances has been recognised in other assets from 30 September 2017.

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

13. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT - BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Individual provision						
Balance at start of year	1,278	1,038	29	23	1,307	1,061
New and increased provisions	2,068	2,435	1	10	2,069	2,445
Write-backs	(501)	(311)	-	-	(501)	(311)
Bad debts written off (excluding recoveries)	(1,693)	(1,722)	-	-	(1,693)	(1,722)
Other[1]	(34)	(162)	(12)	(4)	(46)	(166)
Total individual provision	1,118	1,278	18	29	1,136	1,307
Collective provision						
Balance at start of year	2,245	2,279	631	677	2,876	2,956
Charge/(release) to profit or loss	(76)	49	(66)	(32)	(142)	17
Other[2]	(51)	(83)	(21)	(14)	(72)	(97)
Total collective provision	2,118	2,245	544	631	2,662	2,876
Total provision for credit impairment	3,236	3,523	562	660	3,798	4,183

1. Other individual provision includes the Esanda Dealer Finance divestment, an adjustment for exchange rate fluctuations, and the impact of discount unwind on individual provisions.
2. Other collective provision includes the Esanda Dealer Finance divestment, Asia Retail and Wealth business divestment and an adjustment for exchange rate fluctuations.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge	2017 $m	2016 $m
New and increased provisions	2,069	2,445
Write-backs	(501)	(311)
Recoveries of amounts previously written-off	(228)	(222)
Individual credit impairment charge	1,340	1,912
Collective credit impairment charge/(release)	(142)	17
Total credit impairment charge	1,198	1,929

13. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

The Group recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred) and we can reliably measure the impairment.	We estimate the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

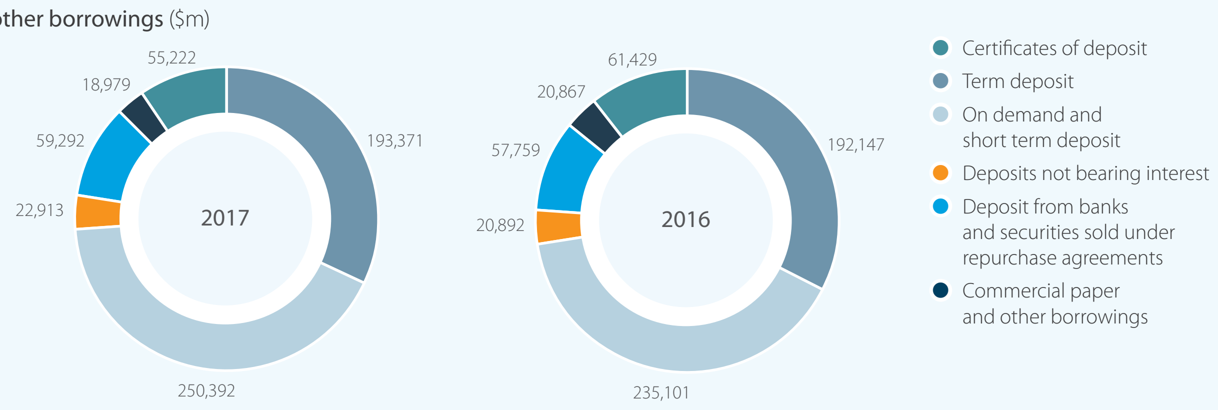
KEY JUDGEMENTS AND ESTIMATES

When we measure impairment of loans and advances, we use management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• Estimated future cash flows • Business prospects for the customer • Realisable value of any collateral • Group's position relative to other claimants • Reliability of customer information • Likely cost and duration of recovering loans	• Estimated future cash flows • Historical loss experience of assets with similar risk characteristics • Impact of large concentrated losses inherent in the portfolio • Assessment of the economic cycle
We regularly review our key judgements and update them to reflect actual loss experience.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. DEPOSITS AND OTHER BORROWINGS



	2017 $m	2016 $m
Certificates of deposit	55,222	61,429
Term deposits	193,371	192,147
On demand and short term deposits	250,392	235,101
Deposits not bearing interest	22,913	20,892
Deposits from banks and securities sold under repurchase agreements	59,292	57,759
Commercial paper and other borrowings[1]	18,979	20,867
Deposits and other borrowings (including liabilities held for sale)	600,169	588,195
Less: Deposits and other borrowings classified as held for sale (refer to Note 28)	(4,558)	-
Deposits and other borrowings	595,611	588,195
Residual contractual maturity:		
- to be settled within 1 year	577,495	567,567
- to be settled after 1 year	18,116	20,628
Deposits and other borrowings	595,611	588,195
Carried on Balance Sheet at:		
Amortised cost	592,114	583,002
Fair value through profit or loss (designated on initial recognition)	3,497	5,193
Deposits and other borrowings	595,611	588,195

1. Other borrowings related to secured investments of the consolidated subsidiary UDC Finance Limited (UDC) of NZD 1.0 billion (September 2016: NZD 1.6 billion) and the accrued interest thereon which are secured by a security interest over all the assets of UDC NZD 3.0 billion (September 2016: NZD 2.7 billion).

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

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

Refer to Note 17 Fair Value of Financial Assets and Liabilities for details of the split between amortised cost and fair value.

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

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

15. DEBT ISSUANCES

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

	2017 $m	2016 $m
Senior debt	68,852	70,041
Covered bonds	19,859	21,039
Securitisation	1,552	-
Total unsubordinated debt	90,263	91,080
Subordinated debt		
- Additional Tier 1 capital	8,452	9,493
- Tier 2 capital	9,258	12,471
Total subordinated debt	17,710	21,964
Total debt issued	107,973	113,044

TOTAL DEBT ISSUED BY CURRENCY

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

		2017 $m	2016 $m
USD	United States Dollars	45,799	44,536
EUR	Euro	22,507	25,141
AUD	Australian Dollars	23,194	24,083
NZD	New Zealand Dollars	6,361	6,972
JPY	Japanese Yen	3,233	4,069
CHF	Swiss Francs	2,248	2,074
GBP	Pounds Sterling	854	1,744
HKD	Hong Kong Dollars	1,136	1,188
Other	Chinese Yuan, Norwegian Kroner, Turkish Lira, Singapore Dollars, Canadian Dollars, Mexican Peso and South African Rand	2,641	3,237
Total debt issued		107,973	113,044
Residual contractual maturity:			
- to be settled within 1 year		13,458	23,348
- to be settled after 1 year		92,159	87,177
- no maturity date (instruments in perpetuity)		2,356	2,519
Total debt issued		107,973	113,044

SUBORDINATED DEBT

Subordinated debt qualifies as regulatory capital for the Group and is classified as either Additional Tier 1 (AT1) capital or Tier 2 capital for APRA's capital adequacy purposes depending on their terms and conditions:

- AT1 capital - perpetual capital instruments such as:
  - ANZ Convertible Preference Shares (ANZ CPS);
  - ANZ Capital Notes (ANZ CN);
  - ANZ Capital Securities (ANZ CS); and
  - ANZ NZ Capital Notes (ANZ NZ CN).
- Tier 2 capital - all other perpetual or term subordinated notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. DEBT ISSUANCES (continued)

AT1 CAPITAL

All outstanding AT1 capital instruments (other than CPS3) are Basel III fully compliant instruments (refer to Note 22 Capital Management for further information about Basel III). For CPS3, APRA has granted the Group transitional Basel III capital treatment until 1 September 2019. CPS3, and each of the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on CPS3 and ANZ CN are franked in line with the franking applied to ANZ ordinary shares.

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

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

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

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

- on a specified date; or
- on an earlier date under certain circumstances.

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

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

ANZ Convertible Preference Shares (ANZ CPS)

	CPS2	CPS3
Issuer	ANZ	ANZ
Issue date	17 December 2009	28 September 2011
Issue amount	$1,968 million On 27 September 2016, ANZ bought back and cancelled $900 million of CPS2, and reinvested the proceeds into CN4. The remaining CPS2 was bought back and cancelled on 15 December 2016.	$1,340 million On 28 September 2017, ANZ bought back and cancelled $767 million of CPS3, and either reinvested the proceeds into CN5 or returned the cash proceeds to investors.
Face value	$100	$100
Dividend frequency	Quarterly in arrears	Semi-annually in arrears
Dividend rate	Floating rate: (90 day Bank Bill rate +3.1%)x (1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.1%)x (1-Australian corporate tax rate)
Issuer's early redemption or conversion option	No	1 March 2018 and each subsequent semi-annual dividend payment date
Mandatory conversion date	N/A	1 September 2019
Common equity capital trigger event	No	Yes
Non-viability trigger event	No	No
Cash dividend payments treated as interest expense	$8 million (2016: $75 million)	$47 million (2016: $51 million)
Carrying value 2017 (net of issue costs)	$nil million (2016: $1,068 million)	$573 million (2016: $1,340 million)

15. DEBT ISSUANCES (continued)

ANZ Capital Notes (ANZ CN)

	CN1	CN2	CN3
Issuer	ANZ	ANZ	ANZ, acting through its New Zealand branch
Issue date	7 August 2013	31 March 2014	5 March 2015
Issue amount	$1,120 million	$1,610 million	$970 million
Face value	$100	$100	$100
Distribution frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Distribution rate	Floating rate: (180 day Bank Bill rate +3.4%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.25%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.6%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 September 2021	24 March 2022	24 March 2023
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value 2017 (net of issue costs)	$1,116 million (2016: $1,115 million)	$1,604 million (2016: $1,602 million)	$963 million (2016: $962 million)

	CN4	CN5
Issuer	ANZ	ANZ
Issue date	27 September 2016	28 September 2017
Issue amount	$1,622 million	$931 million
Face value	$100	$100
Distribution frequency	Quarterly in arrears	Quarterly in arrears
Distribution rate	Floating rate: (90 day Bank Bill rate +4.7%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.8%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	20 March 2024	20 March 2025
Mandatory conversion date	20 March 2026	20 March 2027
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes
Carrying value 2017 (net of issue costs)	$1,608 million (2016: $1,604 million)	$925 million (2016: $0 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. DEBT ISSUANCES (continued)

ANZ Capital Securities (ANZ CS)

Issuer	ANZ, acting through its London branch
Issue date	15 June 2016
Issue amount	USD 1,000 million
Face value	Minimum denomination of USD 200,000 and an integral multiple of USD 1,000 above that
Interest frequency	Semi-annually in arrears
Interest rate	Fixed at 6.75% p.a. until 15 June 2026. Reset on 15 June 2026 and each 5 year anniversary to a floating rate: 5 year USD mid-market swap rate + 5.168%
Issuer's early redemption option	15 June 2026 and each 5 year anniversary
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2017 (net of issue costs)	$1,206 million (2016: $1,329 million)

ANZ NZ Capital Notes (ANZ NZ CN)

Issuer	ANZ Bank New Zealand Limited (ANZ NZ)
Issue date	31 March 2015
Issue amount	NZD 500 million
Face value	NZD 1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: New Zealand 3 month bank bill rate + 3.5% Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions (including APRA and RBNZ requirements)
Issuer's early redemption option	25 May 2020
Mandatory conversion date	25 May 2022
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2017 (net of issue costs)	$457 million (2016: $473 million)

15. DEBT ISSUANCES (continued)

TIER 2 CAPITAL

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

APRA has granted transitional Basel III capital treatment for:

- all other term subordinated notes until their first call date;
- the USD 300 million perpetual subordinated notes until the end of the transitional period (December 2021); and
- the NZD 835 million perpetual subordinated notes until the April 2018 call date.

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

Currency	Face value	Maturity	Next optional call date – subject to APRA's prior approval	Interest rate	Non-Viability Trigger Event	2017 $m	2016 $m
Basel III transitional subordinated notes (perpetual)							
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	No	382	394
NZD	835m[1]	Perpetual	2018	Fixed	No	768	796
Basel III transitional subordinated notes (term)							
EUR	750m	2019	N/A	Fixed	No	1,205	1,224
AUD	500m	2022	2017	Floating	No	-	499
AUD	1,509m	2022	2017	Floating	No	-	1,507
USD	750m	2022	2017	Fixed	No	-	978
AUD	750m	2023	2018	Floating	No	747	749
Total Basel III transitional subordinated notes						3,102	6,147
Basel III fully compliant convertible subordinated notes (term)							
AUD	750m	2024	2019	Floating	Yes	750	750
USD	800m	2024	N/A	Fixed	Yes	1,061	1,158
CNY	2,500m	2025	2020	Fixed	Yes	478	491
SGD	500m	2027	2022	Fixed	Yes	478	493
AUD	200m	2027	2022	Fixed	Yes	199	199
JPY	20,000m	2026	N/A	Fixed	Yes	226	264
AUD	700m	2026	2021	Floating	Yes	699	700
USD	1,500m	2026	N/A	Fixed	Yes	1,817	2,011
JPY	10,000m	2026	2021	Fixed	Yes	112	129
JPY	10,000m	2028	2023	Fixed	Yes	111	129
AUD	225m	2032	2027	Fixed	Yes	225	-
Total Basel III fully compliant subordinated notes						6,156	6,324
Total Tier 2 capital						9,258	12,471

1. Call is subject to prior RBNZ and APRA approval.

RECOGNITION AND MEASUREMENT

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

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives have no value as of the reporting date given the remote nature of those triggering events.

16. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

We disclose details of all principal risks impacting the Group, and further information on the Group's risk management activities, in the Governance and Risk Management section.

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

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk Credit risk is the risk of financial loss from a customer, or counterparty, failing to meet their financial obligations – including the whole and timely payment of principal, interest, collateral, and other receivables.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk Market risk is the risk of loss arising from potential adverse changes in the value of the Group's assets and liabilities and other trading positions from fluctuations in market variables. These variables include, but are not limited to interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities, and asset correlations.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and Non-traded market risk • Equity securities classified as Available-for-sale • Foreign currency risk – structural exposures
Liquidity and funding risk Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due; or does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets. Refer to Note 29 Life Insurance Business for details of the insurance and funds management risk management.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Funding position • Residual contractual maturity analysis of the Group's liabilities

16. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures*. It should be read in conjunction with the Governance and Risk Management section.

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

The Board approves the strategic objectives of the Group including:

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

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

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

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

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

- an independent evaluation of the Group's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected amount of loan outstanding at the time of default.
Loss in the Event of Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover such factors as cash cover and sovereign backing. For some customers, we group exposures into large homogenous pools - and the LGD is assigned at the pool level.

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

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

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

We use the Group's internal CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, the Group's CCRs are mapped to external rating agency scales as follows:

Internal Rating	ANZ Customer Requirements	Moody's Rating	Standard & Poors Rating
Strong credit profile	Demonstrated superior stability in their operating and financial performance over the long-term, and whose capacity is not significantly vulnerable to foreseeable events.	Aaa - Baa3	AAA - BBB-
Satisfactory risk	Demonstrated sound operational and financial stability over the medium to long-term — even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 - Ba3	BB+ - BB-
Sub-standard but not past due nor impaired	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B1 - Caa	B+ - CCC

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

	Reported		Excluded[1]/Other[2]		Maximum exposure to credit risk	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
On-balance sheet positions						
Net loans and advances[2]	580,293	575,852	(562)	(660)	580,855	576,512
Other financial assets:						
Cash and cash equivalents	68,048	66,220	1,544	1,457	66,504	64,763
Settlement balances owed to ANZ	5,504	4,406	5,504	4,406	-	-
Collateral paid	8,987	12,723	-	-	8,987	12,723
Trading securities	43,605	47,188	4,713	6,597	38,892	40,591
Derivative financial instruments	62,518	87,496	-	-	62,518	87,496
Available-for-sale assets	69,384	63,113	747	855	68,637	62,258
Regulatory deposits	2,015	2,296	-	-	2,015	2,296
Investments backing policy liabilities	37,964	35,656	37,964	35,656	-	-
Other financial assets[3]	3,764	3,541	-	-	3,764	3,541
Total other financial assets	301,789	322,639	50,472	48,971	251,317	273,668
Subtotal	882,082	898,491	49,910	48,311	832,172	850,180
Off-balance sheet positions						
Undrawn and contingent facilities[2,4]	232,162	245,189	562	660	231,600	244,529
Total	1,114,244	1,143,680	50,472	48,971	1,063,772	1,094,709

1. Excluded comprises bank notes and coins and cash at bank within liquid assets, equity securities within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed onto the policy holder. In 2017, equity securities and precious metal exposures recognised as trading securities and trade dated assets recognised as settlement balances owed to ANZ have been excluded as they do not carry credit risk. Comparatives have been restated accordingly.
2. Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables. Net loans and advances include loans and advances held for sale.
3. Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
4. Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- restructured and impaired assets presented as gross amounts and net of individual provisions.

	Net loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Neither past due nor impaired								
Strong credit profile	409,119	432,049	246,774	268,744	189,811	200,510	845,704	901,303
Satisfactory risk[1]	138,018	110,861	4,429	4,567	39,765	41,500	182,212	156,928
Sub-standard but not past due or impaired	17,517	18,182	114	343	1,943	2,438	19,574	20,963
Subtotal	564,654	561,092	251,317	273,654	231,519	244,448	1,047,490	1,079,194
Past due but not impaired								
≥ 1 < 30 days	8,790	7,966	-	-	-	-	8,790	7,966
≥ 30 < 60 days	2,143	1,910	-	-	-	-	2,143	1,910
≥ 60 < 90 days	1,148	1,070	-	-	-	-	1,148	1,070
≥ 90 days	2,953	2,703	-	-	-	-	2,953	2,703
Subtotal	15,034	13,649	-	-	-	-	15,034	13,649
Restructured and impaired								
Impaired loans	2,118	2,646	-	-	-	-	2,118	2,646
Restructured items[2]	167	403	-	-	-	-	167	403
Non-performing commitments and contingencies	-	-	-	-	99	110	99	110
Other	-	-	-	14	-	-	-	14
Gross impaired financial assets	2,285	3,049	-	14	99	110	2,384	3,173
Individual provisions	(1,118)	(1,278)	-	-	(18)	(29)	(1,136)	(1,307)
Subtotal restructured and net impaired	1,167	1,771	-	14	81	81	1,248	1,866
Total	580,855	576,512	251,317	273,668	231,600	244,529	1,063,772	1,094,709

1. Movement in credit profile in 2017 was due to the implementation of ANZ's revised Capital Mortgage model, which re-rated the Australian mortgage portfolio.
2. Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered for new facilities with similar risk.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Agriculture, forestry, fishing and mining	35,592	37,003	773	1,045	16,093	17,090	52,458	55,138
Business services	8,413	7,846	182	240	7,251	7,420	15,846	15,506
Construction	6,965	7,265	84	120	6,419	6,668	13,468	14,053
Electricity, gas and water supply	6,472	6,388	1,186	2,007	6,103	5,900	13,761	14,295
Entertainment, leisure and tourism	12,462	11,972	447	615	3,650	3,629	16,559	16,216
Financial, investment and insurance	39,741	39,094	162,198	191,081	29,640	22,207	231,579	252,382
Government and official institutions	2,307	2,224	73,904	65,295	2,733	3,084	78,944	70,603
Manufacturing	21,107	22,913	2,691	3,475	38,872	45,597	62,670	71,985
Personal lending	352,841	346,922	1,902	2,428	62,090	70,156	416,833	419,506
Property services	42,514	41,487	838	1,402	13,057	14,611	56,409	57,500
Retail trade	13,375	13,331	321	451	6,506	6,748	20,202	20,530
Transport and storage	11,884	13,148	1,163	1,685	6,998	6,942	20,045	21,775
Wholesale trade	14,178	14,799	2,817	2,680	20,501	25,630	37,496	43,109
Other	15,593	15,123	2,811	1,144	12,249	9,507	30,653	25,774
Gross total	583,444	579,515	251,317	273,668	232,162	245,189	1,066,923	1,098,372
Provision for credit impairment	(3,236)	(3,523)	-	-	(562)	(660)	(3,798)	(4,183)
Subtotal	580,208	575,992	251,317	273,668	231,600	244,529	1,063,125	1,094,189
Unearned income	(411)	(544)	-	-	-	-	(411)	(544)
Capitalised brokerage/mortgage origination fees	1,058	1,064	-	-	-	-	1,058	1,064
Maximum exposure to credit risk	580,855	576,512	251,317	273,668	231,600	244,529	1,063,772	1,094,709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations from its expected cashflows. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables.

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Net loans and advances	580,855	576,512	474,746	461,271	106,109	115,241
Other financial assets	251,317	273,668	25,429	30,968	225,888	242,700
Off-balance sheet positions	231,600	244,529	46,083	49,786	185,517	194,743
Total	1,063,772	1,094,709	546,258	542,025	517,514	552,684

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

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

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

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

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

ANZ measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR on any given day.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

	30 September 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	4.2	10.5	2.5	5.1	4.0	11.4	2.2	5.2
Interest rate	6.3	21.3	5.1	7.9	4.7	20.1	4.1	9.1
Credit	4.4	5.4	2.0	3.4	3.3	4.6	2.2	3.2
Commodity	2.2	3.8	1.4	2.1	2.5	2.8	1.1	1.7
Equity	-	0.5	-	0.2	0.5	2.0	0.1	0.2
Diversification benefit[1]	(7.6)	n/a	n/a	(7.7)	(6.8)	n/a	n/a	(6.2)
Total VaR	9.5	24.9	6.9	11.0	8.2	25.4	6.1	13.2

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	30 September 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	31.6	37.5	25.9	31.3	38.4	40.6	28.0	33.7
New Zealand	11.8	15.1	11.1	12.4	11.4	11.4	8.8	10.0
APEA	14.6	19.0	14.3	15.9	14.7	17.3	14.4	15.8
Diversification benefit[1]	(20.6)	n/a	n/a	(19.7)	(24.0)	n/a	n/a	(22.9)
Total VaR	37.4	44.0	33.5	39.9	40.5	44.7	31.3	36.6

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

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

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

	2017	2016
Impact of 1% rate shock		
As at period end	0.52%	0.37%
Maximum exposure	0.65%	0.48%
Minimum exposure	0.01%	0.00%
Average exposure (in absolute terms)	0.28%	0.21%

EQUITY SECURITIES CLASSIFIED AS AVAILABLE-FOR-SALE

Our available-for-sale financial assets contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Group's VaR processes for traded and non-traded market risks. Therefore, the Group regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are impaired based on the recognition and measurement policies set out in Note 11 Available-for-sale Assets.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Group's hedging relationships is disclosed in Note 10 Derivative Financial Instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Group is either:

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

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

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Scenario modelling of funding sources

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

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, the Group has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia. The CLF has been established to offset the shortage of available High Quality Liquid Assets (HQLA) in Australia and provides an alternative form of contingent liquidity. The total amount of the CLF available to a qualifying Australian Deposit-taking Institution is set annually by APRA. From 1 January 2017, ANZ's CLF is $43.8 billion (2016 calendar year end: $50.3 billion).

Liquid assets

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

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

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

	Average for year[1]	
	2017 $bn	2016 $bn
Market values post discount		
HQLA1[2]	127.8	118.5
HQLA2	4.5	3.7
Internal Residential Mortgage Backed Securities (Australia)[2]	32.0	35.2
Internal Residential Mortgage Backed Securities (New Zealand)[3]	0.9	1.3
Other ALA[4]	15.3	18.1
Total liquid assets	180.5	176.8
Cash flows modelled under stress scenario		
Cash outflows	173.6	181.9
Cash inflows	39.7	41.1
Net cash outflows	133.9	140.8
Liquidity Coverage Ratio (%)[5]	135%	126%

1. Average for year is calculated as prescribed by APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.
2. RBA open repo arrangement netted down from CLF, with a corresponding increase in HQLA.
3. New Zealand LCR surplus is excluded from NZ internal Residential Mortgage Backed Securities, consistent with APS 330 treatment.
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 Level 2 LCR.

Liquidity crisis contingency planning

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

Ongoing business management	Early signs/mild stress	Severe Stress
• Establish crisis/severity levels • Liquidity limits • Early warning indicators	• Monitoring and review • Management actions not requiring business rationalisation	• Activate contingency funding plans • Management actions for altering asset and liability behaviour
Assigned responsibility for internal and external communications and the appropriate timing to communicate.		

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

Group funding

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

FUNDING POSITION

During the year ended 30 September 2017, the Group issued $22.0 billion of term wholesale debt (excluding Additional Tier 1 Capital) with a remaining term greater than one year (2016: $32.1 billion). The weighted average tenor of new term debt was 5.3 years (2016: 5.5 years).

The following tables represent the Group's funding composition at 30 September:

	2017 $m	2016 $m
Customer deposits and other liabilities[1]		
Customer deposits	467,630	449,623
Other funding liabilities[2,3]	12,838	14,049
Total customer liabilities (funding)	480,468	463,672
Wholesale funding[4]		
Debt issuances	107,973	113,044
Certificates of deposit	55,222	61,429
Commercial paper	18,023	19,349
Other wholesale borrowings[2,5,6]	65,441	65,924
Total wholesale funding	246,659	259,746
Shareholders' equity	59,075	57,927
Total funding	786,202	781,345

	2017 $m	2016 $m
Funded assets		
Other short term assets & trade finance assets[7]	58,576	65,800
Liquids[6]	169,317	161,302
Short term funded assets	227,893	227,102
Lending & fixed assets[8]	558,309	554,243
Total funded assets	786,202	781,345
Funding liabilities[4,6]		
Other short term liabilities[2]	46,021	49,288
Short term funding	62,119	69,028
Term funding < 12 months	18,872	23,668
Other customer and central bank deposits[1,2,9]	78,652	79,115
Total short term funding liabilities	205,664	221,099
Stable customer deposits[1,10]	421,172	402,146
Term funding > 12 months	91,840	90,708
Shareholders' equity and hybrid debt	67,526	67,392
Total stable funding	580,538	560,246
Total funding	786,202	781,345

1. Includes term deposits, other deposits and an adjustment to eliminate Wealth Australia investments in ANZ deposit products.
2. Securitites sold under repurchase agreements reclassified to align with current period presentation.
3. Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.
4. Excludes liability for acceptances as they do not provide net funding.
5. Includes borrowings from banks, securitites sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.
6. Includes 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.

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE GROUP'S LIABILITIES

The tables below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Group may be required to pay. All at-call liabilities are reported in the "Less than 3 month" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet.

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed on page 112.

2017	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,914	-	-	-	9,914
Collateral received	5,919	-	-	-	5,919
Deposits and other borrowings	490,282	94,449	19,003	145	603,879
Policy liabilities	37,075	2	19	352	37,448
External unit holder liabilities (life insurance funds)	4,435	-	-	-	4,435
Liability for acceptances	614	-	-	-	614
Debt issuances[1,2]	4,673	15,290	75,732	24,131	119,826
Derivative liabilities (trading)[3]	51,556	-	-	-	51,556
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(18,598)	(20,058)	(82,876)	(29,295)	(150,827)
Pay leg	18,374	19,830	83,827	29,659	151,690
- Other balance sheet management					
Receive leg	(28,031)	(8,685)	(14,900)	(5,021)	(56,637)
Pay leg	28,246	9,152	17,024	5,552	59,974

2016	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	10,625	-	-	-	10,625
Collateral received	6,386	-	-	-	6,386
Deposits and other borrowings	483,364	86,442	21,426	464	591,696
Policy liabilities	35,910	1	29	205	36,145
External unit holder liabilities (life insurance funds)	3,333	-	-	-	3,333
Liability for acceptances	569	-	-	-	569
Debt issuances[1,2]	11,057	20,348	68,963	25,406	125,774
Derivative liabilities (trading)[3]	73,592	-	-	-	73,592
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(35,443)	(26,506)	(85,478)	(31,163)	(178,590)
Pay leg	35,927	25,920	84,703	31,221	177,771
- Other balance sheet management					
Receive leg[4]	(22,629)	(9,685)	(14,534)	(6,610)	(53,458)
Pay leg[4]	22,820	10,321	16,436	8,168	57,745

1. Any callable wholesale debt instruments have been included at their next call date.
2. Includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
3. The full mark-to-market of derivative liabilities held for trading purposes is included in the 'less than 3 months' category.
4. Prior year's profile has been restated to ensure comparability.

At 30 September 2017, $191,323 million (2016: $207,410 million) of the Group's undrawn facilities and $40,839 million (2016: $37,779 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Group may be required to pay.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

VALUATION OF FINANCIAL INSTRUMENTS

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

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- when using quoted market prices to value an instrument, these are independently verified from external sources;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as FVA, CVA and bid-offer) are independently validated and monitored.

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of financial assets and liabilities for recognition, measurement and disclosure purposes where no quoted market price for the instrument exists. For those purposes, we use the following approaches:

Financial Asset or Liability	Fair Value Approach
Financial instruments classified as: - trading securities - securities short sold - derivative financial assets and liabilities - available-for-sale assets, and - investments backing policy liabilities	In instances where there is no quoted market price, modelled valuation techniques are used that incorporate observable market inputs for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
Net loans and advances, deposits and other borrowings and debt issuances	Discounted cash flow techniques in which contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates, or market borrowing rates, for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.
Life investment contract liabilities and external unit holder liabilities (life insurance funds)	Valuation based on the fair value of the asset backing policy liabilities using observable inputs. Refer to Note 29 Life Insurance Business.
Non-financial instrument component of assets held for sale	Valuation based on the agreed foreign currency sales price combined with the applicable foreign exchange rate less an estimate of the costs to dispose of the assets.

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	Fair value details refer to Note	2017 At amortised cost $m	2017 At fair value $m	2017 Total $m	2016 At amortised cost $m	2016 At fair value $m	2016 Total $m
Financial assets							
Cash and cash equivalents		68,048	-	68,048	66,220	-	66,220
Settlement balances owed to ANZ		5,504	-	5,504	4,406	-	4,406
Collateral paid		8,987	-	8,987	12,723	-	12,723
Trading securities	9	-	43,605	43,605	-	47,188	47,188
Derivative financial instruments	10	-	62,518	62,518	-	87,496	87,496
Available-for-sale assets	11	-	69,384	69,384	-	63,113	63,113
Net loans and advances	12	574,175	156	574,331	575,440	412	575,852
Regulatory deposits		2,015	-	2,015	2,296	-	2,296
Assets held for sale[1]		5,966	-	5,966	-	-	-
Investments backing policy liabilities	29	-	37,964	37,964	-	35,656	35,656
Other financial assets		4,364	-	4,364	4,198	-	4,198
Total		669,059	213,627	882,686	665,283	233,865	899,148
Financial liabilities							
Settlement balances owed by ANZ		9,914	-	9,914	10,625	-	10,625
Collateral received		5,919	-	5,919	6,386	-	6,386
Deposits and other borrowings	14	592,114	3,497	595,611	583,002	5,193	588,195
Derivative financial instruments	10	-	62,252	62,252	-	88,725	88,725
Liabilities held for sale[1]		4,635	-	4,635	-	-	-
Policy liabilities[2]	29	342	37,106	37,448	190	35,955	36,145
External unit holder liabilities (life insurance funds)[3]		-	4,435	4,435	-	3,333	3,333
Payables and other liabilities		6,458	1,892	8,350	6,485	2,380	8,865
Debt issuances		106,221	1,752	107,973	110,852	2,192	113,044
Total		725,603	110,934	836,537	717,540	137,778	855,318

1. Assets held for sale and liabilities held for sale include only the components of assets or liabilities held for sale which are financial instruments.
2. Policy liabilities includes:
   - life insurance contract liabilities of $342 million (2016: $190 million) measured in accordance with AASB 1038 *Life Insurance Contracts*; and
   - life investment contract liabilities of $37,106 million (2016: $35,955 million) which have been designated at fair value through profit or loss under AASB 139 *Financial Instruments: Recognition and Measurement*. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.
3. External unit holder liabilities are designated on initial recognition at fair value through profit or loss.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

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

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Financial assets								
Trading securities[1]	40,435	44,856	3,170	2,332	-	-	43,605	47,188
Derivative financial instruments	433	453	61,996	86,934	89	109	62,518	87,496
Available-for-sale assets[1]	61,694	55,294	7,479	7,580	211	239	69,384	63,113
Net loans and advances (measured at fair value)	-	-	156	397	-	15	156	412
Investments backing policy liabilities[1]	27,308	24,270	10,306	10,879	350	507	37,964	35,656
Assets held for sale[2]	-	-	1,748	-	-	-	1,748	-
Total	129,870	124,873	84,855	108,122	650	870	215,375	233,865
Financial liabilities								
Deposits and other borrowings (designated at fair value)	-	-	3,497	5,193	-	-	3,497	5,193
Derivative financial instruments	275	408	61,900	88,215	77	102	62,252	88,725
Policy liabilities[3]	-	-	37,106	35,955	-	-	37,106	35,955
External unit holder liabilities (life insurance funds)	-	-	4,435	3,333	-	-	4,435	3,333
Payables and other liabilities (measured at fair value)[4]	1,726	2,294	166	86	-	-	1,892	2,380
Debt issuances (designated at fair value)	-	-	1,752	2,192	-	-	1,752	2,192
Total	2,001	2,702	108,856	134,974	77	102	110,934	137,778

1. During the period we transferred:
   - $713 million (2016: $495 million) from Level 1 to Level 2 following reduced trading activity in the associated securities; and
   - $44 million (2016: $53 million) from Level 2 to Level 1 following increased trading activity to support the quoted prices.

   We deem transfers into and out of Level 1 and Level 2 to have occurred as at the beginning of the reporting period in which the transfer occurred.
2. The amount classified as Assets held for sale relates to non-financial instruments required to be measured at fair value less costs to sell in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.
3. Policy liabilities relate only to life investment contract liabilities, as we designate these at fair value through profit or loss.
4. Payables and other liabilities relates to securities short sold, which we classify as held for trading and measured at fair value through profit or loss.

Level 3 fair value measurements

The net balance of Level 3 financial instruments is an asset of $573 million (2016: $768 million). The financial instruments which incorporate significant unobservable inputs primarily include:

- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives, including reverse mortgage swaps for which the mortality rate cannot be observed;
- asset backed securities and illiquid corporate bonds for which the effect on the fair value of issuer credit cannot be directly or indirectly observed in the market; and
- investments in illiquid or suspended managed funds that are not currently redeemable.

The movement in Investments backing policy liabilities classified as Level 3 is predominantly due to sales of assets in this category. Aside from this movement, there have been no significant movements or changes in the composition of the balance of Level 3 instruments that the Group carries at fair value during the current or prior periods.

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

Sensitivity to Level 3 data inputs

If we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Group's estimate of the instrument's fair value. The majority of transactions in this category are 'back-to-back' in nature — that is, the Group either acts as a financial intermediary or hedges the market risks. As a result, changes in the Level 3 inputs generally have minimal impact on net profit and net assets of the Group.

Deferred fair value gains and losses

If we use unobservable data that is significant to the fair value of a financial instrument at initial recognition then we do not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the day one gain or loss in profit or loss over the life of the transaction on a straight line basis or until all inputs become observable.

The day one gains and losses we defer are not significant. They predominately relate to derivative financial instruments. This is consistent with the low level of derivative transactions that the Group enters into which incorporate significant unobservable inputs.

Fair value designation

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

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

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	At amortised cost		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2017 $M	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Financial assets										
Net loans and advances[1]	580,137	575,440	-	-	558,013	551,575	22,310	24,649	580,323	576,224
Total	580,137	575,440	-	-	558,013	551,575	22,310	24,649	580,323	576,224
Financial liabilities										
Deposits and other borrowings[1]	596,672	583,002	-	-	596,862	583,420	-	-	596,862	583,420
Debt issuances	106,221	110,852	45,836	47,186	61,663	64,332	-	-	107,499	111,518
Total	702,893	693,854	45,836	47,186	658,525	647,752	-	-	704,361	694,938

1. Net loans and advances and deposits and other borrowings include amounts reclassified to assets and liabilities held for sale (refer Note 28 Assets and Liabilities Held for Sale).

KEY JUDGEMENTS AND ESTIMATES

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

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

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 10 Derivative Financial Instruments) to the techniques used to reflect the Group's assessment of factors that market participants would consider in setting fair value.

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

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

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ's covered bond programs.
- Collateral provided to central banks.
- Collateral provided to clearing houses.

The amortised cost of assets pledged as security are as follows:

	2017 $m	2016 $m
Securities sold under arrangements to repurchase[1]	36,242	26,637
Assets pledged as collateral for UDC Secured Investments	2,746	2,541
Covered bonds	29,353	31,790
Other	3,140	2,948

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2017 $m	2016 $m
Fair value of assets which can be sold or repledged	30,085	31,646
Fair value of assets sold or repledged	19,965	14,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. OFFSETTING

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

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

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

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

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	62,518	(3,226)	59,292	(49,243)	(5,185)	4,864
Reverse repurchase, securities borrowing and similar agreements[1]	28,966	(5,289)	23,677	(819)	(22,858)	-
Total financial assets	91,484	(8,515)	82,969	(50,062)	(28,043)	4,864
Derivative financial liabilities	(62,252)	3,662	(58,590)	49,243	6,517	(2,830)
Repurchase, securities borrowing and similar agreements[2]	(34,536)	9,590	(24,946)	819	24,127	-
Total financial liabilities	(96,788)	13,252	(83,536)	50,062	30,644	(2,830)

			Amount subject to master netting agreement or similar			
2016	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	87,496	(3,944)	83,552	(71,394)	(5,259)	6,899
Reverse repurchase, securities borrowing and similar agreements[1]	30,160	(11,320)	18,840	(707)	(18,133)	-
Total financial assets	117,656	(15,264)	102,392	(72,101)	(23,392)	6,899
Derivative financial liabilities	(88,725)	3,693	(85,032)	71,394	9,486	(4,152)
Repurchase, securities borrowing and similar agreements[2]	(25,049)	11,661	(13,388)	707	12,681	-
Total financial liabilities	(113,774)	15,354	(98,420)	72,101	22,167	(4,152)

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

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles[2]		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Balance at start of year	4,729	4,597	2,202	2,893	741	822	7,672	8,312
Additions	5	-	404	431	-	1	409	432
Amortisation expense[3]	-	-	(567)	(1,056)	(73)	(83)	(640)	(1,139)
Impairment expense	(3)	-	(17)	(27)	-	-	(20)	(27)
Impairment on reclassification of Retail Asia and Wealth businesses to held for sale	(50)	-	(154)	-	-	-	(204)	-
Derecognised on disposal	-	-	-	-	-	(3)	-	(3)
Transferred to held for sale (refer to Note 28)	(122)	-	-	-	-	-	(122)	-
Foreign currency exchange difference	(112)	132	(8)	(39)	(5)	4	(125)	97
Balance at end of year	4,447	4,729	1,860	2,202	663	741	6,970	7,672
Cost	4,447	4,729	6,092	6,022	1,358	1,396	11,897	12,147
Accumulated amortisation/impairment	n/a	n/a	(4,232)	(3,820)	(695)	(655)	(4,927)	(4,475)
Carrying amount	4,447	4,729	1,860	2,202	663	741	6,970	7,672

1. Goodwill excludes notional goodwill in equity accounted investments.
2. Other intangible assets comprises: aligned advisor relationships, distribution agreements and management fee rights, acquired portfolio of Insurance and Investment business and other intangibles.
3. In 2016, we made a $556 million charge for accelerated amortisation associated with a change in the software capitalisation policy.

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a fair value less cost of disposal assessment approach for each segment, with the exception of Wealth Australia, for which the Group applied a value-in-use approach for the year ended 30 September 2017.

FAIR VALUE LESS COST OF DISPOSAL

For those CGUs where the impairment assessment was undertaken using a market multiple approach, the Group has determined that the result represents the fair value less costs of disposal of each CGU, and is primarily based on observable price earnings multiples reflecting the businesses and markets in which each CGU operates plus a control premium. The earnings are based on the current forecast earnings of the divisions. As at 30 September 2017, our impairment testing did not result in any material impairment being identified.

For each of ANZ's CGUs with goodwill, the price earnings multiples applied were as follows:

Division	2017	2016
Australia	17.3	16.1
Institutional	15.4	13.7
New Zealand	17.0	16.1
Wealth Australia	n/a	20.8
Asia Retail & Pacific[1]	17.3	13.7

1. In 2017, goodwill in this segment consists of amounts attributable to Pacific only.

VALUE-IN-USE – WEALTH AUSTRALIA

Due to various strategic options being considered for certain components of the Wealth Australia CGU, we have undertaken a value-in-use assessment excluding ANZ Lenders Mortgage Insurance, ANZ Share Investing and ANZ Financial Planning businesses and compared this to the net assets of the CGU. The value-in-use is in excess of the net asset value and confirms our conclusion that the goodwill is not impaired.

The valuation is based on the embedded value which represents the present value of future profits and releases of capital arising from the business in-force at the valuation date, and adjusted net assets. It is determined using best estimate assumptions with franking credits included at 70% of face value. Projected cash flows have been discounted using capital asset pricing model risk discount rates of 7.75% and 9.50%.

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

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

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of off the shelf software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million. Those less than $20 million are expensed in the year in which the costs are incurred.	Acquired portfolios of insurance and investment business, management fee rights and aligned advisor relationships.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.	Acquired portfolios of insurance and investment business are amortised over periods between 15 and 23 years. Management fee rights with a finite life are amortised over periods up to 7 years. Those with an indefinite life are reviewed for impairment at least annually or where there is an indication of impairment. Aligned advisor relationships are amortised over periods up to 8 years.
Depreciation method	Not applicable.	Straight-line method.	Straight-line method.

KEY JUDGEMENTS AND ESTIMATES

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

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining cash flows for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on balance sheet is impaired. The level at which goodwill is allocated for testing, the estimation of future cash flows and the selection of discount rates or earnings multiples applied requires significant judgement.

At each balance sheet date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY - SUMMARY

	2017 $m	2016 $m
Ordinary share capital	29,088	28,765
Reserves		
Foreign currency translation reserve	(196)	544
Share option reserve	87	79
Available-for-sale revaluation reserve	38	149
Cash flow hedge reserve	131	329
Transactions with non-controlling interests reserve	(23)	(23)
Total reserves	37	1,078
Retained earnings	29,834	27,975
Share capital and reserves attributable to shareholders of the Company	58,959	57,818
Non-controlling interests	116	109
Total shareholders' equity	**59,075**	**57,927**

ORDINARY SHARE CAPITAL

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

	2017		2016	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,927,476,660	28,765	2,902,714,361	28,367
Bonus option plan	2,880,009	-	3,516,214	-
Dividend reinvestment plan	13,159,331	374	15,916,983	413
Group share option scheme	-	-	18,062	-
Group employee share acquisition scheme[1]	-	56	5,311,040	138
Share buy-back	(6,100,673)	(176)	-	-
Treasury shares in Wealth Australia[2]	-	69	-	(153)
Balance at end of year	**2,937,415,327**	**29,088**	2,927,476,660	28,765

1. The Company issued 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend (8.6 million shares for the 2016 final dividend; 9.7 million shares for the 2016 interim dividend) and nil shares to satisfy obligations under the Group's Employee share acquisition plans during 2017 (2016: 5.3 million shares). Following the provision of 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend, the Company repurchased 6.1 million of shares via an on-market share buy-back resulting in 6.1 million shares being cancelled.
2. Treasury shares in ANZ Wealth Australia (AWA) are shares held in statutory funds as assets backing policy holder liabilities. AWA Treasury shares outstanding as at 30 September 2017 were 15,386,741 (2016: 17,705,880).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed, or • the life insurance business purchases and holds to back policy liabilities in the statutory funds. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.
Available-for-sale reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.
Transactions with non-controlling interests reserve	Includes the impact of transactions with non-controlling shareholders in their capacity as shareholders.
Non-controlling interests	Share in the net assets of controlled entities attributable to equity interests which the Company does not own directly or indirectly.

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

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

REGULATORY ENVIRONMENT

Australia

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

Regulatory Capital Definition			
Common Equity Tier 1 (CET1) Capital	Tier 1 Capital	Tier 2 Capital	Total Capital
Shareholders' equity adjusted for specific items.	CET1 Capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 Capital.	Subordinated debt instruments which have a minimum term of 5 years at issue date.	Tier 1 plus Tier 2 Capital.
Minimum Prudential Capital Ratios (PCRs)			
CET1 Ratio	Tier 1 Ratio	Total Capital Ratio	
CET1 Capital divided by total risk weighted assets must be at least 4.5%.	Tier 1 Capital divided by total risk weighted assets must be at least 6.0%.	Total Capital divided by total risk weighted assets must be at least 8.0%.	
Reporting Levels			
Level 1	Level 2	Level 3	
The ADI on a stand-alone basis (that is the Company and specified subsidiaries which are consolidated to form the ADI's Extended Licensed Entity).	The consolidated Group less certain subsidiaries and associates that are excluded under prudential standards.	A conglomerate Group at the widest level.	

ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis until at least 2019 (APRA have yet to conclude required timing for Level 3 reporting).

Life Insurance and Funds Management

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

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

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

22. CAPITAL MANAGEMENT (continued)

Outside Australia

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

CAPITAL ADEQUACY

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

	2017 $m	2016 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	59,075	57,927
Prudential adjustments to shareholders' equity	(481)	(481)
Gross Common Equity Tier 1 capital	58,594	57,446
Deductions	(17,258)	(18,179)
Common Equity Tier 1 capital	41,336	39,267
Additional Tier 1 capital	7,988	9,018
Tier 1 capital	49,324	48,285
Tier 2 capital	8,669	10,328
Total qualifying capital	57,993	58,613
Capital adequacy ratios		
Common Equity Tier 1	10.6%	9.6%
Tier 1	12.6%	11.8%
Tier 2	2.2%	2.5%
Total	14.8%	14.3%
Risk weighted assets	391,113	408,582

23. PARENT ENTITY FINANCIAL INFORMATION

Australia and New Zealand Banking Group Limited (the Company) has prepared a separate set of financial statements to satisfy the requirements of its Australian Financial Services License it holds with ASIC. These separate Company financial statements are available on the ANZ website at anz.com and have been lodged with ASIC.

Selected financial information of the Company is provided as follows:

SUMMARY FINANCIAL INFORMATION

	2017 $m	2016 $m
Income statement information for the financial year		
Profit after tax for the year	6,234	5,687
Total comprehensive income for the year	5,915	5,002
Balance sheet information as at the end of the financial year		
Cash and cash equivalents	63,399	61,994
Net loans and advances	452,424	446,531
Total assets	797,379	823,962
Deposits and other borrowings	494,235	479,963
Total liabilities	745,531	773,703
Shareholders' equity		
Ordinary share capital	29,416	29,162
Reserves	36	344
Retained earnings	22,396	20,753
Total shareholders' equity	51,848	50,259

PARENT ENTITY'S CONTRACTUAL COMMITMENTS

PROPERTY RELATED COMMITMENTS

	2017 $m	2016 $m
Property capital expenditure		
Contracts for outstanding capital expenditure	98	103
Total capital expenditure commitments for property	98	103
Lease rentals		
Land and buildings	1,818	2,044
Furniture and equipment	145	144
Total lease rental commitments[1]	1,963	2,188
Due within 1 year	394	403
Due later than 1 year but not later than 5 years	908	982
Due later than 5 years	661	803
Total lease rental commitments[1]	1,963	2,188

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2017 is $91 million (2016: $114 million). During the year, we received sublease payments of $28 million (2016: $22 million) and netted them against rent expense.

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2017 $m	2016 $m
Contract amount of:		
Undrawn facilities	150,339	161,178
Guarantees and letters of credit	18,062	15,633
Performance related contingencies	18,890	17,710
Total	187,291	194,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. PARENT ENTITY FINANCIAL INFORMATION (continued)

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain of its subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations - subject to certain conditions including that the entity remains a controlled entity of the Company. Further information is outlined in Note 32 Related Party Disclosures.

24. CONTROLLED ENTITIES

The ultimate parent of the Group is Australia and New Zealand Banking Group Limited	Incorporated in Australia	Nature of Business Banking
All controlled entities are 100% owned, unless otherwise noted.		
The material controlled entities of the Group are:		
ANZ Bank (Lao) Limited[1]	Laos	Banking
ANZ Bank (Taiwan) Limited[1]	Taiwan	Banking
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZ Funds Pty. Ltd.	Australia	Holding Company
ANZ Bank (Europe) Limited[1]	United Kingdom	Banking
ANZ Bank (Kiribati) Limited[1] (75% ownership)	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZNZ Covered Bond Trust[1,4]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Limited[1]	New Zealand	Funds Management
OnePath Life (NZ) Limited[1]	New Zealand	Insurance
UDC Finance Limited[1]	New Zealand	Finance
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[2]	Vanuatu	Banking
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited[1] (55% ownership)	Cambodia	Banking
Votraint No. 1103 Pty Limited	Australia	Investment
ANZ Lenders Mortgage Insurance Pty. Limited	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust[4]	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
OnePath General Insurance Pty Limited	Australia	Insurance
OnePath Life Australia Holdings Pty Limited	Australia	Holding Company
OnePath Life Limited	Australia	Insurance
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[3]	Guam	Holding Company
ANZ Guam Inc[3]	Guam	Banking
ANZ Finance Guam, Inc.[3]	Guam	Finance
ACN 003 042 082 Limited	Australia	Holding Company
Share Investing Limited	Australia	Online Stockbroking
PT Bank ANZ Indonesia[1] **(99% ownership)**	Indonesia	Banking

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

24. CONTROLLED ENTITIES (continued)

ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

We did not acquire, or dispose of, any material entities during the year ended 30 September 2017 or the year ended 30 September 2016. ANZ Capital Hedging Pty Ltd (listed as a material entity for the year ended 30 September 2016) has been removed as a material entity for the year ended 30 September 2017 as its operations have been transferred to other parts of the Group and it is in the process of being liquidated.

RECOGNITION AND MEASUREMENT

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

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

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

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

When the Group ceases to control a subsidiary, it:

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

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

All transactions between Group entities are eliminated on consolidation.

25. INVESTMENTS IN ASSOCIATES

Significant associates of the Group are:

		Ordinary share interest		Carrying amount $m	
Name of entity	Principal activity	2017	2016	2017	2016
AMMB Holdings Berhad	Banking and insurance	24%	24%	1,185	1,198
PT Bank Pan Indonesia	Consumer and business bank	39%	39%	1,033	997
Shanghai Rural Commercial Bank[1]	Rural commercial bank	20%	20%	-	1,955
Aggregate other individually immaterial associates[1,2]		n/a	n/a	30	122
Total carrying value of associates				2,248	4,272

1. During 2017, Shanghai Rural Commercial Bank (SRCB) and Metrobank Card Corporation (MCC) were reclassified as held for sale. Refer to Note 28 Assets and Liabilities Held For Sale for further details.
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. From 31 March 2016, the investment was classified as an available for sale asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. INVESTMENTS IN ASSOCIATES (continued)

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

Set out below is the summarised financial information of each associate that is significant to the Group. The summarised financial information is based on the associates' IFRS financial information.

	AMMB Holdings Berhad		PT Bank Pan Indonesia		Shanghai Rural Commercial Bank	
Principal place of business and country of incorporation	Malaysia		Indonesia		People's Republic of China	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Summarised results						
Operating income	2,469	2,698	930	960	-	3,390
Profit for the year	415	414	253	160	-	1,338
Other comprehensive income/(loss)	(1)	(8)	22	2	-	59
Total comprehensive income	414	406	275	162	-	1,397
Less: Total comprehensive income attributable to non–controlling interests	(19)	(26)	(10)	(11)	-	(36)
Total comprehensive income attributable to owners of associate	395	380	265	151	-	1,361
Summarised financial position						
Total assets[1]	41,304	41,442	20,216	19,692	-	129,081
Total liabilities[1]	36,004	36,092	17,298	16,873	-	119,027
Total Net assets[1]	5,300	5,350	2,918	2,819	-	10,054
Less: Non–controlling interests of associate	(320)	(312)	(259)	(252)	-	(281)
Net assets attributable to owners of associate	4,980	5,038	2,659	2,567	-	9,773
Reconciliation to carrying amount of Group's interest in associate[2]						
Carrying amount at the beginning of the year	1,198	1,424	997	904	1,955	1,981
Group's share of total comprehensive income	95	90	103	59	58	273
Dividends received from associate	(38)	(35)	-	-	-	(41)
Group's share of other reserve movements of associate and foreign currency translation reserve adjustments	(70)	(21)	(67)	34	(46)	(258)
Impairment charge	-	(260)	-	-	(219)	-
Less: Carrying value transferred to assets held for sale (Note 28)	-	-	-	-	(1,748)	-
Carrying amount at the end of the year	1,185	1,198	1,033	997	-	1,955
Market value of Group's investment in associate[3]	943	929	1,009	779	n/a	n/a

1. Includes market value adjustments (including goodwill) the Group made at the time of acquisition (and adjustments for any differences in accounting policies).
2. For SRCB this includes movements up to the cessation of equity accounting.
3. Applies to those investments in associates with published price quotations. Market Value is based on a price per share and does not include any adjustments for the size of our holding.

25. INVESTMENTS IN ASSOCIATES (continued)

IMPAIRMENT ASSESSMENT

On 3 January 2017, the Group announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). On 18 September 2017 the Group announced a revision to the 3 January arrangement in which Baoshan Iron & Steel Co. Ltd. (Bao) replaced Shanghai SinoPoland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited (COSCO) to acquire ANZ's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao will each acquire a 10% stake in SRCB. The key financial terms of the revised sale agreement are unchanged from the transaction announced previously. The sale is subject to customary closing conditions and regulatory approvals and is expected to be completed by late 2017. Based on the agreed purchase price less costs of disposal, an impairment of $219 million was recorded against the carrying value to reflect the recoverable amount of the investment which has been transferred to held for sale assets (refer to Note 28 Assets and Liabilities Held For Sale). This impairment and subsequent foreign exchange translation adjustments have been recognised in other operating income (refer to Note 2 Operating Income).

As at 30 September 2017, for AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia (PT Panin), the market value (based on share price) was below the respective carrying values of these investments. The Group performed value-in-use (VIU) calculations to assess whether the carrying value of the investments was impaired. The VIU calculations supported the carrying value for both AmBank (2016: $260 million impairment recognised in other operating income) and PT Panin (2016: nil impairment).

RECOGNITION AND MEASUREMENT

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

The value-in-use calculation is sensitive to a number of key assumptions requiring management judgement, including: future profitability levels, capital levels, long term growth rates and discount rates. A change in any of the key assumptions below could have an adverse effect on the recoverable amount of the investments. The key assumptions used in the value-in-use calculation are outlined below:

As at 30 September 2017	AMMB	PT Panin
Post-tax discount rate	9.6%	13.3%
Terminal growth rate	4.8%	5.4%
Expected NPAT growth (compound annual growth rate – 5 years)	4.5%	9.9%
Core Equity Tier 1 rate	10.5% - 13.3%	11.3%

26. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities (being those that significantly affect the entity's returns) are directed by means of contractual arrangement. A SE often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group is involved with both consolidated and unconsolidated SEs which may be established by the Group or by a third party. SEs are classified as subsidiaries and consolidated when control exists. If the Group does not control a SE, then it will not be consolidated (an unconsolidated SE). This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Group uses SEs to securitise customer loans and advances that it has originated, in order to diversify sources of funding for liquidity management. Such transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle which we create for the purpose of structuring assets that are eligible for repurchase under agreements with the applicable central bank (these are known as 'Repo eligible'). The Group's internal securitisation SEs are consolidated. Refer to Note 27 Transfers of Financial Assets for further details. The Group also establishes SEs on behalf of customers to securitise their loans or receivables. The Group may manage these securitisation vehicles or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. In limited circumstances, where control exists, these SEs are consolidated.
Covered bond issuances	Certain loans and advances have been assigned to bankruptcy remote SEs to provide security for issuances of debt securities by the Group. The Group retains control over these SEs and therefore they are consolidated. Refer to Note 27 Transfers of Financial Assets for further details.
Structured finance arrangements	The Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Group may manage the SE, hold minor amounts of the SE's capital, or provide risk management products (derivatives) to the SE. In most instances, the Group does not control these SEs. Further, the Group's involvement typically does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Group's Wealth Australia and New Zealand businesses conduct investment management and other fiduciary activities as a responsible entity, trustee, custodian or manager for investment funds and trusts – including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issue of puttable units to investors and the Group considers them to be SEs. The Group's exposure to Investment Funds includes holding units and receiving fees for services. When the Group invests in Investment Funds on behalf of policyholders, then those funds are consolidated if control is deemed to exist.

26. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or Other Support Provided to Consolidated Structured Entities

The Group provides financial support to consolidated SEs as outlined below. As these are intra-group transactions, they are eliminated on consolidation:

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

The Group did not provide any non-contractual support to consolidated SEs during the year (2016: nil). Other than as disclosed above, the Group does not have any current intention to provide financial or other support to consolidated SEs.

UNCONSOLIDATED STRUCTURED ENTITIES

Group's Interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

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

	Securitisation and structured finance		Investment funds		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
On-balance sheet interests:						
Available-for-sale assets	2,532	3,591	-	-	2,532	3,591
Investments backing policy liabilities	-	-	21	156	21	156
Loans and advances	7,130	7,269	-	-	7,130	7,269
Total on-balance sheet	9,662	10,860	21	156	9,683	11,016
Off-balance sheet interests:						
Commitments (facilities undrawn)	4,371	2,588	-	-	4,371	2,588
Total off-balance sheet	4,371	2,588	-	-	4,371	2,588
Maximum exposure to loss	14,033	13,448	21	156	14,054	13,604

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $493 million (2016: $524 million) during the year.

26. STRUCTURED ENTITIES (continued)

The Group's maximum exposure to loss represents the maximum amount of loss that the Group could incur as a result of its involvement with unconsolidated SEs if loss events were to take place – regardless of the probability of occurrence. This does not in any way represent the actual losses expected to be incurred. Instead, the maximum exposure to loss is contingent in nature – for example, it may arise: on the bankruptcy of an issuer of securities, or a debtor; or if liquidity facilities or guarantees were to be called on. Furthermore, the maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate ANZ's exposure to loss.

For each type of interest, the maximum exposure to loss has been determined as follows:

- available-for-sale assets and investments backing policy liabilities – carrying amount; and
- loans and advances – carrying amount plus the undrawn amount of any commitments.

Information about the size of the unconsolidated SEs that the Group is involved with is as follows:

- Securitisation and structured finance: size is indicated by total assets which vary by SE with a maximum value of approximately $2.1 billion (2016: $1.7 billion); and
- Investment funds: size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $35.9 billion (2016: $35.0 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2016: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities and structured finance transactions, and investment funds. Judgement is required in relation to the existence of:

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

27. TRANSFERS OF FINANCIAL ASSETS

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

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Group's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. This includes mortgages that are held for potential repurchase agreements (Repos) with central banks. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Group cannot otherwise pledge or dispose of the transferred assets.

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

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

COVERED BONDS

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

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

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

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

REPURCHASE AGREEMENTS

If the Group sells securities subject to repurchase agreements under which substantially all the risks and rewards of ownership remain with the Group, then those assets are considered to be transferred assets that do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Group arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the lease receivable or financing arrangement. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. In some circumstances the Group continues to be exposed to some of the risks of the transferred lease receivable or financing arrangement through a derivative or other continuing involvement. When this occurs, the Group does not derecognise the lease receivable or loan. Instead, the Group recognises an associated liability representing its obligations to the participating financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. TRANSFERS OF FINANCIAL ASSETS (continued)

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

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Current carrying amount of assets transferred	1,520	-	29,353	31,790	36,242	26,637	98	275
Carrying amount of associated liabilities	1,552	-	19,859	21,039	34,536	25,049	91	266

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

28. ASSETS AND LIABILITIES HELD FOR SALE

The Group announced the following strategic divestments in line with the Group's strategy to simplify the businesses and improve capital efficiency. Accordingly, they are presented as assets and liabilities held for sale.

- Asia Retail & Wealth Businesses
  The Group announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank on 31 October 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on 21 April 2017. During the September 2017 half, the Group successfully completed the sales in China, Singapore and Hong Kong. Subject to regulatory approval, the sales in Vietnam, Taiwan, and Indonesia are expected to complete in late 2017 and early 2018 and these remaining countries form part of the assets and liabilities held for sale. These businesses are part of the Asia Retail & Pacific division.
- UDC Finance
  On 11 January 2017, the Group announced it had agreed to sell UDC Finance to HNA Group. The sale is subject to certain conditions (including regulatory approvals) and we are working with HNA Group towards completion of the sale. This business is part of the New Zealand division.
- Shanghai Rural Commercial Bank
  On 3 January 2017, the Group announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). On 18 September 2017 the Group announced a revision to the 3 January arrangement in which Baoshan Iron & Steel Co. Ltd. (Bao) replaced Shanghai Sino-Poland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited (COSCO) to acquire ANZ's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao will each acquire a 10% stake in SRCB. The key financial terms of the revised sale agreement are unchanged from the transaction announced previously. The sale is subject to customary closing conditions and regulatory approvals and is expected to complete late 2017. This asset is part of the TSO and Group Centre Division.
- Metrobank Card Corporation
  On 18 October 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company (Metrobank) in relation to its 40% stake in the Philippines based Metrobank Card Corporation (MCC). The Group has agreed to sell 20% of its stake, and entered into a put option to sell the remaining 20% stake, exercisable in the fourth quarter of 2018 on the same terms for the same consideration. The asset has been classified as held for sale at 30 September 2017 as sale negotiations were well progressed at that time, and it was highly probable the sale transaction would complete within 12 months. The sale is subject to customary closing conditions and regulatory approvals. This asset is part of the TSO and Group Centre Division.

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During the September 2017 full year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $310 million loss relating to the reclassification and partial completion of the Asia Retail and Wealth sale comprising of $222 million of software, goodwill and other assets impairment charges and $88 million of various other charges net of recoveries and sale premium.
- $333 million loss relating to the Group's investment in SRCB comprising of a $219 million impairment to the investment, $12 million of foreign exchange losses, and $102 million of tax expenses.

The net result of these impacts is included in 'Other income' and 'Income tax expense' (refer to Note 2 Operating Income and Note 4 Income Tax).

28. ASSETS AND LIABILITIES HELD FOR SALE (continued)

ASSETS AND LIABILITIES HELD FOR SALE

At 30 September 2017, assets and liabilities held for sale are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement.

As at 30 September 2017	Asia Retail & Wealth Businesses $m	UDC Finance $m	Shanghai Rural Commercial Bank $m	Metrobank Card Corporation $m	Total $m
Net loans and advances	3,283	2,679	-	-	5,962
Investments in associates	-	-	1,748	120	1,868
Goodwill and other intangible assets	-	122	-	-	122
Other assets	-	18	-	-	18
Total assets held for sale	3,283	2,819	1,748	120	7,970
Deposits and other borrowings	3,602	956	-	-	4,558
Current tax liabilities	-	22	-	-	22
Deferred tax liabilities	-	(8)	-	-	(8)
Payables and other liabilities	47	30	-	-	77
Provisions	43	1	-	-	44
Total liabilities held for sale	3,692	1,001	-	-	4,693

KEY JUDGEMENTS AND ESTIMATES

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

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

Any impairment we record is based on the best available evidence of the fair value compared to the carrying value before the impairment. The final sale price the Group may achieve will depend on a number of factors and may be different to the fair value we estimate when recording the impairment. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. LIFE INSURANCE BUSINESS

The Group conducts Life Insurance and Funds Management business (the Life Insurance Business) in Australia and New Zealand. The following information summarises the statutory Life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculations.

LIFE INSURANCE BUSINESS PROFIT ANALYSIS

The net shareholder profit after tax in the regulated insurance entities represents the net profit after tax of OnePath Life Limited and OnePath Life (NZ) Limited.

	Life insurance contracts		Life investment contracts		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Net shareholder profit after tax of regulated insurance entities	158	335	55	81	213	416
Represented by:						
Emergence of planned profit margin	186	208	36	65	222	273
Difference between actual and assumed experience	(58)	45	16	5	(42)	50
Reversal of previous losses on groups of related products	1	1	-	-	1	1
Investment earnings on retained profits and capital	29	81	3	11	32	92

LIFE INSURANCE BUSINESS LIABILITIES

Policy Liabilities are the Group's liabilities to compensate policyholders. Policy liabilities include both Life Insurance Contract Liabilities and Life Investment Contract Liabilities.

Policy Liabilities	2017 $m	2016 $m
Life insurance contract liabilities	342	190
Life investment contract liabilities (at fair value through profit or loss)	37,106	35,955
Total policy liabilities	37,448	36,145
Residual contractual maturity:		
- due within 12 months	37,077	35,911
- due after 12 months	29	44
- no maturity specified	342	190
Total policy liabilities	37,448	36,145

LIFE INSURANCE CONTRACTS

Life insurance contracts are insurance contracts regulated under the Australian Life Insurance Act 1995 and similar contracts issued by entities operating outside Australia.

Life insurance contracts are contracts through which the:

- insurer accepts significant insurance risk from the policyholder; and
- policyholder is compensated if a future uncertain event negatively impacts the policyholder — for example, death or disability.

We purchase reinsurance either to reduce the impact of large claims, or for capital relief.

Life Insurance Contracts	2017 $m	2016 $m
Life insurance contract liabilities		
Best estimate liabilities:		
Value of future policy benefits	10,107	10,811
Value of future expenses	2,290	2,483
Value of future premium	(15,310)	(16,544)
Unreleased future profit margin	2,471	2,631
Other	26	32
Total life insurance contract liabilities (net of reinsurance)	(416)	(587)
Unvested policyholder benefits	40	40
Liabilities ceded under reinsurance contracts (other assets)	718	737
Total life insurance contract liabilities	342	190

29. LIFE INSURANCE BUSINESS (continued)

Life investment contracts are contracts written by a registered life insurer that do not meet the definition of an insurance contract. The amounts received from these contracts comprise of two components:

- the amount we receive from policyholders - which we recognise as a liability; and
- the amounts policyholders pay for investment management services - which we recognise as funds management income.

The table below provides a reconciliation of life investment contract liabilities, the related assets backing the policy liabilities and the external unit holders liabilities included in the Group's balance sheet.

Life Investment Contracts	2017 $m	2016 $m
Life investment contract liabilities		
Capital guaranteed element	800	1,230
Investment performance guarantee	495	668
Other - not subject to any guarantees	35,811	34,057
Total life investment contract liabilities	37,106	35,955
Related assets		
Residual contractual maturity:		
- due within 12 months	30,191	28,798
- due after 12 months	7,773	6,858
Investments backing policy liabilities	37,964	35,656
Add: Amounts removed due to elimination of intercompany balances and treasury shares	4,570	4,670
Less: Assets backing life insurance contract liabilities (available-for-sale)	(993)	(1,038)
Total assets backing life investment contract liabilities (at fair value through profit or loss)	41,541	39,288
Less: External unit holder liabilities (at fair value through profit or loss)	(4,435)	(3,333)
Net assets backing life investment contract liabilities	37,106	35,955

LIFE INSURANCE BUSINESS RISK

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claims rates. The changes primarily arise due to claims payments, mortality (death) or morbidity (illness or injury) rates being greater than expected.

We control and minimise the key risks of the life insurance business in the following ways:

- **Insurance risks** – We use underwriting procedures including strategic decisions, limits to delegated authorities and signing powers. We analyse reinsurance arrangements using analytical modelling tools to achieve the desired type of reinsurance and retention levels;
- **Financial risks** – We select appropriate assets to back contract liabilities. If possible, we segregate policyholders funds from shareholders' funds and we set investment mandates that are appropriate for each.
- **Market risks** – For liabilities to policyholders which are guaranteed and for Life investment contracts where the investment management services fees earned are directly impacted by the value of the underlying assets. We monitor assets for market risk on a regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. LIFE INSURANCE BUSINESS (continued)

RECOGNITION AND MEASUREMENT

Life insurance contract liabilities

We calculate Life insurance contract Liabilities under the Margin on Service (MoS) model using a projection method through which we determine the liability as the present value of:

- expected future cashflows (premiums, expenses, and benefit payments); plus
- planned profit margin to be released in future periods.

We discount these cashflows at the risk-free discount rate. We calculate the Life insurance contract liabilities across portfolios of contracts using recognised actuarial principles and standards (e.g. *Life Insurance Prudential Standard 340 Valuation of Policy Liabilities issued by APRA*). This methodology takes into account the risks and uncertainties of the particular portfolio.

Liabilities ceded under reinsurance contracts

We account for reinsurance on the same basis as the underlying direct insurance contracts for which we purchased the reinsurance.

Unvested policyholder benefits

We issue participating contracts to policyholders where the policyholder is entitled to a share of the profits as they are exposed to the performance of specific assets in addition to a guaranteed benefit. This profit sharing is governed by the Life Act and the life insurance company's constitution. If any benefits remain payable at the end of the reporting period, then we recognise them as unvested policyholder benefits.

Life investment contract liabilities

A life investment contract liability is measured at fair value and is directly linked to the fair value of the assets that back it. We determine the liability as the fair value of those assets after tax. For guaranteed policies, we determine the liability as the net present value of expected cash flows, subject to a minimum of current surrender value.

External unit holder liabilities

The life insurance business includes controlling interests in investment funds which we aggregate. When we aggregate a controlled investment fund, we recognise the external unit holder liabilities as a liability and include them on the balance sheet in external unit holder liabilities.

Investments backing policy liabilities

Investments backing policy liabilities include:

- Assets backing investment contract liabilities - being the assets held in regulated insurance entities that are not segregated and managed under a distinct shareholder investment mandate. We also call these policyholder assets.
- Assets backing life insurance contract liabilities - being the assets held in regulated insurance entities that are managed under a distinct shareholder mandate. We also call these shareholder assets.

Our determination of fair value of the policyholder and shareholder assets involves the same judgement as other financial assets as described in Note 17 Fair Value of Financial Assets and Liabilities.

KEY JUDGEMENTS AND ESTIMATES

The key factors that affect how we estimate life insurance liabilities and related assets are:

- the cost of providing benefits and administering contracts;
- mortality and morbidity experience, which includes enhancements to policyholder benefits;
- discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

Our estimates of life insurance liabilities are affected by: regulation, competition, interest rates, inflation, taxes and general economic conditions.

We have performed sensitivity analysis on key variables influencing insurance liabilities and assets — namely: interest, inflation, mortality, morbidity and discontinuance risk. We have determined that there would be no material impact to the Group for a reasonable change in any of these variables.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

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

	2017 $m	2016 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,406)	(1,509)
Fair value of scheme assets	1,496	1,567
Total	90	58
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(32)	(51)
Net assets arising from defined benefit obligations included in other assets	122	109
Total	90	58
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	16.8	16.8

As at the most recent reporting dates of the schemes, the aggregate deficit of net market value of assets over the value of accrued benefits on a funding basis was $18 million (2016: $52 million). In 2017, the Group made defined benefit contributions totalling $5 million (2016: $55 million). It expects to make around $3 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

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

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

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

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

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

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

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

Defined contribution superannuation schemes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit assets and liabilities are listed in the table below. A change to any assumptions, or applying different assumptions, could have a significant effect on the income statement, statement of other comprehensive income and balance sheet.

Assumptions	2017	2016	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2017 $m	Increase/(decrease) in defined benefit obligation 2016 $m
Discount rate (% p.a.)	**2.5 - 3.8**	2.2 - 3.0	0.5% increase	**(112)**	(140)
Future salary increases (% p.a.)	**1.6 - 3.7**	1.5 - 3.6			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a.)	**1.7 - 3.0/2.2**	1.5 - 2.9/2.1	0.5% increase	**95**	118
Life expectancy at age 60 for current pensioners			1 year increase	**50**	63
– Males (years)	**25.4 - 28.9**	22.6 - 28.8			
– Females (years)	**28.6 - 31.0**	26.3 - 30.8			

31. EMPLOYEE SHARE AND OPTION PLANS

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

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2016 and 2017 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer	
Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD1,000 in Australia (and AUD800 in New Zealand) ANZ shares each financial year, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in share capital.
FY 2017	Zero shares were granted in the 2017 financial year.
FY 2016	626,121 shares were granted on 3 December 2015 at an issue price of $27.60.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) Chief Executive Officer (CEO) and Group Executive Committee (ExCo)	
Eligibility	Group CEO and ExCo.
Grant	50% of the CEO's Annual Variable Remuneration (AVR) and 33% of ExCo's Variable Remuneration (VR) received as deferred shares.
Conditions	Deferred evenly over four years from grant date.
ii) ANZ Employee Reward Scheme[1] (ANZERS) and Business Unit Incentive Plans (BUIPs)	
Eligibility	Employees participating in ANZ's standard Short Term Incentive (STI) arrangements.
Grant	Half of all incentive amounts exceeding AUD100,000 (subject to a minimum deferral amount of AUD25,000) received as deferred shares.
Conditions	Deferred evenly over two years from grant date.
iii) Total Incentives Performance Plan[1] (TIPP)	
Eligibility	Employees participating in the Institutional TIPP.
Grant	60% of incentive amounts exceeding AUD80,000 (subject to a minimum deferral amount of AUD18,000) received as deferred shares.
Conditions	Deferred evenly over three years from grant date.
iv) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
v) Exceptional circumstances	
Remuneration forgone	In exceptional circumstances, we grant deferred shares to certain employees when they start with ANZ to compensate them for remuneration they have forgone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have forgone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to ANZ.
vi) Further information	
Downward adjustment	Deferred shares remain at risk and the Board can adjust the number of deferred shares downwards to zero at any time before the vesting date. ANZ's downward adjustment provisions are detailed in section 3.3.4 of the 2017 Remuneration Report.
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in share capital.
FY 2017 grants	2,016,835 deferred shares were granted with a weighted average grant price of $28.03. No deferred shares were adjusted downward to zero, based on Board discretion.
FY 2016 grants	5,797,450 deferred shares were granted with a weighted average grant price of $26.15. Board discretion was exercised to adjust downward 9,397 deferred shares to zero.

1. Allocations under the ANZ Incentive Plan (ANZIP) in November 2017 will be disclosed in the 2018 Annual Report. See Section 3.3 of the 2017 Remuneration Report for details on the ANZIP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2017 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is \$56.7 million (2016: \$171.3 million) based on 2,016,835 shares (2016: 6,423,571) at VWAP of \$28.09 (2016: \$26.67).

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if ANZ changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • **Issue of bonus shares** - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • **Pro-rata share offer** - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • **Reorganisation** - In respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of ANZ securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). For equity grants made after 1 November 2012, any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in share options reserve.
Cessation	The provisions that apply if the employee's employment ends are in section 7.2 of the 2017 Remuneration Report.
Downward adjustment	ANZ's downward adjustment provisions are detailed in section 3.3.4 of the 2017 Remuneration Report.

Option Plans that operated during 2017 and 2016

i) Performance Rights

Allocation	We grant performance rights to selected employees as part of ANZ's incentive plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a three year vesting period and Total Shareholder Return (TSR) performance hurdles.
FY 2017 and FY 2016 grants	During the 2017 year, we granted 944,419 performance rights (2016: 1,570,627). No performance rights were adjusted downward to zero in 2017 and 2016, based on Board discretion.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vestings	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 67,573 deferred share rights (2016: 5,297) for which Board discretion was exercised.
Downward adjustment	Board discretion was also exercised to adjust downward 3,835 deferred share rights to zero in 2017 and 4,583 in 2016.
FY 2017 and FY 2016 grants	During the 2017 year 2,547,377 deferred share rights (no performance hurdles) were granted (2016: 1,211,021).

Options, Deferred Share Rights and Performance Rights on Issue

As at 2 November 2017, there were 1,292 holders of 3,652,926 deferred share rights on issue and 174 holders of 3,425,497 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2017 and the movements during 2017:

	Opening balance 1 Oct 2016	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2017
Number of options/rights	6,424,117	3,491,796	(1,815,732)	(629)	(985,768)	7,113,784
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$29.50
WA remaining contractual life						2.4 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						143,839

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2016 and the movements during 2016:

	Opening balance 1 Oct 2015	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2016
Number of options/rights	6,241,157	2,781,648	(1,440,051)	–	(1,158,637)	6,424,117
WA exercise price	$0.07	$0.00	$0.00	–	$0.37	$0.00
WA closing share price						$25.31
WA remaining contractual life						3 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						163,244

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

Of the shares issued as a result of the exercise of options/rights during 2016, 18,062 were issued at an exercise price of $23.71 per share. The balance and those issued in 2017 were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 2 November 2017:

- no options/rights over ordinary shares have been granted since the end of 2017; and
- shares issued as a result of the exercise of options/rights since the end of 2017 are 16,489 all with nil exercise prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

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

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

	2017		2016	
	Deferred Share Rights	Performance Rights	Deferred Share Rights	Performance Rights
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	27.95	28.18	26.62	26.73
Expected volatility of ANZ share price (%)[1]	24.9	25.0	20.2	20.5
Equity term (years)	2.3	5.0	3.9	5.0
Vesting period (years)	2.1	3.0	1.9	3.0
Expected life (years)	2.1	3.0	1.9	3.0
Expected dividend yield (%)	6.49	6.46	6.28	6.28
Risk free interest rate (%)	1.76	1.86	2.10	2.08
Fair value ($)	24.59	13.73	23.67	9.12

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

SATISFYING EQUITY AWARDS

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

The equity we purchased on market during the 2017 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 2,704,206 shares at an average price of $27.83 per share (2016: 1,344,200 shares at an average price of $26.14 per share).

32. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those executives who report directly to the CEO:

- with responsibility for the strategic direction and management of a major income generating division; or
- who control material income and expenses.

KMP compensation included within total personnel expenses in Note 3 Operating Expenses is as follows:

	2017 $'000	2016[1] $'000
Short-term benefits	21,002	21,362
Post-employment benefits	1,046	1,216
Other long-term benefits	169	314
Termination benefits	563	2,418
Share-based payments	14,926	19,382
Total	37,706	44,692

1. Prior period includes the former Group CEO and former disclosed executives until the end of their employment.

32. RELATED PARTY DISCLOSURES (continued)

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2017 $'000	2016 $'000
Loans advanced[1]	23,950	50,892
Interest charged[2]	940	2,091

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).
2. Interest is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

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

	2017 Number[1]	2016 Number[1]
Shares, options and rights	2,233,182	4,174,363
Subordinated debt	17,152	15,850

1. For KMP that are no longer in office at balance sheet date, the balances are calculated as at their termination date.

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve providing 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, we disclose only those transactions considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

ASSOCIATES

We disclose significant associates in Note 25 Investments in Associates. During the course of the financial year, transactions conducted with all associates were on terms equivalent to those made on an arm's length basis:

	2017 $'000	2016 $'000
Amounts receivable from associates	77,350	59,111
Amounts payable to associates	2,481	8,409
Interest income from associates	2,817	1,677
Interest expense to associates	35	77
Other expenses paid to associates	23,078	25,880
Dividend income from associates	42,317	94,400
Costs recovered from associates	748	3,105

There have been no material guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

PROPERTY RELATED COMMITMENTS

	2017 $m	2016 $m
Property capital expenditure		
Contracts for outstanding capital expenditure	104	111
Total capital expenditure commitments for property	104	111
Lease rentals		
Land and buildings	1,760	2,001
Furniture and equipment	251	218
Total lease rental commitments[1]	2,011	2,219
Due within 1 year	461	486
Due later than 1 year but not later than 5 years	1,042	1,114
Due later than 5 years	508	619
Total lease rental commitments[1]	2,011	2,219

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2017 is $91 million (2016: $114 million). During the year, sublease payments we received amounted to $31 million (2016: $25 million) and were netted against rent expense.

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

Credit related commitments and contingencies	2017 $m	2016 $m
Contract amount of:		
Undrawn facilities	191,323	207,410
Guarantees and letters of credit	20,009	18,056
Performance related contingencies	20,830	19,723
Total	232,162	245,189

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Group may be required to pay, the total undrawn facilities of $191,323 million (2016: $207,410 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Group may be required to pay, the total guarantees and letters of credit of $20,009 million (2016: $18,056 million) and total performance related contingencies of $20,830 million (2016: $19,723 million) mature within 12 months.

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

OTHER CONTINGENT LIABILITIES

As at 30 September 2017, the Group had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions 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.

BANK FEES LITIGATION

A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. A further action, limited to late payment fees only, commenced in August 2014.

The penalty and statutory claims in the March 2013 class action failed and the claims have been dismissed. The August 2014 action was discontinued in October 2016.

The original claims in the 2010 class action have been dismissed. A new claim has been added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees.

BENCHMARK/RATE ACTIONS

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

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

REGULATORY REVIEWS AND CUSTOMER EXPOSURES

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

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.

CLEARING AND SETTLEMENT OBLIGATIONS

Under the following arrangements, the Company has a commitment to comply with rules which could result in a bilateral exposure and loss if a member institution fails to settle: the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Acquirers Community and the High Value Clearing System (HVCS). The Company's potential exposure arising from these arrangements is unquantifiable in advance.

Under the Austraclear System Regulations (Austraclear), and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements if a member institution fails to settle. The Company's potential exposure arising from these arrangements is unquantifiable in advance. For HVCS and Austraclear, the above obligation arises only in limited circumstances.

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

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

PARENT ENTITY GUARANTEES

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

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. The Company provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liabilities. The issue below has not adversely impacted the reported results. All settlements and penalties to date have been covered within existing provisions.

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973 (India). Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

REVOCATION OF DEED OF CROSS GUARANTEE IN RESPECT OF CERTAIN CONTROLLED ENTITIES

ASIC class order 98/1418 (as amended) provided relief to a number of wholly owned controlled entities from the requirements for preparation, audit, and lodgement of individual financial statements.

Relief was previously granted to the following entities:

- ANZ Properties (Australia) Pty Ltd
- ANZ Capital Hedging Pty Ltd (in liquidation)
- ANZ Funds Pty Ltd
- Votraint No. 1103 Pty Limited
- ANZ Securities (Holdings) Pty Limited
- ANZ Commodity Trading Pty Ltd
- ANZ Nominees Pty Limited

During the current year, ASIC replaced this class order with a new legislative instrument ASIC Corporations (Wholly owned Companies) Instrument 2016/785. Under the new instrument, APRA regulated companies are not eligible to rely on the ASIC Class Order relief for financial reporting obligations under Part 2M.3 of the Corporations Act 2001 (Cth).

As Australia and New Zealand Banking Group Limited is regulated by APRA, the parties to the Deed are no longer able to obtain relief. The Company and the other entities which were party to the deed executed a deed of revocation on 30 March 2017 and lodged that deed with ASIC on 31 March 2017. All companies were released from the Deed of Cross Guarantee by 30 September 2017.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

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

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

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

34. COMPENSATION OF AUDITORS

	2017 $'000	2016 $'000
KPMG Australia		
Audit or review of financial reports	9,418	8,983
Audit-related services[1]	4,760	4,246
Non-audit services[2]	732	536
Total[3]	14,910	13,765
Overseas related practices of KPMG Australia		
Audit or review of financial reports	6,263	6,332
Audit-related services[1]	1,410	1,432
Non-audit services[2]	10	21
Total	7,683	7,785
Total compensation of auditors	22,593	21,550

1. Comprises prudential and regulatory services of $4.71 million (2016: $4.13 million), comfort letters $0.72 million (2016: $0.94 million) and other $0.74 million (2016: $0.61 million).
2. The nature of the non-audit services includes general market and regulatory insights, training, controls related assessments, methodology and procedural reviews. Further details are provided in the Directors' Report.
3. Inclusive of goods and services tax.

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

35. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 17 October 2017, the Group announced it had agreed to sell OnePath pensions and investments (OnePath P&I) and aligned dealer groups (ADG) business to IOOF Holdings Limited (IOOF) for $975 million. Completion is expected in the March 2019 half subject to certain conditions including regulatory approvals and the completion of the extraction of the OnePath P&I business from OnePath Life Insurance. The expected accounting loss on sale of ~$120 million is anticipated, however the final gain/loss on sale will be determined at completion and will be impacted by transaction and separation costs, final determination of goodwill to be disposed, other balances and final taxation impacts.

On 18 October 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company (Metrobank) regarding the sale of its 40% stake in the Philippines based Metrobank Card Corporation (MCC). The Group has agreed to sell one half of its 40% stake in MCC to Metrobank, for US$144 million (A$184 million) expected to settle in late 2017. The Group also entered into a put option to sell its remaining 20% stake to Metrobank, exercisable in the September 2018 half on the same terms and for the same consideration. If exercised, this would deliver a total sale price of US$288 million (A$368 million). The sale is subject to customary regulatory approvals.

On 23 October 2017, the Group announced it had reached a confidential in-principle agreement with the Australian Securities and Investments Commission (ASIC) to settle court action in respect of interbank trading and the bank bill swap rate (BBSW). On 30 October 2017, ANZ informed the Court that agreement with ASIC had been concluded. The financial impact to ANZ has been reflected in the financial statements. On 10 November 2017, there will be a hearing to determine whether the court is prepared to make the orders which ANZ and ASIC seek so as to give effect to the settlement.

Other than the matters above, there have been no significant events from 30 September 2017 to the date of signing this report.

CONSOLIDATED GROUP DIRECTORS' DECLARATION

Directors' Declaration

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

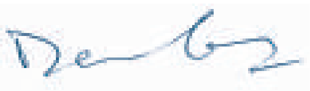
a) in the Directors' opinion, the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the Corporations Regulations 2001; and
   ii) section 297, that they give a true and fair view of the financial position of the Consolidated Entity as at 30 September 2017 and of its performance for the year ended on that date;

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

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

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

Signed in accordance with a resolution of the Directors.



David M Gonski, AC
Chairman
2 November 2017

Shayne C Elliott
Director

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

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

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

- giving a true and fair view of the Group's financial position as at 30 September 2017 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

The Financial Report comprises the:

- consolidated statement of financial position as at 30 September 2017;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes 1 to 35 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Provision for Credit Impairment;
- Valuation of Financial Instruments held at Fair Value; and
- IT Systems and Controls.

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

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

KEY AUDIT MATTERS (continued)

PROVISION FOR CREDIT IMPAIRMENT ($3,798M)

Refer to the critical accounting estimates and judgements and disclosures in relation to credit impairment provisioning in Notes 13 and 16 to the Financial Report.

The Key Audit Matter

The provision for credit impairment is a Key Audit Matter as the Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and other products, industries and geographies. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment included:

Provisions estimated across loan portfolios (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Group's lending policies and regulatory requirements;
- Performing credit assessments of a sample of wholesale loans managed by the Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Group's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on the Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, engaging KPMG specialists where required, and comparing assumptions of inputs used by the Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held; and
- For retail loans (smaller customer exposures not monitored individually), testing controls over the systems which record lending arrears, group exposures into delinquency buckets based on the number of days loans are overdue, and calculate individual provisions. We tested automated calculation and change management controls and evaluated the Group's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested a sample of the level of provisions held against different loan products based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing the Group's processes to validate the models used to calculate collective provisions, and evaluating the Group's model methodologies against established market practices and criteria in the accounting standards;
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models;
- Testing the accuracy of key inputs into models by checking a sample of year-end balances to the general ledger, and repayment history and risk ratings to source systems;
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default, for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Group; and
- Re-performing, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool, the calculation of collective provisions, to determine the accuracy of model output.

We also challenged key assumptions in the components of the Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to recent loss experience, current market conditions and specific risks inherent in the Group's loan portfolios;
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by the Group's model validation processes; and
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Group's assessment.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:

- FINANCIAL ASSETS HELD AT FAIR VALUE $213,627M

- FINANCIAL LIABILITIES HELD AT FAIR VALUE $110,934M

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 17 to the Financial Report.

The Key Audit Matter

Financial instruments held at fair value on the Group's balance sheet include available for sale assets, trading securities, derivative assets and liabilities, investments backing policy liabilities, policy liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss. The instruments are mainly risk management products sold to customers and used by the Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter as:

- Financial instruments held at fair value are significant (24% of total assets and 13% of total liabilities);
- The significant volume and range of products transacted, in a number of international locations, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument, or where inputs to the internal models, such as discount rates and measures of volatility, are not observable; and
- The valuation of certain derivatives held by the Group is sensitive to inputs including funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit

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

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Group's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products and locations;
- Testing the governance and approval controls, such as management review and approval of the valuation models, and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Group's independent product control function;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample, across locations, of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Group's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions, and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, across locations, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives, across a number of locations.

KEY AUDIT MATTERS (continued)

IT SYSTEMS AND CONTROLS

Refer to the basis of preparation in Note 1 to the Financial Report.

The Key Audit Matter

As a major Australian bank, the group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Group's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

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

- Testing the governance controls used by the Group's technology teams to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Group's policies;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. We checked a sample of identified breaks in reconciliations were recorded on exception reports, and subsequently investigated and cleared by the Group.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

INDEPENDENT AUDITOR'S REPORT (continued)

REPORT ON THE REMUNERATION REPORT

In our opinion, the Remuneration Report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2017, complies with Section 300A of the Corporations Act 2001.

DIRECTORS' RESPONSIBILITIES

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

OUR RESPONSIBILITIES

We have audited the Remuneration Report included in pages 36 to 61 of the Directors' report for the year ended 30 September 2017.

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

KPMG

Alison Kitchen
Partner
Melbourne
2 November 2017

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

THE COMPANY

2017 Financial Report

30 September 2017

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2017 $m	2016 $m
Interest income	2	25,613	26,387
Interest expense	2	(15,017)	(15,622)
Net interest income		10,596	10,765
Other operating income[1]	2	5,987	5,677
Net funds management and insurance income	2	158	198
Share of associates' profit	2	60	347
Operating income		16,801	16,987
Operating expenses[1]	3	(7,623)	(8,357)
Profit before credit impairment and income tax		9,178	8,630
Credit impairment charge	12	(881)	(1,539)
Profit before income tax		8,297	7,091
Income tax expense	4	(2,063)	(1,404)
Profit for the year		6,234	5,687

1. In 2017, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million)

The notes appearing on pages 8 to 68 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2017 $m	2016 $m
Profit for the year	6,234	5,687
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	2	(98)
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve:		
Exchange differences taken to equity	(57)	(476)
Exchange differences transferred to Income Statement	-	(126)
Other reserve movements	(272)	(31)
Income tax attributable to the above items	8	33
Share of associates' other comprehensive income[1]	-	13
Other comprehensive income net of tax	(319)	(685)
Total comprehensive income for the year	5,915	5,002

[1] Share of associates' other comprehensive income includes an available-for-sale revaluation reserve gain of $nil million (2016: $13 million) that may be reclassified subsequently to profit or loss.

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2017 $m	2016 $m
Assets			
Cash and cash equivalents	7	63,399	61,994
Settlement balances owed to ANZ		5,006	3,983
Collateral paid		7,685	10,878
Trading securities	8	35,606	35,059
Derivative financial instruments	9	57,036	75,872
Available-for-sale assets	10	58,506	55,721
Net loans and advances	11	452,424	446,531
Regulatory deposits		495	671
Assets held for sale	25	1,748	-
Due from controlled entities		91,208	106,797
Shares in controlled entities	22	18,084	18,117
Investments in associates	23	20	1,974
Current tax assets		23	116
Deferred tax assets		932	887
Goodwill and other intangible assets	19	1,852	2,214
Premises and equipment		928	967
Other assets		2,427	2,181
Total assets		797,379	823,962
Liabilities			
Settlement balances owed by ANZ		8,219	9,079
Collateral received		5,238	5,882
Deposits and other borrowings	13	494,235	479,963
Derivative financial instruments	9	56,830	76,243
Due to controlled entities		88,882	103,416
Current tax liabilities		94	62
Deferred tax liabilities		71	78
Payables and other liabilities		5,683	5,566
Employee entitlements		394	397
Other provisions		390	435
Debt issuances	14	85,495	92,582
Total liabilities		745,531	773,703
Net assets		51,848	50,259
Shareholders' equity			
Ordinary share capital	20	29,416	29,162
Reserves	20	36	344
Retained earnings	20	22,396	20,753
Total shareholders' equity		51,848	50,259

The notes appearing on pages 8 to 68 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2017 $m	2016 $m
Profit after income tax	6,234	5,687
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Provision for credit impairment	881	1,539
Depreciation and amortisation	775	1,177
Loss on sale of premises and equipment	-	12
Net derivatives/foreign exchange adjustment	(2,099)	(1,420)
Profit on Esanda Dealer Finance divestment	-	(66)
Reclassification of Shanghai Rural Commercial Bank to held for sale	231	-
Sale of Asia Retail and Wealth businesses	248	-
Other non-cash movements	(114)	(214)
Net(increase)/decrease in operating assets:		
Collateral paid	3,045	(3,157)
Trading securities	(1,696)	203
Net loans and advances	(13,772)	(9,503)
Net intra-group loans and advances	1,111	2,053
Other assets	(270)	(779)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	29,131	14,708
Settlement balances owed by ANZ	(837)	(794)
Collateral received	(505)	(554)
Other liabilities	657	690
Total adjustments	16,786	3,895
Net cash provided by operating activities[1]	23,020	9,582
Cash flows from investing activities		
Available-for-sale assets:		
Purchases	(15,151)	(26,035)
Proceeds from sale or maturity	11,512	8,771
Esanda Dealer Finance divestment	-	6,682
Sale of Asia Retail and Wealth businesses	(5,472)	-
Other assets	(353)	(531)
Net cash (used in) investing activities	(9,464)	(11,113)
Cash flows from financing activities		
Debt issuances:		
Issue proceeds	16,210	28,506
Redemptions	(21,462)	(24,289)
Dividends paid	(4,235)	(4,589)
Share buy-back	(176)	-
Net cash (used in) financing activities	(9,663)	(372)
Net increase/(decrease) in cash and cash equivalents	3,893	(1,903)
Cash and cash equivalents at beginning of year	61,994	64,836
Effects of exchange rate changes on cash and cash equivalents	(2,488)	(939)
Cash and cash equivalents at end of year	63,399	61,994

1. Net cash provided by operating activities includes income taxes paid of $2,155 million (2016: $2,104 million).

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves[1] $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 2015	28,611	939	20,138	49,688
Profit or loss	-	-	5,687	5,687
Other comprehensive income for the year		(606)	(79)	(685)
Total comprehensive income for the year	-	(606)	5,608	5,002
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(5,001)	(5,001)
Dividend reinvestment plan	413	-	-	413
Other equity movements:				
Share-based payments/(exercises)	-	19	-	19
Group employee share acquisition scheme	138	-	-	138
Transfer of options/rights lapsed	-	(8)	8	-
As at 30 September 2016	29,162	344	20,753	50,259
Profit or loss	-	-	6,234	6,234
Other comprehensive income for the year	-	(316)	(3)	(319)
Total comprehensive income for the year	-	(316)	6,231	5,915
Transactions with equity holders in their capacity as equity holders:				-
Dividends paid	-	-	(4,609)	(4,609)
Dividend reinvestment plan	374	-	-	374
Group share buy-back[2]	(176)	-	-	(176)
Other equity movements:				-
Group employee share acquisition scheme	56	-	-	56
Other items	-	8	21	29
As at 30 September 2017	29,416	36	22,396	51,848

1. Further information on individual reserves is disclosed in Note 20 Shareholders' Equity to the financial statements.
2. Following the issue of $176 million shares under the Dividend Reinvestment Plan for the 2017 interim dividend, the Company repurchased $176 million of shares via an on-market share buy-back.

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT THE FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company or ANZ) for the year ended 30 September 2017. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 2 November 2017, the Directors resolved to authorise the issue of these financial statements.

In the prior financial years, disclosures pertaining to the Company were presented in the consolidated financial statements of the Group as part of the Annual Report. In 2017 we have made the following changes:

- presenting these financial statements separately from the consolidated financial statements of the Group;
- re-organising disclosures into common themes that are aligned with how we manage our business;
- relocating information about the Company's recognition and measurement policies and key judgements and estimates to be disclosed within the relevant notes to the financial statements;
- removing certain immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

All material information relevant to the understanding of users is included in these financial statements.

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

The consolidated financial statements of the Group can be found as part of the 2017 Annual Report at https//shareholder.anz.com/annual-report-shareholder-review and copies are available from the Company's registered office and principal place of business.

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

BASIS OF MEASUREMENT

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

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment is made on the underlying hedging exposure;
- available-for-sale financial assets;
- financial instruments held for trading;
- other financial assets and liabilities designated at fair value through profit and loss; and
- other assets held for sale where the fair value less cost of disposal is less than their carrying value.

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

1. ABOUT THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity.

KEY JUDGEMENTS AND ESTIMATES

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

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by the Company in preparing these financial statements.

We have identified four standards where this applies to the Company and further details are set out below.

AASB 9 *Financial Instruments* (AASB 9)

AASB 9 was issued in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) and includes requirements for impairment, classification and measurement and general hedge accounting.

Impairment

AASB 9 replaces the incurred loss model under AASB 139 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under AASB 9, a three-stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under AASB 9 are largely consistent with AASB 139 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Company from 1 October 2013.

General hedge accounting

AASB 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

Transition and impact

Other than noted above under c*lassification and measurement*, AASB 9 has a date of initial application for the Company of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives.

AASB 9 provides an accounting policy choice to continue with AASB 139 hedge accounting given the International Accounting Standards Board's ongoing project on macro hedge accounting. The Company's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

The Company is in the process of the assessing the impact of application of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

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

AASB 15 was issued in December 2014 and is not effective for the Company until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue.

The standard requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of the Company's revenue is outside the scope of AASB 15, certain revenue streams are in the scope of the standard. The Company is in the process of assessing the impact of the application of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Company has not yet determined which transition approach it will adopt.

AASB 16 *Leases* (AASB 16)

The final version of AASB 16 was issued in February 2016 and is not effective for the Company until 1 October 2019. AASB 16 requires a lessee to recognise its:

- right to use the underlying leased asset, as a right-of-use asset; and
- obligation to make lease payments as a lease liability.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*.

The Company is in the process of the assessing the impact of application of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 17 Insurance Contracts (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Company until 1 October 2021. It will replace AASB 4, *Insurance Contracts*, AASB 1023, *General Insurance Contracts,* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

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

The Company is not yet able to reasonably estimate the impact of AASB 17 on its financial statements.

2. OPERATING INCOME

	2017 $m	2016 $m
Net interest income		
Interest income by type of financial asset		
Financial assets not at fair value through profit or loss	20,546	21,102
Trading securities	739	851
Available-for-sale assets	985	842
Financial assets designated at fair value through profit or loss	-	3
Interest income - external	22,270	22,798
Interest income - controlled entities	3,343	3,589
Interest income	25,613	26,387
Interest income by type of financial liability		
Financial liabilities not classified at fair value through profit or loss	(10,961)	(11,339)
Securities sold short	(111)	(146)
Financial liabilities designated at fair value through profit or loss	(78)	(100)
Interest expense - external	(11,150)	(11,585)
Interest expense - controlled entities	(3,781)	(4,037)
Major bank levy	(86)	-
Interest expense	(15,017)	(15,622)
Net interest income	10,596	10,765
Other operating income		
i) Fee and commission income		
Lending fees[1]	652	670
Non-lending fees and commissions[2]	2,211	2,125
Fee and commission income - external	2,863	2,795
Fee and commission income - controlled entities	1,197	1,252
Fee and commission income	4,060	4,047
Fee and commission expense	(1,019)	(936)
Net fee and commission income	3,041	3,111
ii) Other income		
Net foreign exchange earnings and other financial instruments income	852	671
Dividends received from controlled entities	2,299	2,010
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	-	29
Gain on the Esanda Dealer Finance divestment	-	66
Derivative Credit Valuation Adjustment (CVA) methodology change	-	(196)
Derivative valuation adjustments	201	(51)
Loss on sale of Asia Retail and Wealth businesses	(219)	-
Reclassification of Shanghai Rural Commercial Bank to held for sale	(231)	-
Other	44	37
Other income	2,946	2,566
Other operating income[3]	5,987	5,677
Net funds management and insurance income		
Funds management income	74	75
Insurance premium income	43	48
Commission income	41	75
Net funds management and insurance income	158	198
Share of associates' profit	60	347
Operating income	16,801	16,987

1. Lending fees excludes fees treated as part of the effective yield calculation in interest income.
2. In 2017, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).
3. Total other operating income includes external dividend income from BoT of $26.4 million (2016: $26.3 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

Net Interest Income

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, available-for-sale assets or designated at fair value, in profit or loss using the effective interest rate method. This method uses the effective interest rate of a financial asset or financial liability to calculate its amortised cost.

The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

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

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major Bank Levy') was introduced in 2017 and is effective from 1 July 2017. The Levy applies a rate of 0.06% to certain liabilities of the Company. The Company has determined that the levy represents a finance cost for the Company and is included as a component of net interest income. This is presented within interest expense in the Income Statement.

Other Operating Income

Fee and Commission Income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities) as income over the period the service is provided.

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

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

Dividends Received from Controlled Entities

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

Gain or Loss on Disposal of Non-Financial Assets

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

Net Funds Management and Insurance Income

Funds Management Income

We recognise the fees we charge to policyholders in connection with life insurance and life investment contracts when we have provided the service.

Insurance Premium Income

We recognise:

- premiums with a regular due date as income on an accruals basis;
- unpaid premiums as income and include them as receivables in the balance sheet only during the grace periods in the contract, or for longer only where secured by the surrender value of the policy; and
- premiums with no due date (such as one off premiums) in income when the premiums are received.

We show these insurance premiums net of any reinsurance premium, which we account for on the same basis as the underlying direct insurance premium.

Share of Associates' Profit

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

3. OPERATING EXPENSES

	2017 $m	2016 $m
i) Personnel		
Salaries and related costs	3,288	3,580
Superannuation costs	266	279
Other	227	236
Personnel expenses	3,781	4,095
ii) Premises		
Rent	409	387
Other	275	301
Premises expenses	684	688
iii) Technology		
Depreciation and amortisation	662	1,041
Licences and outsourced services[1]	413	417
Other	216	253
Technology expenses	1,291	1,711
iv) Restructuring	55	249
v) Other		
Advertising and public relations	192	199
Professional fees	397	364
Freight, stationery, postage and telephone	204	211
Other	1,019	840
Other expenses	1,812	1,614
Operating expenses	7,623	8,357

1. In 2017, certain fees payable have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

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

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

Further information on share-based payment schemes operated by the Company during the current and prior year is included in Note 27 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

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

	2017 $m	2016 $m
Profit before income tax	8,297	7,091
Prima facie income tax expense at 30%	2,489	2,127
Tax effect of permanent differences:		
Share of associates' profit	(18)	(104)
Reclassification of SRCB to held for sale	172	-
Tax provisions no longer required	-	(73)
Interest on convertible instruments	69	70
Overseas tax differential	27	10
Rebatable and non-assessable dividends	(690)	(603)
Gain on cessation of equity accounting for BoT	-	(9)
Other	32	3
Subtotal	2,081	1,421
Income tax over provided in previous years	(18)	(17)
Income tax expense	2,063	1,404
Current tax expense	1,997	1,630
Adjustments recognised in the current year in relation to the current tax of prior years	(18)	(17)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	84	(209)
Income tax expense	2,063	1,404
Australia	1,975	1,332
Overseas	88	72
Income tax expense	2,063	1,404
Effective tax rate	24.9%	19.8%

TAX CONSOLIDATION

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

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

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

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $nil million (2016: $nil million). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $38 million (2016: $67 million).

4. INCOME TAX (continued)

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

We offset current and deferred tax assets and liabilities only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

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

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2016			
2015 final dividend paid		95.0 cents	2,758
2016 interim dividend paid		80.0 cents	2,334
Bonus option plan adjustment			(91)
Dividends paid during the year ended 30 September 2016			**5,001**
Cash	91.7%		4,588
Dividend reinvestment plan	8.3%		413
Dividends paid during the year ended 30 September 2016			**5,001**
Financial Year 2017			
2016 final dividend paid		80.0 cents	2,342
2017 interim dividend paid		80.0 cents	2,349
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2017			**4,609**
Cash	91.9%		4,235
Dividend reinvestment plan	8.1%		374
Dividends paid during the year ended 30 September 2017			**4,609**

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2017 final dividend (fully franked at 30%, New Zealand imputation credits NZD 10 cents per share)	**18 December 2017**	**80.0 cents**	**2,350**

5. DIVIDENDS (continued)

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2017 final dividend, DRP participation will be satisfied by an on-market purchase of shares (as approved by APRA) and BOP participation will be satisfied by an issue of ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 20 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2017 $m	2016 $m
Australian franking credits available at 30% (2016: 30%) tax rate	AUD	171	118
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	3,680	3,494

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

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

The final proposed 2017 dividend will utilise the entire balance of $171 million franking credits available at 30 September 2017. Instalment tax payments on account of the 2018 financial year which will be made after 30 September 2017 will generate sufficient franking credits to enable the final 2017 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Company that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends:

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

The terms of the ANZ Convertible Preference Shares limit payments of dividends on those securities if as a result of the payment the Company becomes, or is likely to become, insolvent or breaches specified capital ratios or if APRA objects to the payment.

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

6. SEGMENT REPORTING

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

Full details of the operating segments of the Group are provided in Note 7 Segment Reporting in the ANZ 2017 Annual Report located at https://shareholder.anz.com/annual-report-shareholder-review.

7. CASH AND CASH EQUIVALENTS

	2017 $m	2016 $m
Coins, notes and cash at bank	1,096	1,008
Securities purchased under agreements to resell in less than 3 months	20,818	20,950
Balances with central banks	22,389	24,114
Settlement balances owed to ANZ within 3 months	19,096	15,922
Cash and cash equivalents	63,399	61,994

8. TRADING SECURITIES

	2017 $m	2016 $m
Government securities	25,647	22,557
Corporate and financial institution securities	5,060	5,502
Equity and other securities	4,899	7,000
Trading securities	35,606	35,059

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Derivative financial instruments - held for trading	55,261	(54,937)	72,446	(73,139)
Derivative financial instruments - designated in hedging relationships	1,775	(1,893)	3,426	(3,104)
Derivative financial instruments	57,036	(56,830)	75,872	(76,243)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

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

TYPES

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

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

RISKS MANAGED

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Interest rate contracts				
Forward rate agreements	2	(1)	13	(14)
Futures contracts	97	(34)	25	(64)
Swap agreements	27,584	(27,720)	46,665	(45,454)
Options purchased	742	-	1,095	-
Options sold	-	(1,365)	-	(2,077)
Total	28,425	(29,120)	47,798	(47,609)
Foreign exchange contracts				
Spot and forward contracts	14,132	(13,731)	10,410	(9,936)
Swap agreements	10,070	(10,073)	10,916	(13,251)
Options purchased	475	-	854	-
Options sold	-	(439)	-	(748)
Total	24,677	(24,243)	22,180	(23,935)
Commodity contracts	1,991	(1,398)	2,291	(1,393)
Credit default swaps				
Structured credit derivative purchased	52	-	40	-
Other credit derivatives purchased	13	(110)	117	(125)
Credit derivatives purchased	65	(110)	157	(125)
Structured credit derivatives sold	-	(58)	-	(50)
Other credit derivatives sold	103	(8)	20	(27)
Credit derivatives sold	103	(66)	20	(77)
Total	168	(176)	177	(202)
Derivative financial instruments - held for trading	**55,261**	**(54,937)**	72,446	(73,139)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

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

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

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

Fair Value	**Hedge accounting type**	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Foreign exchange swap agreements	Fair value	1	-	2	-
Interest rate swap agreements	Fair value	1,287	(1,555)	2,522	(2,464)
Interest rate futures contracts	Fair value	80	-	5	(12)
Interest rate swap agreements	Cash flow	361	(278)	897	(625)
Foreign exchange swap agreements	Cash flow	35	(49)	-	-
Foreign exchange spot and forward contracts	Cash flow	-	(5)		
Foreign exchange spot and forward contracts	Net investment	11	(6)	-	(3)
Derivative financial instruments - designated in hedging relationships		1,775	(1,893)	3,426	(3,104)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2017 $m	2016 $m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	(43)	463
Hedging instrument	Fair value	38	(424)
Ineffective portion of hedged instrument	Cash flow	(20)	5

RECOGNITION AND MEASUREMENT

Recognition

Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes:

- a derivative CVA to reflect the counterparty risk and/or event of default; and
- a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.

Derecognition of assets and liabilities

We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Company's contractual obligations are discharged, cancelled or expired.

Impact on the Income Statement

How we recognise gains or losses on derivative financial instruments depends on whether the derivative is trading or is designated into a hedging relationship.

Trading

We recognise gains or losses from the change in the fair value of trading securities in profit or loss as other operating income in the period in which they occur. Contracted interest payments are included in interest income and expense.

Hedging

For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 20 for profit or loss treatment depending on the hedge type.

Hedge effectiveness

To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met:

- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and
- the actual results of the hedge are within the range of 80-125% (retrospective effectiveness).

The Company monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

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

10. AVAILABLE-FOR-SALE ASSETS

AVAILABLE-FOR-SALE ASSETS BY SECURITY TYPE AND CONTRACTUAL MATURITY AT 30 SEPTEMBER

	2017				2016			
Period / Security type	Government securities $m	Corporate and Financial institution securities $m	Equity and other securities $m	Total $m	Government securities $m	Corporate and Financial institution securities $m	Equity and other securities $m	Total $m
Less than 3 months	5,424	768	-	6,192	2,487	372	-	2,859
Between 3 and 12 months	4,168	2,163	-	6,331	1,021	2,539	-	3,560
Between 1 and 5 years	15,656	10,726	403	26,785	8,197	12,757	566	21,520
Greater than 5 years	16,079	260	2,134	18,473	23,124	867	2,960	26,951
No maturity	-	-	725	725	-	-	831	831
Available-for-sale assets	41,327	13,917	3,262	58,506	34,829	16,535	4,357	55,721

During the year, a net gain (before tax) in respect of available-for-sale (AFS) assets of $15 million (2016: $4 million) was recognised in other operating income.

The carrying value of AFS equity securities is $725 million (2016: $831 million). This includes the Company's $676 million (2016: $795 million) investment in the Bank of Tianjin (BoT) that ceased being classified as an associate in March 2016.

RECOGNITION AND MEASUREMENT

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain, or loss, from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

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

11. NET LOANS AND ADVANCES

	2017 $m	2016 $m
Overdrafts	6,155	6,805
Credit cards	8,639	9,340
Commercial bills	10,983	12,397
Term loans – housing	268,416	256,004
Term loans – non-housing	159,013	162,577
Other	1,578	1,779
Subtotal	454,784	448,902
Unearned income	(149)	(261)
Capitalised brokerage/mortgage origination fees	751	697
Customer liability for acceptances[1]	-	321
Gross loans and advances	455,386	449,659
Provision for credit impairment (refer to Note 12)	(2,962)	(3,128)
Net loans and advances	452,424	446,531
Residual contractual maturity:		
Within one year	67,609	64,623
After more than one year	384,815	381,908
Net loans and advances	452,424	446,531
Carried on Balance Sheet at:		
Amortised cost	452,408	446,479
Fair value through profit or loss (designated on initial recognition)	16	37
Fair value through profit or loss (held for trading)	-	15
Net loans and advances	452,424	446,531

1. Customer liability for acceptances has been recognised in other assets from 30 September 2017.

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT - BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Individual provision						
Balance at start of year	942	740	15	19	957	759
New and increased provisions	1,467	1,958	1	-	1,468	1,958
Write-backs	(348)	(200)	-	-	(348)	(200)
Bad debts written off (excluding recoveries)	(1,138)	(1,416)	-	-	(1,138)	(1,416)
Other[1]	(36)	(140)	-	(4)	(36)	(144)
Total individual provision	887	942	16	15	903	957
Collective provision						
Balance at start of year	1,678	1,765	493	557	2,171	2,322
Charge/(release) to profit or loss	(24)	5	(42)	(48)	(66)	(43)
Other[2]	(29)	(92)	(17)	(16)	(46)	(108)
Total collective provision	1,625	1,678	434	493	2,059	2,171
Total provision for credit impairment	2,512	2,620	450	508	2,962	3,128

1. Other individual provision includes the Esanda Dealer Finance divestment, an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the Esanda Dealer Finance divestment, Asia Retail and Wealth business divestment and an adjustment for exchange rate fluctuations.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge	2017 $m	2016 $m
New and increased provisions	1,468	1,958
Write-backs	(348)	(200)
Recoveries of amounts previously written-off	(173)	(176)
Individual credit impairment charge	947	1,582
Collective credit impairment charge/(release)	(66)	(43)
Total credit impairment charge	881	1,539

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

The Company recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred) and we can reliably measure the impairment.	We estimate the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

KEY JUDGEMENTS AND ESTIMATES

When we measure impairment of loans and advances, we use management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• Estimated future cash flows • Business prospects for the customer • Realisable value of any collateral • Company's position relative to other claimants • Reliability of customer information • Likely cost and duration of recovering loans	• Estimated future cash flows • Historical loss experience of assets with similar risk characteristics • Impact of large concentrated losses inherent in the portfolio • Assessment of the economic cycle

We regularly review our key judgements and update them to reflect actual loss experience.

13. DEPOSITS AND OTHER BORROWINGS

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

	2017 $m	2016 $m
Certificates of deposit	53,597	59,626
Term deposits	146,445	147,754
On demand and short term deposits	209,260	190,621
Deposits not bearing interest	12,389	11,095
Deposits from banks and securities sold under repurchase agreements	57,945	56,631
Commercial paper	14,599	14,236
Deposits and other borrowings	494,235	479,963
Residual contractual maturity:		
- to be settled within 1 year	479,809	462,870
- to be settled after 1 year	14,426	17,093
Deposits and other borrowings	494,235	479,963
Carried on Balance Sheet at:		
Amortised cost	494,162	479,885
Fair value through profit or loss (designated on initial recognition)	73	78
Deposits and other borrowings	494,235	479,963

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

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

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

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

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

14. DEBT ISSUANCES

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

	2017 $m	2016 $m
Senior debt	54,046	56,766
Covered bonds	14,959	15,109
Total unsubordinated debt	69,005	71,875
Subordinated debt		
- Additional Tier 1 capital	7,995	9,020
- Tier 2 capital	8,495	11,687
Total subordinated debt	16,490	20,707
Total debt issued	85,495	92,582

14. DEBT ISSUANCES (continued)

TOTAL DEBT ISSUED BY CURRENCY

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

		2017 $m	2016 $m
USD	United States dollars	37,503	37,894
EUR	Euro	16,364	18,000
AUD	Australian dollars	21,609	24,055
NZD	New Zealand dollars	1,570	1,773
JPY	Japanese yen	3,199	4,043
CHF	Swiss francs	710	749
GBP	Pounds Sterling	854	1,744
HKD	Hong Kong dollars	1,136	1,188
Other	Chinese yuan, Norwegian kroner, Turkish lira, Singapore dollars, Canadian dollars, Mexican peso and South African rand	2,550	3,136
Total debt issued		85,495	92,582
Residual contractual maturity:			
	- to be settled within 1 year	10,493	18,798
	- to be settled after 1 year	73,414	72,061
	- no maturity date (instruments in perpetuity)	1,588	1,723
Total debt issued		85,495	92,582

SUBORDINATED DEBT

Subordinated debt qualifies as regulatory capital for the Company and is classified as either Additional Tier 1 (AT1) capital or Tier 2 capital for APRA's capital adequacy purposes depending on their terms and conditions:

- AT1 capital - perpetual capital instruments such as:
  - ANZ Convertible Preference Shares (ANZ CPS);
  - ANZ Capital Notes (ANZ CN);
  - ANZ Capital Securities (ANZ CS).
- Tier 2 capital - all other perpetual or term subordinated notes.

AT1 CAPITAL

All outstanding AT1 capital instruments (other than CPS3) are Basel III fully compliant instruments (refer to Note 21 Capital Management for further information about Basel III). For CPS3, APRA has granted the Company transitional Basel III capital treatment until 1 September 2019. CPS3, and notes issued under the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on CPS3 and ANZ CN are franked in line with the franking applied to ANZ ordinary shares.

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

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

- The Company and its consolidated subsidiaries Common Equity Tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable – known as a Non-Viability Trigger Event.

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

- on a specified date; or
- on an earlier date under certain circumstances.

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

14. DEBT ISSUANCES (continued)

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

ANZ Convertible Preference Shares (ANZ CPS)

	CPS2	CPS3
Issuer	ANZ	ANZ
Issue date	17 December 2009	28 September 2011
Issue amount	$1,968 million On 27 September 2016, ANZ bought back and cancelled $900 million of CPS2, and reinvested the proceeds into CN4. The remaining CPS2 was bought back and cancelled on 15 December 2016	$1,340 million On 28 September 2017, ANZ bought back and cancelled $767 million of CPS3, and either reinvested the proceeds into CN5 or returned the cash proceeds to investors.
Face value	$100	$100
Dividend frequency	Quarterly in arrears	Semi-annually in arrears
Dividend rate	Floating rate: (90 day Bank Bill rate +3.1%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.1%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	No	1 March 2018 and each subsequent semi-annual dividend payment date
Mandatory conversion date	N/A	1 September 2019
Common equity capital trigger event	No	Yes
Non-viability trigger event	No	No
Cash dividend payments treated as interest expense	$8 million (2016: $75 million)	$47 million (2016: $51 million)
Carrying value 2017 (net of issue costs)	$nil million (2016: $1,068 million)	$573 million (2016: $1,340 million)

ANZ Capital Notes (ANZ CN)

	CN1	CN2	CN3
Issuer	ANZ	ANZ	ANZ, acting through its New Zealand branch
Issue date	7 August 2013	31 March 2014	5 March 2015
Issue amount	$1,120 million	$1,610 million	$970 million
Face value	$100	$100	$100
Distribution frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Distribution rate	Floating rate: (180 day Bank Bill rate +3.4%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.25%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.6%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 September 2021	24 March 2022	24 March 2023
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value 2017 (net of issue costs)	$1,116 million (2016: $1,115 million)	$1,604 million (2016: $1,602 million)	$963 million (2016: $962 million)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEBT ISSUANCES (continued)

ANZ Capital Notes (ANZ CN) (continued)

	CN4	CN5
Issuer	ANZ	ANZ
Issue date	27 September 2016	28 September 2017
Issue amount	$1,622 million	$931 million
Face value	$100	$100
Distribution frequency	Quarterly in arrears	Quarterly in arrears
Distribution rate	Floating rate: (90 day Bank Bill rate +4.7%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.8%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	20 March 2024	20 March 2025
Mandatory conversion date	20 March 2026	20 March 2027
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes
Carrying value 2017 (net of issue costs)	$1,608 million (2016: $1,604 million)	$925 million (2016: $0 million)

ANZ Capital Securities (ANZ CS)

Issuer	ANZ, acting through its London branch
Issue date	15 June 2016
Issue amount	USD 1,000 million
Face value	Minimum denomination of USD 200,000 and an integral multiple of USD 1,000 above that
Interest frequency	Semi-annually in arrears
Interest rate	Fixed at 6.75% p.a. until 15 June 2026. Reset on 15 June 2026 and each 5 year anniversary to a floating rate: 5 year USD mid-market swap rate + 5.168%
Issuer's early redemption option	15 June 2026 and each 5 year anniversary
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2017 (net of issue costs)	$1,206 million (2016: $1,329 million)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEBT ISSUANCES (continued)

TIER 2 CAPITAL

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

APRA has granted transitional Basel III capital treatment for:

- all other term subordinated notes until their first call date; and
- the USD 300 million perpetual subordinated notes until the end of the transitional period (December 2021).

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

Currency	Face value	Maturity	Next optional call date – subject to APRA's prior approval	Interest rate	Non-Viability Trigger Event	2017 $m	2016 $m
Basel III transitional subordinated notes (perpetual)							
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	No	382	394
Basel III transitional subordinated notes (term)							
EUR	750m	2019	N/A	Fixed	No	1,205	1,225
AUD	500m	2022	2017	Floating	No	-	500
AUD	1,509m	2022	2017	Floating	No	-	1,507
USD	750m	2022	2017	Fixed	No	-	981
AUD	750m	2023	2018	Floating	No	750	750
Total Basel III transitional subordinated notes						2,337	5,357
Basel III fully compliant convertible subordinated notes (term)							
AUD	750m	2024	2019	Floating	Yes	750	750
USD	800m	2024	N/A	Fixed	Yes	1,065	1,164
CNY	2,500m	2025	2020	Fixed	Yes	478	491
SGD	500m	2027	2022	Fixed	Yes	478	493
AUD	200m	2027	2022	Fixed	Yes	199	199
JPY	20,000m	2026	N/A	Fixed	Yes	226	264
AUD	700m	2026	2021	Floating	Yes	699	700
USD	1,500m	2026	N/A	Fixed	Yes	1,816	2,011
JPY	10,000m	2026	2021	Fixed	Yes	112	129
JPY	10,000m	2028	2023	Fixed	Yes	111	129
AUD	225m	2032	2027	Fixed	Yes	224	-
Total Basel III fully compliant subordinated notes						6,158	6,330
Total Tier 2 capital						8,495	11,687

RECOGNITION AND MEASUREMENT

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

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives have no value as of the reporting date given the remote nature of those triggering events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

We disclose details of all principal risks impacting the Company, and further information on the Company's risk management activities, in the Our Approach to Risk Management section of the Directors' Report in the ANZ 2017 Annual Report available at https//shareholder.anz.com/annual-report-shareholder-review.

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

Principal financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk Credit risk is the risk of financial loss from a customer, or counterparty, failing to meet their financial obligations – including the whole and timely payment of principal, interest and other receivables.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk Market risk is the risk of loss arising from potential adverse changes in the value of the Company's assets and liabilities and other trading positions from fluctuations in market variables. These variables include, but are not limited to interest rates, foreign exchange, equity prices, commodity prices, credit spreads, implied volatilities, and asset correlations.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities classified as available-for-sale • Foreign currency risk – structural exposures
Liquidity and funding risk Liquidity and funding risk is the risk that the Company is unable to meet its payment obligations when they fall due; or does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.	• Liquidity risk and funding position • Residual contractual maturity analysis of the Company's liabilities

15. FINANCIAL RISK MANAGEMENT (continued)

RISK MANAGEMENT FRAMEWORK AND MODEL (continued)
OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures*. It should be read in conjunction with the Our Approach to Risk Management section of the Directors' Report in the ANZ 2017 Annual Report available at https//shareholder.anz.com/annual-report-shareholder-review.

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

The Board approves the strategic objectives of the Company including:

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

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

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

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

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

- an independent evaluation of the Company's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

Credit Risk Overview, Management and Control Responsibilities

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

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

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

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

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

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

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

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

We use the Company's internal CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, the Company's CCRs are mapped to external rating agency scales as follows:

Internal Rating	ANZ Customer Requirements	Moody's Rating	Standard & Poors Rating
Strong credit profile	Demonstrated superior stability in their operating and financial performance over the long-term, and whose capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory risk	Demonstrated sound operational and financial stability over the medium to long-term — even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – Ba3	BB+ – BB-
Sub-standard but not past due nor impaired	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B1 - Caa	B+ - CCC

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

	Reported		Excluded[1]/Other[2]		Maximum exposure to credit risk	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
On-balance sheet positions						
Net loans and advances[2]	452,424	446,531	(450)	(508)	452,874	447,039
Other financial assets:						
Cash and cash equivalents	63,399	61,994	1,096	1,008	62,303	60,986
Settlement balances owed to ANZ[3]	5,006	3,983	5,006	3,983	-	-
Collateral paid	7,685	10,878	-	-	7,685	10,878
Trading securities	35,606	35,059	4,653	6,541	30,953	28,518
Derivative financial instruments	57,036	75,872	-	-	57,036	75,872
Available-for-sale assets	58,506	55,721	725	832	57,781	54,889
Regulatory deposits	495	671	-	-	495	671
Other financial assets[4]	2,040	1,717	-	-	2,040	1,717
Total other financial assets	229,773	245,895	11,480	12,364	218,293	233,531
Subtotal	682,197	692,426	11,030	11,856	671,167	680,570
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	187,291	194,521	450	508	186,841	194,013
Total	869,488	886,947	11,480	12,364	858,008	874,583

1. Excluded comprises bank notes and coins and cash at bank within liquid assets and equity instruments within trading securities, available-for-sale financial assets.Equity securities and precious metal exposures recognised as trading securities have been excluded in 2017 as they do not have credit exposure. Comparatives have been restated accordingly.
2. Other relates to the transfer of individual and collective provisions for credit impairment, related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.
3. Settlement balances owed to ANZ relating to trade dated assets which do not carry credit risk and thus are excluded.
4. Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
5. Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- restructured and impaired assets presented as gross amounts and net of individual provisions.

	Net loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Neither past due nor impaired								
Strong credit profile	322,737	343,830	216,908	231,552	154,741	161,559	694,386	736,941
Satisfactory risk[1]	101,948	75,439	1,285	1,660	30,500	30,498	133,733	107,597
Sub-standard but not past due or impaired	14,598	14,803	100	308	1,532	1,919	16,230	17,030
Subtotal	439,283	434,072	218,293	233,520	186,773	193,976	844,349	861,568
Past due but not impaired								
≥ 1 < 30 days	7,231	6,697	-	-	-	-	7,231	6,697
≥ 30 < 60 days	1,841	1,678	-	-	-	-	1,841	1,678
≥ 60 < 90 days	1,005	924	-	-	-	-	1,005	924
≥ 90 days	2,706	2,512	-	-	-	-	2,706	2,512
Subtotal	12,783	11,811	-	-	-	-	12,783	11,811
Restructured and impaired								
Impaired loans	1,624	1,851	-	-	-	-	1,624	1,851
Restructured items[2]	71	247	-	-	-	-	71	247
Non-performing commitments and contingencies	-	-	-	-	84	52	84	52
Other	-	-	-	11	-	-	-	11
Gross impaired financial assets	1,695	2,098	-	11	84	52	1,779	2,161
Individual provisions	(887)	(942)	-	-	(16)	(15)	(903)	(957)
Subtotal restructured and net impaired	808	1,156	-	11	68	37	876	1,204
Total	452,874	447,039	218,293	233,531	186,841	194,013	858,008	874,583

1. Movement in credit profile in 2017 was due to the implementation of ANZ's revised Capital Mortgage model, which re-rated the Australian mortgage portfolio.
2. Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered for new facilities with similar risk.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Agriculture, forestry, fishing and mining	17,346	18,075	528	704	13,450	14,640	31,324	33,419
Business services	7,044	6,762	137	168	6,319	6,565	13,500	13,495
Construction	5,273	5,654	37	57	5,209	5,364	10,519	11,075
Electricity, gas and water supply	4,800	4,848	752	1,264	4,537	4,438	10,089	10,550
Entertainment, leisure and tourism	10,679	10,424	317	530	3,151	3,112	14,147	14,066
Financial, investment and insurance	34,256	34,661	145,767	168,545	27,690	19,703	207,713	222,909
Government and official institutions	846	1,020	61,440	53,055	2,016	2,421	64,302	56,496
Manufacturing	14,838	14,637	1,902	2,582	29,926	34,501	46,666	51,720
Personal lending	282,823	275,756	1,038	1,037	45,856	52,458	329,717	329,251
Property services	30,595	31,072	559	1,074	11,065	12,453	42,219	44,599
Retail trade	11,150	10,951	187	251	4,974	5,250	16,311	16,452
Transport and storage	9,805	10,839	959	1,398	5,598	5,367	16,362	17,604
Wholesale trade	11,013	11,105	2,225	2,136	16,542	20,678	29,780	33,919
Other	14,316	13,419	2,445	730	10,958	7,571	27,719	21,720
Gross Total	454,784	449,223	218,293	233,531	187,291	194,521	860,368	877,275
Provision for credit impairment	(2,512)	(2,620)	-	-	(450)	(508)	(2,962)	(3,128)
Subtotal	452,272	446,603	218,293	233,531	186,841	194,013	857,406	874,147
Unearned income	(149)	(261)	-	-	-	-	(149)	(261)
Capitalised brokerage/mortgage origination fees	751	697	-	-	-	-	751	697
Maximum exposure to credit risk	452,874	447,039	218,293	233,531	186,841	194,013	858,008	874,583

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations from its expected cashflows. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables.

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2017	2016	2017	2016	2017	2016
	$m	$m	$m	$m	$m	$m
Net loans and advances	452,874	447,039	364,745	355,936	88,129	91,103
Other financial assets	218,293	233,531	22,705	28,427	195,588	205,104
Off-balance sheet positions	186,841	194,013	31,696	34,007	155,145	160,006
Total	858,008	874,583	419,146	418,370	438,862	456,213

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

Market Risk Overview, Management and Control Responsibilities

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

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

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

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

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

Measurement of Market Risk

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

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

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

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

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

The Company measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR on any given day.

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

TRADED MARKET RISK

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

	30 September 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	4.3	10.0	2.6	5.1	4.4	11.4	2.5	5.3
Interest rate	5.6	18.9	4.7	7.2	4.7	17.6	3.9	8.3
Credit	4.1	5.1	1.6	3.2	3.0	4.0	2.0	2.9
Commodity	2.2	3.8	1.4	2.1	2.5	2.8	1.1	1.7
Equity	-	0.5	-	0.2	0.5	2.0	0.1	0.2
Diversification benefit[1]	(6.1)	n/a	n/a	(7.6)	(6.3)	n/a	n/a	(6.2)
Total VaR	10.1	20.8	6.3	10.2	8.8	23.2	5.7	12.2

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

NON-TRADED MARKET RISK

Balance sheet risk management

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

Interest rate risk management

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

	30 September 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	31.6	37.5	25.9	31.3	38.4	40.6	28.0	33.7
New Zealand	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.1
APEA	13.7	18.6	13.5	15.3	14.6	16.8	14.0	15.3
Diversification benefit[1]	(13.3)	n/a	n/a	(9.3)	(9.2)	n/a	n/a	(13.2)
Total VaR	32.0	43.7	31.3	37.4	43.9	43.9	29.4	35.9

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

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

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

	2017	2016
Impact of 1% rate shock		
As at period end	0.14%	0.85%
Maximum exposure	1.20%	0.91%
Minimum exposure	0.13%	0.01%
Average exposure (in absolute terms)	0.53%	0.40%

Equity Securities Classified as Available-for-Sale

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

Foreign Currency Risk – Structural Exposures

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

Where it is considered appropriate, the Company takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US dollar and US dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Company's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

LIQUIDITY AND FUNDING RISK

Liquidity Risk and Funding Position

For information related to the liquidity risk and funding position refer to the 2017 ANZ Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE COMPANY'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Company may be required to pay. All at-call liabilities are reported in the "Less than 3 month" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. It should be noted that this is not how the Company manages its liquidity risk. The management of this risk is detailed in the 2017 ANZ Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

2017	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	8,219	-	-	-	8,219
Collateral received	5,238	-	-	-	5,238
Deposits and other borrowings	410,672	70,910	14,819	145	496,546
Liability for acceptances	312	-	-	-	312
Debt issuances[1,2]	3,030	12,242	59,673	20,751	95,696
Derivative liabilities (trading)[3]	48,561	-	-	-	48,561
Derivative assets and liabilities (balance sheet management)					
- funding					
Receive leg	(12,433)	(14,536)	(66,440)	(24,247)	(117,656)
Pay leg	12,174	14,254	66,670	24,579	117,677
- other balance sheet management					
Receive leg	(24,186)	(6,277)	(10,876)	(4,368)	(45,707)
Pay leg	24,312	6,522	12,587	4,868	48,289

2016	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,079	-	-	-	9,079
Collateral received	5,882	-	-	-	5,882
Deposits and other borrowings	402,611	61,517	17,542	463	482,133
Liability for acceptances	321	-	-	-	321
Debt issuances[1,2]	8,596	18,425	54,493	22,191	103,705
Derivative liabilities (trading)[3]	65,086	-	-	-	65,086
Derivative assets and liabilities (balance sheet management)					
- funding					
Receive leg	(26,326)	(21,615)	(70,816)	(25,136)	(143,893)
Pay leg	26,417	20,898	69,047	25,038	141,400
- other balance sheet management					
Receive leg[4]	(18,913)	(6,951)	(9,980)	(5,833)	(41,677)
Pay leg[4]	18,991	7,307	11,581	7,386	45,265

1. Any callable wholesale debt instruments have been included at their next call date.
2. Includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
3. The full mark-to-market of derivative liabilities held for trading purposes is included in the 'less than 3 months' category.
4. Prior year's profile has been restated to ensure comparability.

At 30 September 2017 $150,339 million (2016: $161,178 million) of the Company's undrawn facilities and $36,952 million (2016: $33,343 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Company may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

VALUATION OF FINANCIAL INSTRUMENTS

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

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- when using quoted market prices to value an instrument, these are independently verified from external sources;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as FVA, CVA and bid-offer) are independently validated and monitored.

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of financial assets and liabilities for recognition, measurement and disclosure purposes where no quoted price for the instrument exists. For those purposes, we use the following approaches:

Financial Asset or Liability	**Fair Value Approach**
Financial instruments classified as: – trading securities – securities short sold – derivative financial assets and liabilities, and – available-for-sale assets	In instances where there is no quoted market price, modelled valuation techniques are used that incorporate observable market inputs for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
Net loans and advances, deposits and other borrowings and debt issuances	Discounted cash flow techniques in which contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates, or market borrowing rates, for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.
Non-financial instrument component of assets held for sale	Valuation based on the agreed foreign currency sales price combined with the applicable foreign exchange rate less an estimate of the costs to dispose of the assets.

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

		2017			2016		
	Fair value details refer Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents		63,399	-	63,399	61,994	-	61,994
Settlement balances owed to ANZ		5,006	-	5,006	3,983	-	3,983
Collateral paid		7,685	-	7,685	10,878	-	10,878
Trading securities	8	-	35,606	35,606	-	35,059	35,059
Derivative financial instruments	9	-	57,036	57,036	-	75,872	75,872
Available-for-sale assets	10	-	58,506	58,506	-	55,721	55,721
Net loans and advances	11	452,408	16	452,424	446,479	52	446,531
Regulatory deposits		495	-	495	671	-	671
Due from controlled entities		91,208	-	91,208	106,797	-	106,797
Other financial assets		1,917	-	1,917	1,606	-	1,606
Total		622,118	151,164	773,282	632,408	166,704	799,112
Financial liabilities							
Settlement balances owed by ANZ		8,219	-	8,219	9,079	-	9,079
Collateral received		5,238	-	5,238	5,882	-	5,882
Deposits and other borrowings	13	494,162	73	494,235	479,885	78	479,963
Derivative financial instruments	9	-	56,830	56,830	-	76,243	76,243
Due to controlled entities		88,882	-	88,882	103,416	-	103,416
Payables and other liabilities		3,930	1,753	5,683	3,498	2,068	5,566
Debt issuances		83,743	1,752	85,495	90,390	2,192	92,582
Total		684,174	60,408	744,582	692,150	80,581	772,731

FINANCIAL ASSETS AND FINANCIAL LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

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

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Financial assets								
Trading securities[1]	32,998	32,945	2,608	2,114	-	-	35,606	35,059
Derivative financial instruments	424	450	56,527	75,324	85	98	57,036	75,872
Available-for-sale assets[1]	53,958	51,094	4,504	4,590	44	37	58,506	55,721
Net loans and advances (measured at fair value)	-	-	16	37	-	15	16	52
Assets held for sale[2]	-	-	1,748	-	-	-	1,748	-
Total	87,380	84,489	65,403	82,065	129	150	152,912	166,704
Financial liabilities								
Deposits and other borrowings (designated at fair value)	-	-	73	78	-	-	73	78
Derivative financial instruments	250	365	56,504	75,780	76	98	56,830	76,243
Payables and other liabilities (measured at fair value)[3]	1,587	1,982	166	86	-	-	1,753	2,068
Debt issuances (designated at fair value)	-	-	1,752	2,192	-	-	1,752	2,192
Total	1,837	2,347	58,495	78,136	76	98	60,408	80,581

1. During the period we transferred $408 million (2016: $415 million) from Level 1 to Level 2 following reduced trading activity in the associated securities. We deem transfers into and out of Level 1 and Level 2 to have occurred as at the beginning of the reporting period in which the transfer occurred.
2. The amount classified as Assets held for sale relates to non-financial instruments required to be measured at fair value less costs to sell in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.
3. Payables and other liabilities relates to securities short sold, which we classify as held for trading and measured at fair value through profit or loss.

Level 3 fair value measurements

The net balance of Level 3 financial instruments is an asset of $53 million (2016: $52 million). The financial instruments which incorporate significant unobservable inputs primarily include:

- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed; and
- other derivatives, including reverse mortgage swaps for which the mortality rate cannot be observed.

There have been no significant movements or changes in the composition of the balance of Level 3 instruments that the Company carries at fair value during the current or prior periods.

Sensitivity to Level 3 data inputs

If we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Company's estimate of the instrument's fair value. The majority of transactions in this category are 'back-to-back' in nature — that is, the Company either acts as a financial intermediary or hedges the market risks. As a result, changes in the Level 3 inputs generally have minimal impact on net profit and net assets of the Company.

Deferred fair value gains and losses

If we use unobservable data that is significant to the fair value of a financial instrument at initial recognition then we do not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the day one gain or loss in profit or loss over the life of the transaction on a straight line basis or until all inputs become observable.

The day one gains and losses we defer are not significant. They predominately relate to derivative financial instruments. This is consistent with the low level of derivative transactions that the Company enters into which incorporate significant unobservable inputs.

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

Fair value designation

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

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

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

	At amortised cost		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2017 $M	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Financial assets										
Net loans and advances	452,408	446,479	-	-	434,842	427,282	17,612	19,563	452,454	446,845
Total	452,408	446,479	-	-	434,842	427,282	17,612	19,563	452,454	446,845
Financial liabilities										
Deposits and other borrowings	494,162	479,885	-	-	494,291	480,219	-	-	494,291	480,219
Debt issuances	83,743	90,390	30,841	33,144	53,969	57,758	-	-	84,810	90,902
Total	577,905	570,275	30,841	33,144	548,260	537,977	-	-	579,101	571,121

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

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

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

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

The amortised cost of assets pledged as security are as follows:

	2017 $m	2016 $m
Securities sold under arrangements to repurchase[1]	35,454	26,234
Covered bonds	19,604	22,001
Other	1,487	1,390

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2017 $m	2016 $m
Fair value of assets which can be sold or repledged	29,418	31,130
Fair value of assets sold or repledged	19,787	14,133

18. OFFSETTING

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

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

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

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

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement of similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	57,036	(2,138)	54,898	(46,268)	(4,598)	4,032
Reverse repurchase, securities borrowing and similar agreements[1]	28,305	(4,652)	23,653	(819)	(22,834)	-
Total financial assets	85,341	(6,790)	78,551	(47,087)	(27,432)	4,032
Derivative financial liabilities	(56,830)	2,238	(54,592)	46,268	5,774	(2,550)
Repurchase, securities borrowing and similar agreements[2]	(33,768)	8,822	(24,946)	819	24,127	-
Total financial liabilities	(90,598)	11,060	(79,538)	47,087	29,901	(2,550)

			Amount subject to master netting agreement or similar			
2016	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	75,872	(2,376)	73,496	(62,296)	(5,143)	6,057
Reverse repurchase, securities borrowing and similar agreements[1]	29,713	(10,873)	18,840	(707)	(18,133)	-
Total financial assets	105,585	(13,249)	92,336	(63,003)	(23,276)	6,057
Derivative financial liabilities	(76,243)	2,010	(74,233)	62,296	8,244	(3,693)
Repurchase, securities borrowing and similar agreements[2]	(24,646)	11,258	(13,388)	707	12,681	-
Total financial liabilities	(100,889)	13,268	(87,621)	63,003	20,925	(3,693)

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

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at start of year	102	109	2,110	2,711	2	10	2,214	2,830
Additions	-	-	396	400	-	-	396	400
Amortisation expense	-	-	(541)	(937)	(2)	(8)	(543)	(945)
Impairment expense	-	-	(17)	(23)	-	-	(17)	(23)
Impairment on reclassification of Retail Asia and Wealth businesses to held for sale	(32)	-	(153)	-	-	-	(185)	-
Foreign currency exchange difference	(1)	(7)	(12)	(41)	-	-	(13)	(48)
Balance at end of year	69	102	1,783	2,110	-	2	1,852	2,214
Cost	69	102	5,883	5,806	39	66	5,991	5,974
Accumulated amortisation/impairment	n/a	n/a	(4,100)	(3,696)	(39)	(64)	(4,139)	(3,760)
Carrying amount	69	102	1,783	2,110	-	2	1,852	2,214

1. Goodwill excludes notional goodwill in equity accounted investments.

RECOGNITION AND MEASUREMENT

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

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Company has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of off the shelf software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million. Those less than $20 million are expensed in the year in which the costs are incurred.	Customer list of acquired business.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.	Customer list amortised over 10 years.
Depreciation method	Not applicable.	Straight-line method.	Straight-line method.

KEY JUDGEMENTS AND ESTIMATES

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

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

20. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY - SUMMARY

	2017 $m	2016 $m
Ordinary share capital	29,416	29,162
Reserves		
Foreign currency translation reserve	(75)	(18)
Share option reserve	87	79
Available-for-sale revaluation reserve	(66)	13
Cash flow hedge reserve	90	270
Total reserves	36	344
Retained earnings	22,396	20,753
Total shareholders' equity	51,848	50,259

ORDINARY SHARE CAPITAL

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

	2017		2016	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,927,476,660	29,162	2,902,714,361	28,611
Bonus option plan	2,880,009	-	3,516,214	-
Dividend reinvestment plan	13,159,331	374	15,916,983	413
Group share option scheme	-	-	18,062	-
Group employee share acquisition scheme[1]	-	56	5,311,040	138
Share buy-back	(6,100,673)	(176)	-	-
Balance at end of year	2,937,415,327	29,416	2,927,476,660	29,162

1. The Company issued 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend (8.6 million shares for the 2016 final dividend;9.7 million shares for the 2016 interim dividend) and nil shares to satisfy obligations under the Company's Employee Share acquisition plans during 2017 (2016: 5.3 million shares). Following the provision of 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend, the Company repurchased 6.1 million of shares via an on-market share buy-back resulting in 6.1 million shares being cancelled. As at 30 September 2017, there were 7,312,763 Treasury Shares outstanding (2016; 10,806,633).

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.

20. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT (continued)

Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.
Available-for-sale revaluation reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.

21. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

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

REGULATORY ENVIRONMENT

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

For reporting purposes as part of the ANZ 2017 Annual Report, Capital Adequacy Ratios are presented only for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 22 Capital Management in the 2017 ANZ Annual Report for details of the Capital Adequacy Ratios, which can be found at https://shareholder.anz.com/annual-report-shareholders-review.

22. CONTROLLED ENTITIES

	Incorporated in	Nature of Business
The ultimate parent of the Group is Australia and New Zealand Banking Group Limited	Australia	Banking

All controlled entities are 100% owned, unless otherwise noted.
The material controlled entities of the Group are:

	Incorporated in	Nature of Business
ANZ Bank (Lao) Limited[1]	Laos	Banking
ANZ Bank (Taiwan) Limited[1]	Taiwan	Banking
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZ Funds Pty. Ltd.	Australia	Holding Company
ANZ Bank (Europe) Limited[1]	United Kingdom	Banking
ANZ Bank (Kiribati) Limited[1] (75% ownership)	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZNZ Covered Bond Trust[1,4]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Limited[1]	New Zealand	Funds Management
OnePath Life (NZ) Limited[1]	New Zealand	Insurance
UDC Finance Limited[1]	New Zealand	Finance
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[2]	Vanuatu	Banking
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited[1] (55% ownership)	Cambodia	Banking
Votraint No. 1103 Pty Limited	Australia	Investment
ANZ Lenders Mortgage Insurance Pty. Limited	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust[4]	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
OnePath General Insurance Pty Limited	Australia	Insurance
OnePath Life Australia Holdings Pty Limited	Australia	Holding Company
OnePath Life Limited	Australia	Insurance
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[3]	Guam	Holding Company
ANZ Guam Inc.[3]	Guam	Banking
ANZ Finance Guam, Inc[3]	Guam	Finance
ACN 003 042 082 Limited	Australia	Holding Company
Share Investing Limited	Australia	Online Stockbroking
PT Bank ANZ Indonesia[1] (99% ownership)	Indonesia	Banking

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

ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

The Company did not acquire, or dispose of, any material entities during the year ended 30 September 2017 or the year ended 30 September 2016. ANZ Capital Hedging Pty Ltd (listed as a material entity for the year ended 30 September 2016) has been removed as a material entity for the year ended 30 September 2017 as its operations have been transferred to other parts of the Group and it is in the process of being liquidated.

22. CONTROLLED ENTITIES (continued)

RECOGNITION AND MEASUREMENT

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

Value-in-Use – Investment in ANZ Wealth Australia Limited

Due to various strategic options being considered for ANZ Wealth Australia Limited and its subsidiaries we have undertaken a value in use assessment excluding ANZ Lenders Mortgage Insurance, ANZ Share Investing and ANZ Financial Planning businesses and compared this to the carrying value of the investment. The value-in-use is in excess of the investment and confirms our conclusion that the investment is not impaired. The valuation is based on the embedded value which represents the present value of future profits and releases of capital arising from the business in-force at the valuation date, and adjusted net assets. It is determined using best estimate assumptions with franking credits included at 70% of face value. Projected cash flows have been discounted using capital asset pricing model risk discount rates of 7.75% and 9.50%.

23. INVESTMENTS IN ASSOCIATES

Significant associates of the Company are:

Name of entity	Principal activity	Ordinary share interest		Carrying amount $m	
		2017	2016	2017	2016
Shanghai Rural Commercial Bank[1]	Rural commercial bank	20%	20%	-	1,955
Aggregate other individually immaterial associates		n/a	n/a	20	19
Total carrying value of associates				20	1,974

1. During 2017 Shanghai Rural Commercial Bank (SRCB) was reclassified as held for sale. Refer to Note 25 Assets Held for Sale for further details.

IMPAIRMENT ASSESSMENT

On 3 January 2017, the Company announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). On 18 September 2017 the Company announced a revision to the 3 January arrangement in which Baoshan Iron & Steel Co. Ltd (Bao) replaced Shanghai Sino-Poland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited (COSCO) to acquire the Company's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao will each acquire a 10% stake in SRCB. The key financial terms of the revised sale agreement are unchanged from the transaction announced previously. The sale is subject to customary closing conditions and regulatory approvals and is expected to be completed by late 2017. Based on the agreed purchase price less costs of disposal, an impairment of $219 million was recorded against the carrying value to reflect the recoverable amount of the investment which has been transferred to held for sale assets (refer to Note 25 Assets Held for Sale). This impairment and subsequent foreign exchange translation adjustments have been recognised in other operating income (refer to Note 2 Operating Income).

23. INVESTMENTS IN ASSOCIATES (continued)

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

Set out below is the summarised financial information of each associate that is significant to the Company. The summarised financial information is based on the associates' IFRS financial information.

	Shanghai Rural Commercial Bank	
Principal place of business and country of incorporation	People's Republic of China	
	2017 $m	2016 $m
Summarised results		
Operating income	-	3,390
Profit for the year	-	1,338
Other comprehensive income/(loss)	-	59
Total comprehensive income	-	1,397
Less: Total comprehensive income attributable to non–controlling interests	-	(36)
Total comprehensive income attributable to owners of associate	-	1,361
Summarised financial position		
Total assets[1]	-	129,081
Total liabilities[1]	-	119,027
Total Net assets[1]	-	10,054
Less: Non–controlling interests of associate	-	(281)
Net assets attributable to owners of associate	-	9,773
Reconciliation to carrying amount of Group's interest in associate[2]		
Carrying amount at the beginning of the year	1,955	1,981
Company's share of total comprehensive income	58	273
Dividends received from associate	-	(41)
Company's share of other reserve movements of associate and foreign currency translation reserve adjustments	(46)	(258)
Impairment charge	(219)	-
Less: carrying value transferred to assets held for sale asset (Note 25)	(1,748)	-
Carrying amount at the end of the year	-	1,955

1. Includes market value adjustments (including goodwill) the Company made at the time of acquisition (and adjustments for any differences in accounting policies).
2. For SRCB this includes movements up to the cessation of equity accounting.

RECOGNITION AND MEASUREMENT

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

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

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

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

24. TRANSFERS OF FINANCIAL ASSETS

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

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Company's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. This includes mortgages that are held for potential repurchase agreements (Repos) with central banks. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

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

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

COVERED BONDS

The Company operates various global covered bond programs to raise funding in its primary markets. Substantially all of the assets assigned to the bankruptcy remote SEs associated with these covered bond programs, consist of equitable interests of the SE trustee in mortgage loans secured by residential real estate. The mortgages provide security for the obligations payable on the issued covered bonds.

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

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

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

REPURCHASE AGREEMENTS

If the Company sells securities subject to repurchase agreements under which substantially all the risks and rewards of ownership remain with the Company, then those assets are considered to be transferred assets that do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Company arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the lease receivable or financing arrangement. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. In some circumstances the Company continues to be exposed to some of the risks of the transferred lease receivable or financing arrangement through a derivative or other continuing involvement. When this occurs, the Company does not derecognise the lease receivable or loan. Instead, the Company recognises an associated liability representing its obligations to the participating financial institutions.

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

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Current carrying amount of assets transferred	65,030	73,546	19,604	22,001	35,454	26,234	-	164
Carrying amount of associated liabilities	65,030	73,546	19,604	22,001	33,768	24,646	-	164

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

25. ASSETS HELD FOR SALE

The Company announced the following strategic divestments in line with the Company's strategy to simplify the businesses and improve capital efficiency. At 30 September 2017, the assets held for sale comprised Investments in associates (SRCB) of $1,748 million which is measured at the lower of its carrying amount and fair value less costs of disposal.

- **Shanghai Rural Commercial Bank**
  On 3 January 2017, the Company announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). On 18 September 2017 the Company announced a revision to the 3 January arrangement in which Baoshan Iron & Steel Co. Ltd. (Bao) replaced Shanghai SinoPoland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited (COSCO) to acquire the Company's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao will each acquire a 10% stake in SRCB. The key financial terms of the revised sale agreement are unchanged from the transaction announced previously. The sale is subject to customary closing conditions and regulatory approvals and is expected to be completed by late 2017.
- **Asia Retail and Wealth Business**
  The Company announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank on 31 October 2016. The Company is only impacted by branch operations which existed in Singapore and Hong Kong and the sale of these branches was completed prior to 30 September 2017.

IMPAIRMENT LOSSES AND OTHER CHARGES RELATING TO ASSETS HELD FOR SALE

During the year ended 30 September 2017, the Company recognised the following impacts in relation to assets and liabilities held for sale:

- $219 million loss relating to the reclassification and completion of the Asia Retail and Wealth sale comprising of $185 million of software and goodwill impairment charges and $34 million of various other charges net of recoveries and sale premium.
- $333 million of charges relating to the Company's investment in SRCB, comprising $219 million impairment to the investment, $12 million of foreign exchange losses, and $102 million of tax expenses.

The net result of these disposals is included in other income and income tax expense (refer to Note 2 Operating Income and Note 4 Income Tax).

KEY JUDGEMENTS AND ESTIMATES

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

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

Any impairment we record is based on the best available evidence of the fair value compared to the carrying value before the impairment. The final sale price the Company may achieve will depend on a number of factors and may be different to the fair value we estimate when recording the impairment. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

26. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

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

	2017 $m	2016 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,225)	(1,297)
Fair value of scheme assets	1,328	1,391
Total	103	94
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(19)	(15)
Net assets arising from defined benefit obligations included in other assets	122	109
Total	103	94
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	16.8	16.8

26. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

As at the most recent reporting dates of the schemes, the aggregate deficit of net market value of assets over the value of accrued benefits on a funding basis was $16 million (2016: $45 million). In 2017, the Company made defined benefit contributions totalling $1 million (2016: $45 million). It expects to make around $2 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

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

The defined benefit section of the ANZ Australian Staff Superannuation Scheme has been closed to new members since 1987 and it did not have a material deficit, or surplus, at the last full valuation at 31 December 2016. The Company has no present liability under the schemes' trust deed to fund a deficit (measured on a funding basis). A contingent liability of the Company may arise if the scheme was wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

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

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

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

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

Defined contribution superannuation schemes

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

KEY JUDGEMENTS AND ESTIMATES

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

Assumptions	2017	2016	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2017 $m	2016 $m
Discount rate (% p.a.)	2.5 - 3.8	2.2 - 3.0	0.5% increase	(104)	(131)
Future salary increases (% p.a.)	3.7	3.6			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	2.0 - 3.0/ 2.2	2.0 - 2.9/ 2.1	0.5% increase	86	109
Life expectancy at age 60 for current pensioners			1 year increase	44	57
– Males (years)	25.4 - 28.9	22.6 - 28.8			
– Females (years)	28.6 - 30.9	26.3 - 30.8			

27. EMPLOYEE SHARE AND OPTION PLANS

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

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2016 and 2017 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer	
Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD1,000 in Australia (and AUD800 in New Zealand) ANZ shares, each financial year, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in share capital.
FY 2017	Zero shares were granted in the 2017 financial year.
FY 2016	626,121 shares were granted on 3 December 2015 at an issue price of $27.60.

Deferred Share Plan	
i) Chief Executive Officer (CEO) and Group Executive Committee (ExCo)	
Eligibility	Group CEO and ExCo.
Grant	50% of the CEO's Annual Variable Remuneration (AVR) and 33% of ExCo's Variable Remuneration (VR) received as deferred shares.
Conditions	Deferred evenly over four years from grant date.
ii) ANZ Employee Reward Scheme[1] (ANZERS) and Business Unit Incentive Plans (BUIPs)	
Eligibility	Employees participating in ANZ's standard Short Term Incentive (STI) arrangements.
Grant	Half of all incentive amounts exceeding AUD100,000 (subject to a minimum deferral amount of AUD25,000) received as deferred shares.
Conditions	Deferred evenly over two years from grant date.

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

iii) Total Incentives Performance Plan (TIPP)	
Eligibility	Employees participating in the Institutional TIPP.
Grant	60% of incentive amounts exceeding AUD80,000 (subject to a minimum deferral amount of AUD18,000) received as deferred shares.
Conditions	Deferred evenly over three years from grant date.
iv) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
v) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with the Company to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to the Company.
vi) Further information	
Downward adjustment	Deferred shares remain at risk and the Board can adjust the number of deferred shares downwards to zero at any time before the vesting date. The Company's downward adjustment provisions are detailed in section 3.3.4 of the 2017 Remuneration Report of the 2017 ANZ Annual Report.
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in share capital.
FY 2017 grants	2,016,835 deferred shares were granted with a weighted average grant price of $28.03. No deferred shares were adjusted downward to zero, based on Board discretion.
FY 2016 grants	5,797,450 deferred shares were granted with a weighted average grant price of $26.15. Board discretion was exercised to adjust downward 9,397 deferred shares to zero.

1. Allocations under the ANZ Incentive Plan (ANZIP) in November 2017 will be disclosed in the 2018 financial statements.

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2017 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $56.7 million (2016: $171.3 million) based on 2,016,835 shares (2016: 6,423,571) at VWAP of $28.09 (2016: $26.67).

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights the exercise price is nil.
Rules	Prior to the exercise of the option/right if the Company changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • **Issue of bonus shares** - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • **Pro-rata share offer** - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • **Reorganisation** - In respect of rights, if there is a bonus issue or reorganisation of the Company's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of the Company securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). For equity grants made after 1 November 2012, any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in share options reserve.
Cessation	The provisions that apply if the employee's employment ends are in section 7.2 of the 2017 Remuneration Report of the 2017 ANZ Annual Report.
Downward adjustment	The Company's downward adjustment provisions are detailed in section 3.3.4 of the 2017 Remuneration Report of the 2017 ANZ Annual Report.

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

Option Plans that operated during 2017 and 2016

i) Performance Rights	
Allocation	We grant performance rights to selected employees as part of the Company's incentive plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a three year vesting period and Total Shareholder Return (TSR) performance hurdles.
FY 2017 and FY 2016 grants	During the 2017 year, we granted 944,419 performance rights (2016: 1,570,627). No performance rights were adjusted downward to zero in 2017 and 2016, based on Board discretion.
iii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vestings	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 67,573 deferred share rights (2016: 5,297) for which Board discretion was exercised.
Downward adjustment	Board discretion was also exercised to adjust downward 3,835 deferred share rights to zero in 2017 and 4,583 in 2016.
FY 2017 and FY 2016 grants	During the 2017 year 2,547,377 deferred share rights (no performance hurdles) were granted (2016: 1,211,021).

OPTIONS, DEFERRED SHARE RIGHTS AND PERFORMANCE RIGHTS ON ISSUE

As at 2 November 2017, there were 1,292 holders of 3,652,926 deferred share rights on issue and 174 holders of 3,425,497 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2017 and the movements during 2017:

	Opening balance 1 Oct 2016	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2017
Number of options/rights	6,424,117	3,491,796	(1,815,732)	(629)	(985,768)	7,113,784
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$29.50
WA remaining contractual life						2.4 years
WA exercise price of all exercisable options/rights						$0.00
Outstanding exercisable options/rights						143,839

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

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2016 and the movements during 2016:

	Opening balance 1 Oct 2015	**Options/ rights granted**	**Options/ rights forfeited[1]**	**Options/ rights expired**	**Options/ rights exercised**	**Closing balance 30 Sep 2016**
Number of options/rights	6,241,157	2,781,648	(1,440,051)	–	(1,158,637)	6,424,117
WA exercise price	$0.07	$0.00	$0.00		$0.37	$0.00
WA closing share price						$25.31
WA remaining contractual life						3 years
WA exercise price of all exercisable options/rights						$0.00
Outstanding exercisable options/rights						163,244

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

Of the shares issued as a result of the exercise of options/rights during 2016, 18,062 were issued at an exercise price of $23.71 per share. The balance and those issued in 2017 were issued at a nil exercise price.

As at the date of the signing of the Directors' Declaration on 2 November 2017:

- no options/rights over ordinary shares have been granted since the end of 2017; and
- shares issued as a result of the exercise of options/rights since the end of 2017 are 16,489 all with nil exercise prices.

Fair Value Assumptions

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

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

	2017		2016	
	Deferred Share Rights	Performance Rights	Deferred Share Rights	Performance Rights
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	27.95	28.18	26.62	26.73
Expected volatility of ANZ share price (%)[1]	24.9	25.0	20.2	20.5
Equity term (years)	2.3	5.0	3.9	5.0
Vesting period (years)	2.1	3.0	1.9	3.0
Expected life (years)	2.1	3.0	1.9	3.0
Expected dividend yield (%)	6.49	6.46	6.28	6.28
Risk free interest rate (%)	1.76	1.86	2.10	2.08
Fair value ($)	24.59	13.73	23.67	9.12

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

SATISFYING EQUITY AWARDS

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

The equity we purchased on market during the 2017 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 2,704,206 shares at an average price of $27.83 per share (2016: 1,344,200 shares at an average price of $26.14 per share).

28. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those executives who report directly to the CEO:

- with responsibility for the strategic direction and management of a major income generating division; or
- who control material income and expenses.

KMP compensation included within total personnel expenses in Note 3 Operating Expenses as follows:

	2017 $000	2016[1] $000
Short-term benefits	21,002	21,362
Post-employment benefits	1,046	1,216
Other long-term benefits	169	314
Termination benefits	563	2,418
Share-based payments	14,926	19,382
Total	37,706	44,692

1. Prior period includes the former Group CEO and former disclosed executives until the end of their employment.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2017 $000	2016 $000
Loans advanced[1]	14,497	40,890
Interest charged[2]	550	1,719

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).
2. Interest is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

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

	2017 Number[1]	2016 Number[1]
Shares, options and rights	2,233,182	4,174,363
Subordinated debt	17,152	15,850

1. For KMP that are no longer in office at balance sheet date, the balances are calculated as at their termination date.

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve providing 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, we disclose only those transactions considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

28. RELATED PARTY DISCLOSURES (continued)

ASSOCIATES

We disclose significant associates in Note 23 Investments in Associates. During the course of the financial year, the Company conducted transactions with all associates on terms equivalent to those made on an arm's length basis as shown below:

	2017 $000	2016 $000
Amounts receivable from associates	76,247	57,903
Amounts payable to associates	587	6,133
Interest income from associates	2,728	1,564
Interest expense to associates	18	34
Other expenses paid to associates	8,424	11,632
Dividend income from associates	-	40,609
Costs recovered from associates	748	3,105

There have been no material guarantees given or received by the Company to or from associates. No outstanding amounts between the Company and associates have been written down or recorded as allowances, as they are considered fully collectible by the Company.

SUBSIDIARIES

We disclose material controlled entities in Note 22 Controlled Entities. During the financial year, subsidiaries conducted transactions with each other and with associates on terms equivalent to those on an arm's length basis. As of 30 September 2017, we consider all outstanding amounts on these transactions to be fully collectible.

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

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

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

PROPERTY RELATED COMMITMENTS

	2017 $m	2016 $m
Property capital expenditure		
Contracts for outstanding capital expenditure	98	103
Total capital expenditure commitments for property	98	103
Lease rentals		
Land and buildings	1,818	2,044
Furniture and equipment	145	144
Total lease rental commitments[1]	1,963	2,188
Due within 1 year	394	403
Due later than 1 year but not later than 5 years	908	982
Due later than 5 years	661	803
Total lease rental commitments[1]	1,963	2,188

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2017 is $91 million (2016: $114 million). During the year, we received sublease payments of $28 million (2016: $22 million) and netted them against rent expense.

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

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2017 $m	2016 $m
Contract amount of:		
Undrawn facilities	150,339	161,178
Guarantees and letters of credit	18,062	15,633
Performance related contingencies	18,890	17,710
Total	187,291	194,521

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Company may be required to pay, the total undrawn facilities of $150,339 million (2016: $161,178 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Company may be required to pay, the total guarantees and letters of credit of $18,062 million (2016: $15,633 million) and total performance related contingencies of $18,890 million (2016: $17,710 million) mature within 12 months.

OTHER CONTINGENT LIABILITIES

As at 30 September 2017, the Company had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Company.

BANK FEES LITIGATION

A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. A further action, limited to late payment fees only, commenced in August 2014.

The penalty and statutory claims in the March 2013 class action failed and the claims have been dismissed. The August 2014 action was discontinued in October 2016.

The original claims in the 2010 class action have been dismissed. A new claim has been added to the 2010 class action, in relation to the Company’s entitlement to charge certain periodical payment non-payment fees.

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Benchmark/Rate Actions

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

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

Regulatory Reviews and Customer Exposures

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability, wealth advice, pricing and competition, conduct in financial markets and capital market transactions. During the year, the Company has received various notices and requests for information from its regulators as part of both industry-wide and Company-specific reviews. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

Security Recovery Actions

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

Clearing and Settlement Obligations

Under the following arrangements, the Company has a commitment to comply with rules which could result in a bilateral exposure and loss if a member institution fails to settle: the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Acquirers Community and the High Value Clearing System (HVCS). The Company's potential exposure arising from these arrangements is unquantifiable in advance.

Under the Austraclear System Regulations (Austraclear), and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements if a member institution fails to settle. The Company's potential exposure arising from these arrangements is unquantifiable in advance. For HVCS and Austraclear, the above obligation arises in only limited circumstances.

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

Parent Entity Guarantees

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

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries for USD1.3 billion in cash. The Company provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liabilities. The issue below has not adversely impacted the reported results. All settlements and penalties to date have been covered within existing provisions.

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973 (India). Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

REVOCATION OF DEED OF CROSS GUARANTEE IN RESPECT OF CERTAIN CONTROLLED ENTITIES

During the current year, ASIC replaced class order 98/1418 with a new legislative instrument ASIC Corporations (Wholly owned Companies) Instrument 2016/785. Under the new instrument, APRA regulated companies are not eligible to rely on the ASIC Class Order for relief from financial reporting obligations under Part 2M.3 of the Corporations Act 2001 (Cth).

As Australia and New Zealand Banking Group Limited is regulated by APRA, the Company and the other entities which were party to a Deed of Cross Guarantee executed deeds of revocation and lodged those deeds with ASIC. All companies, including Australia and New Zealand Banking Group Limited, were released from the Deed of Cross Guarantee by 30 September 2017.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

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

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

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

30. COMPENSATION OF AUDITORS

	2017 $'000	2016 $'000
KPMG Australia		
Audit or review of financial reports	6,318	5,617
Audit-related services[1]	3,668	2,975
Non-audit services[2]	220	172
Total[3]	10,206	8,764
Overseas related practices of KPMG Australia		
Audit or review of financial reports	1,645	1,662
Audit-related services[1]	523	507
Non-audit services[2]	-	-
Total	2,168	2,169
Total compensation of auditors	12,374	10,933

1. Comprises prudential and regulatory services of $3.11 million (2016: $2.34 million), comfort letters of $0.55 million (2016: $0.80 million) and other $0.53 million (2016: $0.35 million).
2. The nature of the non-audit services includes general market insights and controls related assessments.
3. Inclusive of goods and services tax.

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

31. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 23 October 2017, the Company announced it had reached a confidential in-principle agreement with the Australian Securities and Investments Commission (ASIC) to settle court action in respect of interbank trading and the bank bill swap rate (BBSW). On 30 October 2017, ANZ informed the Court that agreement with ASIC had been concluded. The financial impact to ANZ has been reflected in the financial statements. On 10 November 2017, there will be a hearing to determine whether the Court is prepared to make the orders which ANZ and ASIC seek so as to give effect to the settlement.

Other than the matter above, there have been no significant events from 30 September 2017 to the date of signing this report.

DIRECTORS' DECLARATION AND LEAD AUDITOR'S INDEPENDENCE DECLARATION

DIRECTORS' DECLARATION

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

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

   i) are prepared in accordance with Part 7.8 of the Corporations Act 2001, including that they comply with the Australian Accounting Standards and the applicable regulations of the Corporations Regulations 2001; and
   ii) give a true and fair view of the financial position of the Company as at 30 September 2017 and of its performance for the year ended on that date; and

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

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

2 November 2017

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 audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2017 there have been:

i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen

Partner

Melbourne

2 November 2017

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

Report on the audit of the Financial Report

OPINION

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

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

- giving a true and fair view of the Group's financial position as at 30 September 2017 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the relevant Corporations Regulations 2001.

The Financial Report comprises the:

- statement of financial position as at 30 September 2017;
- income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- notes 1 to 31 including summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Provision for Credit Impairment;
- Valuation of Financial Instruments held at Fair Value; and
- IT Systems and Controls

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

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

REPORT ON THE AUDIT OF THE FINANCIAL REPORT (continued)

PROVISION FOR CREDIT IMPAIRMENT ($2,962 MILLION)

Refer to the critical accounting estimates and judgements and disclosures in relation to credit impairment provisioning in Note 12 and Note 15 to the Financial Report.

The Key Audit Matter

The provision for credit impairment is a Key Audit Matter as the Company has significant credit risk exposure to a large number of counterparties across a wide range of lending and other products, industries and geographies. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Company in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

How the matter was addressed in our audit

Our audit procedures for the individual and collective provision for credit impairment included:

Provisions against specific individual loans (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Company's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Company's lending policies and regulatory requirements;
- Performing credit assessments of a sample of wholesale loans managed by the Company's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Company as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Company's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we used the information on the Company's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, engaging KPMG specialists where required, and comparing assumptions of inputs used by the Company in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held; and
- For retail loans (smaller customer exposures not monitored individually), testing controls over the systems which record lending arrears, company exposures into delinquency buckets based on the number of days loans are overdue, and calculate individual provisions. We tested automated calculation and change management controls and evaluated the Company's oversight of the portfolios, with a focus on controls over delinquency statistics monitoring. We tested a sample of the level of provisions held against different loan products based on the delinquency profile and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT (continued)

Provisions estimated across loan portfolios (collective provision)

- Testing the Company's processes to validate the models used to calculate collective provisions, and evaluating the Company's model methodologies against established market practices and criteria in the accounting standards;
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models;
- Testing the accuracy of key inputs into models by checking a sample of year-end balances to the general ledger, and repayment history and risk ratings to source systems;
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default, for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Company; and
- Re-performing, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool, the calculation of collective provisions, to determine the accuracy of model output.

We also challenged key assumptions in the components of the Company's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to recent loss experience, current market conditions and specific risks inherent in the Company's loan portfolios;
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by the Company's model validation processes; and
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Company's assessment.

Valuation of Financial Instruments held at Fair Value:

- **FINANCIAL ASSETS HELD AT FAIR VALUE $151,164 MILLION**
- **FINANCIAL LIABILITIES HELD AT FAIR VALUE $60,408 MILLION**

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

The Key Audit Matter

Financial instruments held at fair value on the Company's balance sheet include available-for-sale assets, trading securities, derivative assets and liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss. The instruments are mainly risk management products sold to customers and used by the Company to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter as:

- Financial instruments held at fair value are significant (19% of assets and 8% of liabilities);
- The significant volume and range of products transacted, in a number of international locations, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Company, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument, or where inputs to the internal models, such as discount rates and measures of volatility, are not observable; and
- The valuation of certain derivatives held by the Company is sensitive to inputs including funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT (continued)

How the matter was addressed in our audit

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

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Company's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products and locations;
- Testing the governance and approval controls, such as management review and approval of the valuation models, and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Company's independent product control function;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Company's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available-for-sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample, across locations, of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Company's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Company's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Company's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Company's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions, and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on uncollateralised derivatives. In particular, for a sample of individual counterparties, across locations, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives, across a number of locations.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT (continued)

IT SYSTEMS AND CONTROLS

Refer to the basis of preparation in Note 1 to the Financial Report

The Key Audit Matter

As a major Australian bank, the Company's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Company's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Company's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

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

- Testing the governance controls used by the Company's technology teams suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Company's policies;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. We checked a sample of identified breaks in reconciliations were recorded on exception reports, and subsequently investigated and cleared by the Company.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT (continued)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and part 7.8 of the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Alison Kitchen
Partner

Melbourne
2 November 2017

PURPOSE

2016 ANNUAL REPORT

REMUNERATION REPORT

Contents

Introduction from the Chair of the Human Resources Committee

Dear Shareholder,

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

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

Remuneration outcomes

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

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

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

Executive changes

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

Changes to remuneration structures

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

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

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

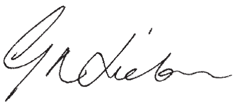
- The cash portion vests immediately.
- Shares are now deferred equally over four years (rather than two years previously).
- Performance rights will continue to be deferred over three years subject to testing at the end of the performance period. 75% are measured against the TSR of the Select Financial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

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

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

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

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



Graeme R Liebelt

Chair – Human Resources Committee

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

1. Basis of Preparation

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

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

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

2. Key Management Personnel (KMP)

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

TABLE 1: KEY MANAGEMENT PERSONNEL

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

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

3. Role of the Board in Remuneration

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

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

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

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

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

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

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

4. The Role of the HR Committee

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

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

5. Remuneration Strategy and Objectives

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

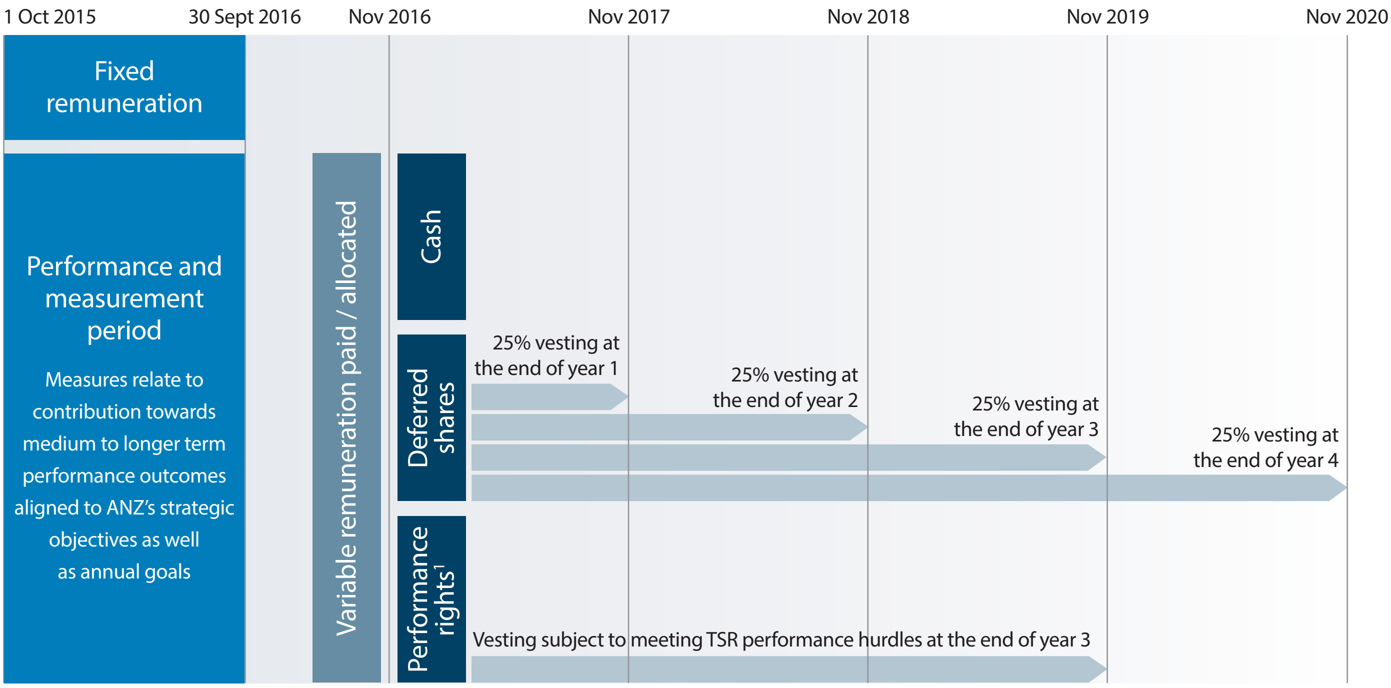
- creating and enhancing value for all ANZ stakeholders;
- emphasising the 'at risk' components of total rewards to increase alignment with shareholders and encourage behaviour that supports the long term financial soundness and the risk management framework of ANZ, and the delivery of superior long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

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

6. The Composition of Executive Remuneration at ANZ

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

FIGURE 1: REMUNERATION OVERVIEW FOR 2016



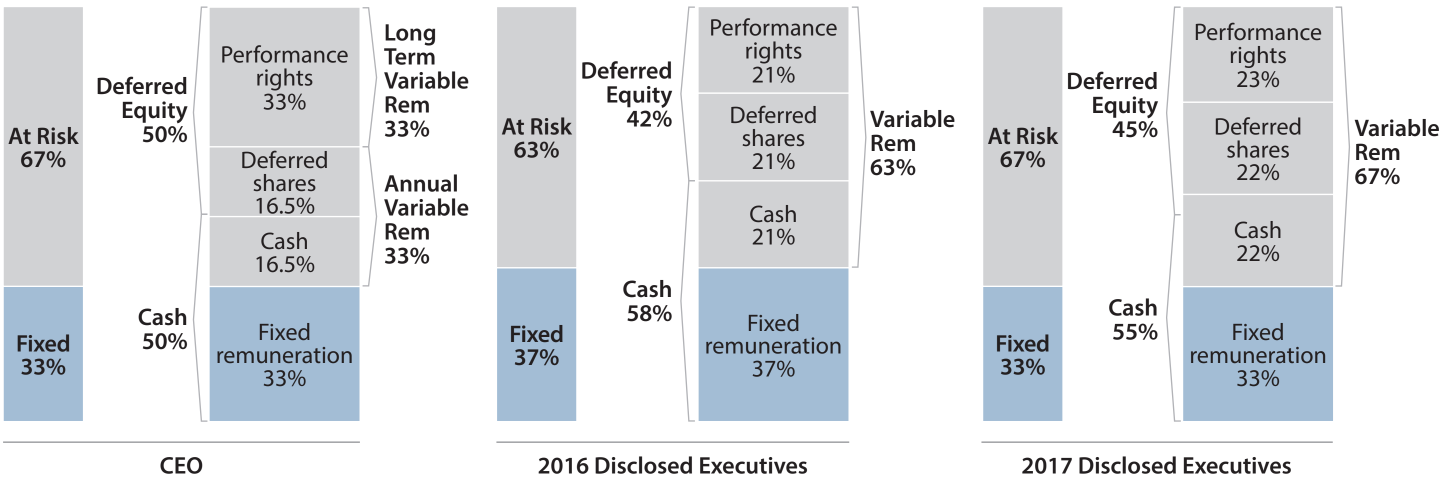
1 Allocated in November for Disclosed Executives and December for the CEO (subject to shareholder approval).

The Board aims to find a balance between:

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

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

FIGURE 2: TARGET REMUNERATION MIX



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

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

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

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

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

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

2017 Bank financial year

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

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

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

6.1 FIXED REMUNERATION

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

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

6.2 VARIABLE REMUNERATION

6.2.1 Overview of arrangements

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

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

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

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

6.2.2 Annual performance

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

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

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

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

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

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

6.2.3 How Variable Remuneration is delivered

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

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

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

Downward adjustment

The Board has on-going and absolute discretion to:

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

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

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

Award instrument	Performance rights delivered to the CEO and Disclosed Executives are a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Upon exercise, each performance right entitles the holder to one ordinary share.
Calculating the number of performance rights	To increase transparency and reduce volatility in the number of performance rights allocated each year a face value methodology has been used for grants after 1 October 2015 to determine the number of performance rights allocated to the CEO and Disclosed Executives. The number of performance rights allocated is calculated based on the five trading day Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX in the week up to and including the start of the performance period (commencing 22 November 2016 for the 2016 award). The future value of performance rights may range from zero to an indeterminate value depending on performance against the hurdle and the share price at the time of exercise.
Performance conditions	For the performance rights in relation to the 2016 year (to be granted in November/December 2016): ▸ 75% will be measured against the TSR of the Select Financial Services comparator group (Tranche 1); and ▸ 25% will be measured against Absolute Compound Annual Growth Rate (CAGR) TSR (Tranche 2). TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. Each tranche will be measured independently from the other so one tranche may vest fully or partially but another tranche may not. The S&P/ASX 50 Index comparator group has been removed for performance rights in relation to the 2016 year to simplify the performance hurdles utilised in the measurement of performance rights.
Performance period	Performance rights awarded to the CEO and Disclosed Executives will be tested against the relevant performance hurdle at the end of the three year performance period. A three year performance period provides a reasonable period to align reward with shareholder return and also acts as a vehicle to help retain the CEO and Disclosed Executives. It aligns to the business planning cycle, provides sufficient time for the longer term performance to be reflected, while balancing a reasonable timeframe for the CEO and Disclosed Executives to find the award meaningful.
Relative TSR performance hurdle and TSR comparator group	For the 2016 (and 2015) awards, the Select Financial Services TSR comparator group is comprised of the following nine companies: ▸ Bank of Queensland Limited ▸ Bendigo and Adelaide Bank Limited ▸ Commonwealth Bank of Australia Limited ▸ DBS Bank Limited ▸ Macquarie Group Limited ▸ National Australia Bank Limited ▸ Standard Chartered PLC ▸ Suncorp Group Limited ▸ Westpac Banking Corporation The proportion of performance rights that become exercisable in each tranche will depend upon the TSR achieved by ANZ relative to the companies in the relevant comparator group at the end of the three year performance period. An averaging calculation is used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility. To ensure an independent TSR measurement, ANZ engages the services of an external organisation (Mercer Consulting (Australia) Pty Ltd) to calculate ANZ's performance against the TSR hurdles. The level of performance required for each level of vesting, and the percentage of vesting associated with each level of performance, are set out below. The performance rights lapse if the performance condition is not met. There is no re-testing.

If the TSR of the Company compared to the TSR of the comparator group:	The percentage of performance rights which will vest is:
Does not reach the 50th percentile	0%
Reaches or exceeds the 50th percentile but does not reach the 75th percentile	50%, plus 2% for every one percentile increase above the 50th percentile
Reaches or exceeds the 75th percentile	100%

Absolute TSR performance hurdle	To strengthen the focus of executives on growing positive returns to shareholders, Absolute CAGR TSR was introduced in 2015 as an internal hurdle contingent on ANZ achieving or exceeding a threshold level of growth (as determined by the Board). The combination of absolute and relative TSR hurdles provides balance to the plan, rewarding executives for performance that exceeds that of peer companies, while still ensuring there is a continued focus on providing positive growth (even when the market is declining). Absolute CAGR TSR provides executives with a more direct line of sight to the performance required to achieve shareholder value creation and provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes. The level of performance required for each level of vesting and the percentage of vesting associated with each level of performance are set out below. The performance rights lapse if the performance condition is not met. There is no re-testing. For the performance rights in relation to the 2016 (and 2015) year, the following targets apply and will be assessed over the three year performance period (commencing 22 November 2016 for the 2016 award):

If the Absolute CAGR TSR of the Company:	The percentage of performance rights which will vest is:
Does not reach 9%	0%
Reaches 9%	50%
Exceeds 9% but does not reach 13.5%	Progressive pro rata vesting between 50% and 100% (on a straight line basis)
Reaches or exceeds 13.5%	100%

ARRANGEMENTS FOR THE CRO

Instead of receiving performance rights, the CRO receives deferred share rights.

Deferred share rights are subject to a time-based vesting hurdle of three years. The value used to determine the number of deferred share rights to be allocated is based on an independent fair value calculation.

6.2.4 Legacy delivery instruments

VARIABLE REMUNERATION ARRANGEMENTS (GRANTED FROM 1 OCTOBER 2015)

The below arrangements relate to 2015 variable remuneration granted in November/December 2015 (under the previous approach), which vary from the arrangements for 2016.

Mandatory deferral	For the CEO and Disclosed Executives' AVR in relation to the 2015 year (granted in November 2015), the mandatory deferral threshold for AVR payments was \$100,000 (subject to a minimum deferral amount of \$25,000) with: ▸ the first \$100,000 paid in cash; ▸ 50% above \$100,000 paid in cash; ▸ 25% above \$100,000 deferred in ANZ equity[1] for one year; and ▸ 25% above \$100,000 deferred in ANZ equity[1] for two years. 100% of the CEO and Disclosed Executives' 2015 LTVR was deferred in hurdled performance rights[2] for three years.

1 Deferred shares or deferred share rights. At the end of the deferral period, each deferred share right entitles the holder to one ordinary share. Deferred shares are ordinary shares.
2 Deferred share rights for the CRO, instead of performance rights.

PERFORMANCE RIGHTS – EXCLUDING THE CRO (granted from 1 October 2015)

Performance conditions	For the performance rights in relation to the 2015 year (granted in November/December 2015): ▸ One third are measured against the TSR of the Select Financial Services comparator group (Tranche 1); ▸ One third are measured against the TSR of the companies within the S&P/ASX 50 Index as at the start of the performance period (Tranche 2); and ▸ One third are measured against Absolute CAGR TSR (Tranche 3).

6.3 OTHER REMUNERATION ELEMENTS

Hedging and Margin Lending Prohibition

As specified in the Trading in ANZ Securities Policy and in accordance with the Corporations Act 2001, equity allocated under ANZ variable remuneration plans must remain at risk until fully vested (in the case of deferred shares) or exercisable (in the case of deferred share rights or performance rights). As such, it is a condition of grant that no schemes are entered into, by an individual or their associated persons, that specifically protects the unvested value of shares, deferred share rights or performance rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares, deferred share rights or performance rights.

ANZ also prohibits the NEDs, CEO and Disclosed Executives from providing ANZ securities in connection with a margin loan or similar financing arrangements which may be subject to a margin call or loan to value ratio breach.

To monitor adherence to this policy, ANZ's NEDs, CEO and Disclosed Executives are required to sign an annual declaration stating that they and their associated persons have not entered into (and are not currently involved in) any schemes to protect the value of their interests in any ANZ securities. Based on the 2016 declarations, ANZ can advise that the NEDs, CEO and Disclosed Executives are fully compliant with this policy.

CEO and Disclosed Executives Shareholding Guidelines

The CEO and Disclosed Executives are expected to accumulate ANZ shares over a five year period, to the value of 200% of their fixed remuneration and to maintain this shareholding while an executive of ANZ. Shareholdings for this purpose include all vested and allocated (but unvested) equity which is not subject to performance hurdles. Based on equity holdings as at 30 September 2016, the CEO and all Disclosed Executives meet or, if less than five years' tenure, are on track to meet their minimum shareholding requirement apart from Alistair Currie, who is stepping down from his role as announced to the market.

Conditions of Grant

The conditions under which deferred shares, deferred share rights and performance rights are granted are approved by the Board in accordance with the rules of the ANZ Employee Share Acquisition Plan and/or the ANZ Share Option Plan.

Where deferred share rights or performance rights are granted, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

CEO and Disclosed Executives' Contract Terms

The following sets out details of the contract terms relating to the CEO and Disclosed Executives. The contract terms for the CEO and all Disclosed Executives are similar, but do, in some cases, vary to suit different circumstances.

Length of contract	The CEO and Disclosed Executives are all on a permanent ongoing employment contract.
Resignation	In order to terminate the employment arrangements: ▸ the CEO is required to provide the Company with 12 months' written notice; ▸ Disclosed Executives are required to provide the Company with 6 months' written notice. On resignation, unless the Board determines otherwise, all unvested deferred shares, all unvested or vested but unexercised performance rights and all deferred share rights are forfeited.
Termination on notice by ANZ	ANZ may terminate employment by providing 12 months' written notice or payment in lieu of the notice period based on fixed remuneration. On termination on notice by ANZ, unless the Board determines otherwise: ▸ all unvested deferred shares, performance rights and deferred share rights are forfeited; and ▸ only performance rights and deferred share rights that are vested may be exercised. Where the Disclosed Executive's termination is classified as a 'good leaver' then, unless the Board decides otherwise, any unvested deferred shares/deferred share rights will be retained and released at the original vesting date. Any unvested performance rights (subject to performance hurdles being met) and deferred share rights will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.
Redundancy (not applicable for the CEO)	If ANZ terminates a Disclosed Executive's employment for reason of redundancy, a severance payment will be made that is equal to 12 months' fixed remuneration. All unvested deferred shares/deferred share rights remain subject to downward adjustment and are released at the original vesting date. All unvested performance rights (subject to performance hurdles being met), and deferred share rights will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.

Death or total and permanent disablement	On death or total and permanent disablement all unvested deferred shares, all deferred share rights and all performance rights will vest.
Termination for serious misconduct	ANZ may immediately terminate employment at any time in the case of serious misconduct, and the executive will only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by ANZ in the event of serious misconduct all deferred shares held in trust will be forfeited and all performance rights and deferred share rights will be forfeited.
Change of control (applicable for the CEO only)	Where a change of control occurs, which includes a person acquiring a relevant interest in at least 50% of the Company's ordinary shares as a result of a takeover bid, or other similar event, the applicable performance conditions applying to the performance rights will be tested and the performance rights will vest based on the extent the performance conditions are satisfied. No pro rata reduction in vesting will occur based on the period of time from the date of grant to the date of the change of control event occurring, and vesting will only be determined by the extent to which the performance conditions are satisfied. Any performance rights which vest based on satisfaction of the performance conditions will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board. Any performance rights which do not vest will lapse with effect from the date of the change of control event occurring, unless the Board determines otherwise. Any unvested deferred shares will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board.
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Other arrangements	In addition to the standard remuneration arrangements, other remuneration may be awarded (for example, to incoming Disclosed Executives) to compensate for awards forfeited on resigning from their previous employer to join ANZ.

Former CEO Contract Terms

The following sets out details of the contract terms relating to the Former CEO as announced to the market on 1 October 2015.

Length of contract	Michael Smith commenced as CEO and Executive Director of ANZ on 1 October 2007 and was on a permanent contract. On 1 October 2015 the Board announced that Michael Smith would be succeeded as CEO by Shayne Elliott effective 1 January 2016.
Key terms of leaving arrangement	Under his employment contract Michael Smith was entitled to 12 months' notice and ANZ had the right to require him to work all or part of this notice period. Accordingly, ANZ determined as follows: 1. Michael Smith worked in the role as CEO for the first 3 months (to 31 December 2015); 2. Michael Smith was on leave for a period of approximately 6 months (gardening leave) (to 7 July 2016); 3. Michael Smith received a payment for the remaining approximately 3 months in lieu of notice (to 30 September 2016) in addition to a payment for pro rata long service leave and other statutory entitlements. No ex gratia payments were or will be made. Equity granted in prior years under ANZ's AVR and LTVR plans will, in accordance with the terms of their issue and Michael Smith's employment contract, remain on foot and will vest at the originally intended vesting dates to the extent to which the performance conditions (where applicable) are satisfied in accordance with the Conditions of Grant (and the terms approved by Shareholders for the performance rights). Where the rights have vested the Board may determine to settle in equity or a cash equivalent payment. There was no accelerated or automatic vesting upon ceasing employment. Michael Smith was entitled to the value of the superannuation funds that he had accumulated over his eight years with ANZ.

7. Linking Remuneration to Balanced Scorecard Performance

7.1 ANZ PERFORMANCE

TABLE 2: ANZ'S FINANCIAL PERFORMANCE 2012 – 2016

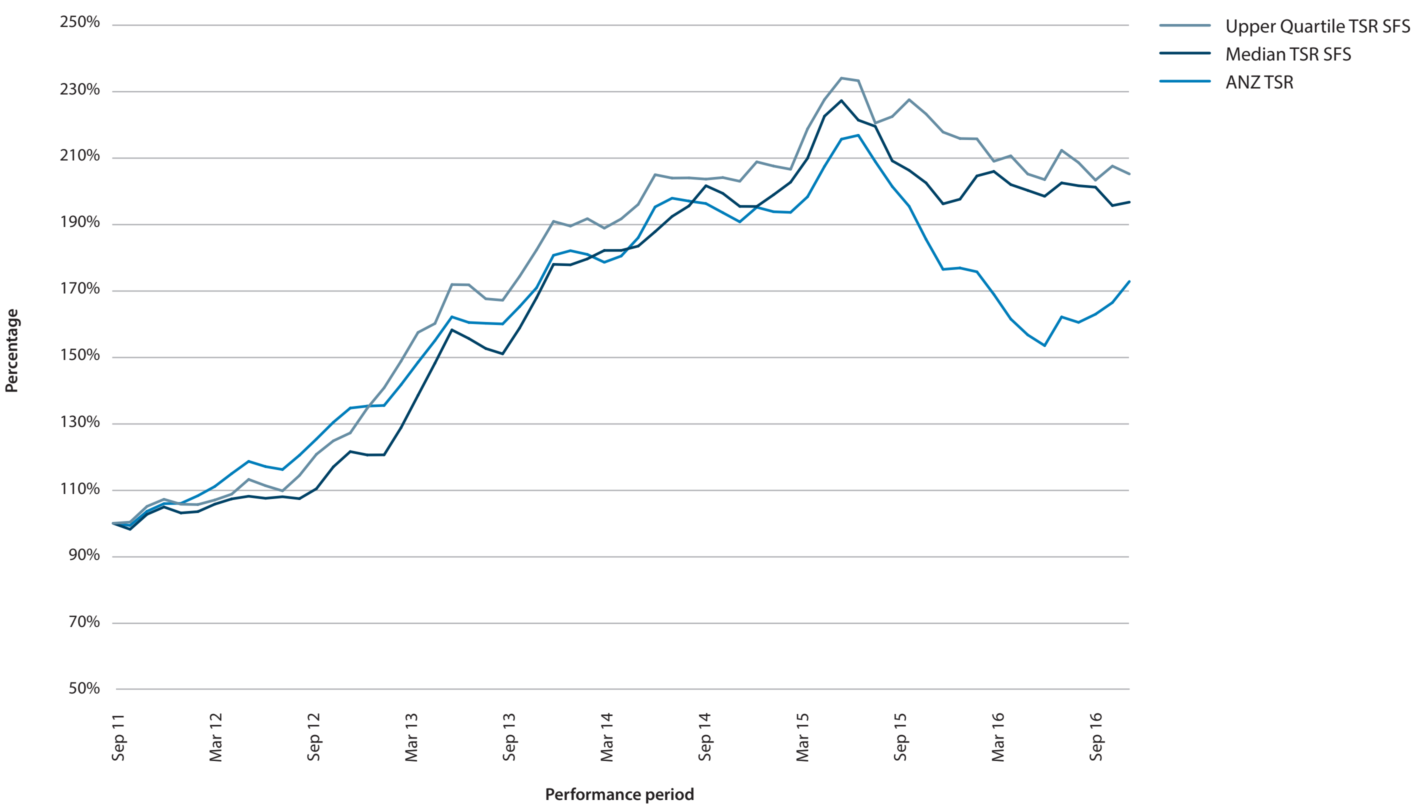
	2012	2013	2014	2015	2016
Statutory profit ($m)	5,661	6,310	7,271	7,493	5,709
Cash/Underlying profit[1] (unaudited)	5,830	6,492	7,117	7,216	5,889
Cash/Underlying return on equity (ROE) (%) (unaudited)	15.1%	15.3%	15.4%	14.0%	10.3%
Cash/Underlying earnings per share (EPS) (unaudited)	218.5	238.3	260.3	260.3	202.6
Share price at 30 September ($)[2]	24.75	30.78	30.92	27.08	27.63
Total dividend (cents per share)	145	164	178	181	160
Total shareholder return (12 month %)	35.4	31.5	5.9	(7.5)	9.2

1 The Group has used cash profit as a measure of performance for ongoing business activities of the Group, enabling shareholders to assess Group and Divisional performance against prior periods and against peer institutions since 1 October 2012. Statutory profit has been adjusted for non-core items to arrive at cash profit. Cash profit is not audited; however, the external auditor has informed the Audit Committee that the cash profit adjustments have been determined on a consistent basis across the respective periods presented.

2 The opening share price at 1 October 2011 was $19.10.

Figure 3 compares ANZ's TSR performance against the median TSR and upper quartile TSR of the performance rights Select Financial Services (SFS) comparator group over the 2012 to 2016 measurement period. ANZ's TSR performance is below the median TSR of the SFS comparator group over the five year period to 30 September 2016. Although this is across a different performance period, it is consistent with the outcomes of the most recently tested performance rights grants.

FIGURE 3: ANZ 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN PERFORMANCE



7.2 VARIABLE REMUNERATION – PERFORMANCE AND OUTCOMES

ANZ uses a balanced scorecard approach to measure performance in relation to the Group's main variable remuneration plans. The scorecard approach provides a framework whereby a combination of measures can be applied to ensure a broader long term strategic focus on driving shareholder value as well as a focus on annual priorities.

The balanced scorecard is aligned to the Group's long term strategic intent under the themes of High Performing, Most Respected, Well Managed, Best Connected and Customer Driven, with each of the five categories having broadly equal weighting. The Board reviews performance against the balanced scorecard and also assesses affordability in light of Group net profit after tax and returns to shareholders, including the level of dividend, in determining the overall reward pool size.

The original balanced scorecard for 2016 was based on the operating plans approved by the Board in October 2015; these were subsequently adjusted, following the appointment of Shayne Elliott as CEO on 1 January 2016, with the Board's endorsement. The changed priorities were considered as being in the best interests of shareholders over the longer term and include:

- Rebalancing of the Institutional portfolio through a reduction in credit risk weighted assets in the year with consequent reduction in revenues.
- Driving a productivity agenda in light of the subdued revenue outlook.

Whilst these changes in strategic priorities have adversely impacted performance against all of the High Performing category and some of the Best Connected, Customer Driven and Most Respected categories in the short term, they have been implemented quickly and effectively and set the Bank up well for the longer term. The Board has taken all these factors into account as well as strategic progress in creating long term value and the reduction in dividend to shareholders. Focus has also been given to adherence to values including building an appropriate culture and balancing risk and return in making remuneration recommendations.

Overall spend approved by the Board for the main annual variable remuneration pool was below target levels with a range of underlying outcomes for Disclosed Executives, in line with ANZ's objectives of differentiating reward based on performance.

The Group's financial performance is below target, predominantly impacted by short term outcomes in Institutional as a result of changed priorities, and a number of specified items including changes to the application of the Group's software capitalisation policy, impairment of an Asian minority investment and changes in the credit valuation adjustment methodology for derivatives and restructuring expenses. Australia and New Zealand have performed well, and Wealth and Retail Asia also generated solid performances. The Group has made strong progress in implementing new strategic priorities, including a $28 billion reduction in Institutional's credit risk weighted assets and containing costs.

The Group has performed well against the Well Managed category. Most Respected, Best Connected and Customer Driven scorecard outcomes have been mixed / slightly below target, partially due to changes to strategic priorities during the year.

The following provides key measures within each category of the balanced scorecard used in 2016.

Category	Measure	Outcome[1]
High Performing		Below Target:
	Revenue	Revenue of $20,577 million, up (+0.2%) on 2015. Strong growth in Australia and New Zealand was largely offset by lower growth in Institutional reflecting the challenging market conditions and the rebalancing of the Institutional portfolio, the impairment of our AmBank investment and the impact of a derivative credit valuation adjustment methodology change.
	Economic profit[2]	Economic profit of $1,278 million (determined using a 10% Cost of Capital), was down 56% due to the impact of "Specified Items[3]" as well as higher capital holdings reflecting the higher capital requirements.
	Return on equity (ROE)	Cash ROE of 10.3% was down from 14.0% in 2015 due to the impact of "Specified Items" and the higher capital requirements. Excluding the "Specified Items" ROE for the year was 12.2%.
	Cash earnings per share (EPS)	Cash EPS of 202.6 cents was down from 260.3 cents in 2015 reflecting both the impact of the "Specified Items" and the impacts of share issuances from raising capital in 2015. Excluding the "Specified Items" cash EPS was 239.7 cents.
Most Respected		Slightly Below Target:
	Workforce diversity	Workforce diversity is core to delivering on our super regional strategy. The percentage of management roles filled by women has increased from 40.4% to 41.5% year on year[4]. ANZ is focused on increasing the diversity of its workforce.
	Employee engagement	An engaged workforce is regarded as an important driver of sustainable long term performance. The continuing challenging business conditions and significant bank-wide changes over the year have contributed to a decline in employee engagement to 74% in 2016 compared to 76% in 2015.
	Senior leaders as role models of our values	The overall assessment of Senior Leaders as role models of our values has increased to 72% in 2016 from 71% in 2015.

Category	Measure	Outcome[1]
Well Managed		On Target:
	Maintain strong credit rating	Maintained a strong credit rating at AA- which is fundamental to the ongoing stability of the Group.
	Core funding ratio (CFR)	Maintained a strong CFR of 89.7%, through disciplined balance sheet management.
	Cost to income ratio	Cost to income ratio of 50.6% was significantly higher than 2015 due to the impact of "Specified Items".
	Number of repeat adverse internal audit ratings	ANZ Internal Audit conduct reviews to identify weaknesses in procedures and compliance with policies. In 2016 there were 4 repeat adverse audit ratings out of 183 reports (2015 – Nil).
Best Connected		Slightly Below Target:
	Growth in products per customer	In 2016, products per customer remained stable in Australia, New Zealand and Institutional, with Wealth division increasing the number of wealth solutions in ANZ channels and increasing customer numbers in Private Bank.
	Growth in cross-border revenue	Growth in cross-border revenue declined from 1.1% in 2015 to -1.5% in 2016 due to the run-off of lower return portfolios as a result of the change in strategic priorities and lower external credit growth, especially in Asia.
Customer Driven		Slightly Below Target:
	Customer satisfaction (based on external survey outcomes)	ANZ tracks customer satisfaction across its businesses as part of a group of indicators of longer term performance trends. ANZ aims to achieve top quartile customer satisfaction scores in each business based on external surveys. In 2016, both customer satisfaction and market share in Australia Retail have decreased slightly, and Corporate and Commercial segment also had a lower customer satisfaction rate. Customer satisfaction in New Zealand is stable across Personal, Commercial and Rural customer segments. While New Zealand Retail has a higher market share, Commercial and Agri-Business' market share has declined partly as a result of change of strategic direction. Institutional has maintained #1 ranking in terms of customer satisfaction (Peter Lee Surveys) in APEA and New Zealand. In Australia Institutional has improved to No. 1 from No. 2 last year.

1 The outcomes of these key measures are derived from unaudited financial and non-financial information.
2 Economic profit is an unaudited risk adjusted profit measure determined by adjusting cash profit for economic credit costs, the benefit of imputation credits and the cost of capital.
3 The impacts of "Specified Items" include the impacts of changes to the application of the Group's software capitalisation policy, an Asia Partnership impairment charge (AmBank), gain on cessation of equity accounting (Bank of Tianjin), restructuring expenses, changes in the credit valuation adjustment methodology for derivatives and the divestment of Esanda Dealer Finance portfolio. Further details are provided in ANZ's 2016 Annual Report on page 19.
4 Includes all employees regardless of leave status but not contractors (which are included in FTE).

The following provides the vesting outcomes for performance rights granted to the CEO (current and former) and Disclosed Executives (excluding the CRO) in November/December 2012 which reached the end of the performance period in November/December 2015.

TABLE 3: PERFORMANCE RIGHTS HURDLE OUTCOMES

Recipients	Type	Hurdle	Grant date	First date exercisable	ANZ TSR %	Median TSR %	Vested %	Lapsed %
CEO and Disclosed Executives	LTVR performance rights	Relative TSR – Select Financial Services	12-Nov-12	11-Nov-15	38.35%	54.99%	0%	100%
Former CEO			19-Dec-12	18-Dec-15	31.31%	48.22%	0%	100%

8. 2016 Remuneration

8.1 NON-EXECUTIVE DIRECTORS (NEDS)

Principles underpinning the remuneration policy for NEDs.

Principle	Comment
Aggregate Board and Committee fees are within the maximum annual aggregate limit approved by shareholders	The current aggregate fee pool for NEDs of $4 million was approved by shareholders at the 2012 Annual General Meeting. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.
Fees are set by reference to key considerations	Board and Committee fees are set by reference to a number of relevant considerations including: ▸ general industry practice and best principles of corporate governance; ▸ the responsibilities and risks attached to the role of NEDs; ▸ the time commitment expected of NEDs on Group and Company matters; and ▸ fees paid to NEDs of comparable companies. ANZ compares NED fees to a comparator group of Australian listed companies with a similar size market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size, nature of work and time commitment required by NEDs.
The remuneration structure preserves independence whilst aligning interests of NEDs and shareholders	So that independence and impartiality is maintained, fees are not linked to the performance of the Company and NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

Components of NED Remuneration

NEDs receive a base fee for being a Director of the Board, and additional fees for either chairing or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for service on a Board Committee.

NEDs also receive superannuation contributions in accordance with the current Superannuation Guarantee legislation (up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions.

Based on an independent assessment of market practice the Board elected to increase the ANZ Chairman fee and NED base fee, and the Committee Chair and Member fees for the HR and Risk Committees as shown below. The Committee Chair and Committee Member fees for the Audit, Governance and Technology Committees remained unchanged for 2016.

Elements	Details			
Board/Committee fees per annum		Year	Fee	
	Board Chairman Fee[1]	**2016**	**$825,000**	**(including superannuation)**
		2015	$810,000	(including superannuation)
	Board NED Base Fee	**2016**	**$240,000**	**(including superannuation)**
		2015	$235,000	(including superannuation)
	Committee Fees	**Year**	**Committee Chair**	**Committee Member**
	Audit	**2016/2015**	**$65,000**	**$32,500**
	Governance	**2016/2015**	**$35,000**	**$15,000**
	Human Resources	**2016**	**$57,000**	**$29,000**
		2015	$55,000	$25,000
	Risk	**2016**	**$62,000**	**$31,000**
		2015	$60,000	$30,000
	Technology	**2016/2015**	**$35,000**	**$15,000**
Post-employment Benefits	The Chairman and NED base fee structure (included above) are inclusive of superannuation contributions.			

1 ANZ Board Chairman is an ex-officio member of all Board Committees and does not receive Committee member fees.

NED Shareholding Guidelines

The NED shareholding guidelines require NEDs to accumulate shares, over a five year period from appointment, to the value of 100% (200% for the Chairman) of the NED base fee and to maintain this shareholding while a Director of ANZ. NEDs have agreed that where their holding is below this guideline they will direct a minimum of 25% of their fees each year toward achieving this shareholding.

All NEDs have met or, if appointed within the last five years, are on track to meet their minimum shareholding requirement.

NED Statutory Remuneration Disclosure

TABLE 4: NED REMUNERATION FOR 2016 AND 2015

		Short-Term NED Benefits		Post-Employment	
	Financial Year	Fees[1] $	Non monetary benefits $	Super contributions $	Total remuneration[2,3] $
Current Non-Executive Directors					
D Gonski	**2016**	**805,615**	**–**	**19,385**	**825,000**
	2015	791,085	–	18,915	810,000
I Atlas	**2016**	**297,115**	**–**	**19,385**	**316,500**
	2015	270,460	–	18,915	289,375
P Dwyer	**2016**	**345,615**	**–**	**19,385**	**365,000**
	2015	336,085	–	18,915	355,000
H Lee	**2016**	**315,615**	**–**	**19,385**	**335,000**
	2015	306,085	–	18,915	325,000
G Liebelt	**2016**	**338,615**	**–**	**19,385**	**358,000**
	2015	331,085	–	18,915	350,000
I Macfarlane	**2016**	**330,115**	**–**	**19,385**	**349,500**
	2015	323,585	–	18,915	342,500
J Macfarlane	**2016**	**299,115**	**–**	**19,385**	**318,500**
	2015	293,585	–	18,915	312,500
Total of all Non-Executive Directors	**2016**	**2,731,805**	**–**	**135,695**	**2,867,500**
	2015	2,651,970	–	132,405	2,784,375

1 Fees are the sum of Board fees and Committee fees, as included in the Annual Report.
2 Long-term benefits and share-based payments are not applicable for the Non-Executive Directors. There were no termination benefits for the Non-Executive Directors in either 2015 or 2016.
3 Amounts disclosed for remuneration of Directors exclude insurance premiums paid by the Group in respect of Directors' and officers' liability insurance contracts. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the Directors believe that no reasonable basis for such allocation exists.

8.2 CHIEF EXECUTIVE OFFICER (CEO) REMUNERATION OUTCOMES

Actual remuneration provided to the CEO in 2016 is detailed below, with remuneration tables provided in Section 8.4.

Fixed remuneration: The CEO's annual fixed remuneration was set at commencement at $2.1 million.

AVR: The CEO has a target AVR opportunity of $2.1 million. The actual amount awarded can increase or decrease from this number dependent on his performance as CEO and the performance of the organisation as a whole. Specifically, if, in the Board's view, the CEO has performed above/below his targets the Board may exercise its discretion to increase/decrease the AVR from his target payment.

The Board approved the Former CEO's 2016 balanced scorecard annual objectives and the Group's longer term strategic goals at the start of the bank financial year. The Current CEO has been assessed against these in combination with the new targets set at the time of his appointment. The CEO's AVR payment for 2016 was then determined having regard to his delivery against these objectives, the overall performance of the organisation and the shareholder experience (including the reduction in the dividend). Accordingly the AVR payment for 2016 is $1,550,000 (around 80% of target) with half paid in cash and half awarded as deferred shares (25% deferred for one year, 25% deferred for two years, 25% deferred for three years and 25% deferred for four years).

LTVR: At the 2015 Annual General Meeting shareholders approved an LTVR grant of performance rights to the incoming CEO with a face value of $4.2 million (at 100% vesting), divided into three equal tranches. The performance condition for Tranches 1 and 2 is based on relative TSR against set comparator groups, and for Tranche 3 is based on ANZ's Absolute CAGR TSR performance against targets set by the Board. Performance will be assessed at the end of the three year performance period commencing 18 November 2015 (with no retesting). The total number of performance rights granted was determined by splitting the face value at 100% vesting into three equal tranches of $1.4 million each and then dividing these amounts by the five trading day VWAP of the Company's shares traded on the ASX in the week up to, and including, 18 November 2015 (the start of the performance period), of $26.32. This equated to 53,191 performance rights being allocated each for the first, second and third tranches.

For 2016, it is proposed to grant LTVR with a face value of $4,200,000 (100% vesting) as performance rights subject to shareholder approval at the 2016 Annual General Meeting, reflecting the importance of focusing the CEO on the achievement of longer term strategic objectives and alignment with shareholders' interests. The LTVR will be delivered as 75% in Tranche 1 (Select Financial Services comparator group) and 25% in Tranche 2 (Absolute CAGR TSR), subject to testing after three years (with no retesting).

8.3 DISCLOSED EXECUTIVES REMUNERATION OUTCOMES

Actual remuneration provided to the Disclosed Executives in 2016 is summarised below, with remuneration tables provided in Section 8.4.

Fixed remuneration: For each of the Disclosed Executive appointments in 2016, fixed remuneration was set lower than that of the prior incumbent (where relevant). The annual review of ANZ's fixed remuneration levels for Disclosed Executives identified that most existing executives were competitively positioned within the market and therefore an adjustment was only made to one executive (Mark Whelan).

Variable Remuneration (VR): All AVR awarded in the 2016 financial year related to performance from the 2015 financial year (paid/granted in November/December 2015).

In determining VR outcomes each year the Board takes into consideration overall Company performance against the balanced scorecard of measures, along with individual performance against set objectives.

Overall, the total amount of VR for Disclosed Executives for the 2016 year (which are paid/granted in November/December 2016) is significantly lower than what was paid to the same group of people for the prior year reflecting a more challenging year. Nevertheless it should be noted that the progress in reducing credit risk weighted assets in order to rebalance the Institutional portfolio, together with significant sustainable cost reductions, are important for positioning the bank for longer term success.

8.4 REMUNERATION TABLES – CEO AND DISCLOSED EXECUTIVES

Tables 5 and 6: Awarded Remuneration Disclosure has been prepared to provide shareholders with a view of remuneration structure and how remuneration was awarded to the CEO and Disclosed Executives for 2015 and 2016. The Board believes presenting information in this way provides the shareholder with increased clarity and transparency of the CEO and Disclosed Executives' remuneration, clearly showing the amounts awarded for each remuneration component (fixed remuneration and variable remuneration) within the financial year as well as the amounts actually received.

The information provided in Tables 5 and 6 differs from the information provided in Table 7: Statutory Remuneration Disclosure, which has been prepared in accordance with Australian Accounting Standards. A description of the difference between the three tables in relation to the 2016 financial year information is provided below:

	Individuals included in table	**Fixed remuneration**	**Non monetary benefits**	**Retirement benefits**	**Long service leave accrual**	**Annual Variable Remuneration (AVR)**	**Long Term Variable Remuneration (LTVR)**	**Other Equity Allocations**
						Or Variable Remuneration (VR)		
CEO Awarded Remuneration Disclosure Table (Table 5)	Current CEO	Total of cash salary and superannuation contributions	Non monetary benefits which typically consist of company-funded benefits and fringe benefits tax payable on these benefits	Not included	Not included	AVR awarded in Nov 2016 for the 2016 financial year - expressed as a cash value plus a deferred equity grant value The equity allocation value multiplied by the number of instruments granted equals the AVR/LTVR deferred equity dollar value	Award value of LTVR granted in Dec[1] 2016	Not included
Disclosed Executives Awarded Remuneration Disclosure Table (Table 6)	Current Disclosed Executives (pro rated for period of year as a KMP)	Total of cash salary and superannuation contributions	Non monetary benefits which typically consist of company-funded benefits and fringe benefits tax payable on these benefits	Not included	Not included	VR awarded in Nov 2016 for the 2016 financial year – expressed as a cash value plus deferred equity grant values The equity allocation value multiplied by the number of instruments granted equals the VR deferred equity dollar values		Not included
Statutory Remuneration Disclosure Table (Table 7)	Current and Former CEO and, Current and Former Disclosed Executives (pro rated for period of year as a KMP)	Cash salary (including any reductions made in relation to the utilisation of ANZ's Lifestyle Leave Policy) and superannuation contributions	As above	Retirement benefit accrued during the year. This relates to a retirement allowance available to individuals employed prior to Nov 1992	Long service leave accrued during the year	Includes cash AVR/VR (Nov 2016 element only) under Total cash incentive and amortised AVR/VR for deferred equity from current and prior year awards Amortised AVR fair values relate to AVR awards made in Nov 2013, 2014, 2015 and AVR/VR to be granted in Nov 2016 Equity is amortised over the vesting period of the award	Amortised LTVR fair values relate to LTVR awards made in Nov/Dec 2012, 2013, 2014 and 2015	Amortised fair values for equity awards made in prior years, such as special reward arrangements, excluding AVR/VR and LTVR awards

1 Subject to Shareholder approval.

TABLE 5: AWARDED REMUNERATION DISCLOSURE – CURRENT CEO REMUNERATION FOR 2016 AND 2015

	Financial Year	Fixed: Remuneration $	Fixed: Non monetary benefits $	AVR: Cash $	AVR: Shares $	AVR: Total $	AVR: Target $
Current CEO							
S Elliott[3]	**2016**	**1,887,500**	**17,110**	**775,000**	**775,000**	**1,550,000**	**1,950,000**
Chief Executive Officer	2015	1,250,000	17,037	1,300,000	1,200,000	2,500,000	

1 The possible range of AVR is between 0 and 1.5 times target AVR. The actual AVR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their AVR entitlement. The minimum value is nil and the maximum value is what was actually paid.

2 Total Remuneration assumes performance rights face value at 50% vesting.

3 **S Elliott** – Concluded in the Chief Financial Officer role on 31 December 2015 and commenced in the Chief Executive Officer role on 1 January 2016 so 2016 remuneration reflects amounts prorated for partial year service in both roles. Non monetary benefits include car parking and taxation services. The 2016 performance rights relate to the proposed LTVR grant, subject to approval by shareholders at the 2016 Annual General Meeting.

TABLE 6: AWARDED REMUNERATION DISCLOSURE – CURRENT DISCLOSED EXECUTIVE REMUNERATION FOR 2016 AND 2015

	Financial Year	Fixed: Remuneration $	Fixed: Non monetary benefits[1] $	Variable Remuneration (VR): Cash $	Variable Remuneration (VR): Shares/Share rights $	Variable Remuneration (VR): Performance rights face value at 50% vesting $	Variable Remuneration (VR): Performance rights face value at 100% vesting $
Current Disclosed Executives							
M Carnegie[4]	**2016**	**260,000**	**7,072**	**132,000**	**132,000**	**136,000**	**272,000**
Group Executive, Digital Banking							
A Currie	**2016**	**1,100,000**	**17,110**	**495,000**	**495,000**	**510,000**	**1,020,000**
Chief Operating Officer	2015	1,100,000	16,537	1,000,000	900,000	750,000	1,500,000
D Hisco[5]	**2016**	**1,186,570**	**472,574**	**725,969**	**725,969**	**747,968**	**1,495,935**
Group Executive and Chief Executive Officer, New Zealand	2015	1,181,243	439,790	1,162,631	1,062,631	699,264	1,398,528
G Hodges	**2016**	**1,050,000**	**17,110**	**589,050**	**589,050**	**606,900**	**1,213,800**
Deputy Chief Executive Officer	2015	1,050,000	18,448	800,000	700,000	500,000	1,000,000
M Jablko[6]	**2016**	**200,000**	**–**	**132,000**	**132,000**	**136,000**	**272,000**
Chief Financial Officer							
F Ohlsson[7]	**2016**	**660,000**	**30,072**	**279,873**	**279,873**	**288,354**	**576,708**
Group Executive, Australia							
M Whelan[8]	**2016**	**1,166,000**	**11,610**	**750,750**	**750,750**	**773,500**	**1,547,000**
Group Executive, Institutional	2015	500,000	5,625	500,000	400,000	350,000	700,000
N Williams[9]	**2016**	**1,350,000**	**19,707**	**709,500**	**709,500**	**731,000**	
Chief Risk Officer	2015	1,350,000	21,441	1,000,000	900,000	750,000	

1 Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services.

2 The possible range of VR is between 0 and 1.5 times target VR. The actual VR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their VR entitlement. The minimum value is nil and the maximum value is what was actually paid.

3 Total Remuneration assumes performance rights face value at 50% vesting.

4 **M Carnegie** – Commenced in a Disclosed Executive role on 27 June 2016 so 2016 remuneration reflects partial year service.

5 **D Hisco** – 2015 and 2016 remuneration value in the table represents his NZD remuneration converted to AUD (and rounded) at the average exchange rate for the 2015 and 2016 financial years respectively. Non monetary benefits include expenses related to his assignment to New Zealand. D Hisco also received shares to the value of $736 in relation to the Employee Share Offer in December 2015.

6 **M Jablko** – Commenced in a Disclosed Executive role on 18 July 2016 so 2016 remuneration reflects partial year service.

7 **F Ohlsson** – Commenced in a Disclosed Executive role on 1 February 2016 so 2016 remuneration reflects amounts prorated for partial year service. Non monetary benefits include expenses related to his relocation back to Australia from assignment in New Zealand.

8 **M Whelan** – Commenced in a Disclosed Executive role on 3 April 2015, and changed Disclosed Executive roles from 1 February 2016. 2015 remuneration reflects amounts prorated to reflect 6 months service in a Disclosed Executive role.

9 **N Williams** – As Chief Risk Officer, as part of his VR, N Williams receives deferred share rights instead of performance rights.

	LTVR		Total Remuneration[2]			Previously deferred variable remuneration	
Maximum opportunity[1] $	Performance rights face value at 50% vesting $	Performance rights face value at 100% vesting $	Total $	Deferred as equity $	Received $	Vested during the year $	Lapsed/ Forfeited during the year $
2,925,000	**2,100,000**	**4,200,000**	**5,554,610**	**2,875,000**	**2,679,610**	**1,044,596**	**(3,140,238)**
	2,100,000	4,200,000	5,867,037	3,300,000	2,567,037	1,243,525	(2,317,820)

			Total Remuneration[3]			Previously deferred variable remuneration	
Total $	Target $	Maximum opportunity[2] $	Total $	Deferred as equity $	Received $	Vested during the year $	Lapsed / Forfeited during the year $
400,000	**442,000**	**663,000**	**667,072**	**268,000**	**399,072**	–	–
1,500,000 2,650,000	**1,870,000**	**2,805,000**	**2,617,110** 3,766,537	**1,005,000** 1,650,000	**1,612,110** 2,116,537	**652,679** 1,495,732	**(1,962,629)** –
2,199,905 2,924,526	**2,017,169**	**3,025,754**	**3,859,049** 4,545,559	**1,473,936** 1,761,895	**2,385,113** 2,783,664	**942,219** 1,095,173	**(1,308,419)** (1,782,914)
1,785,000 2,000,000	**1,785,000**	**2,677,500**	**2,852,110** 3,068,448	**1,195,950** 1,200,000	**1,656,160** 1,868,448	**554,817** 646,299	**(1,308,419)** (1,782,914)
400,000	**340,000**	**510,000**	**600,000**	**268,000**	**332,000**	–	–
848,100	**945,509**	**1,418,264**	**1,538,172**	**568,227**	**969,945**	–	–
2,275,000 1,250,000	**1,982,200**	**2,973,300**	**3,452,610** 1,755,625	**1,524,250** 750,000	**1,928,360** 1,005,625	**1,058,937** –	**–** –
2,150,000 2,650,000	**2,295,000**	**3,442,500**	**3,519,707** 4,021,441	**1,440,500** 1,650,000	**2,079,207** 2,371,441	**1,473,322** 1,513,324	**–** –

TABLE 7: STATUTORY REMUNERATION DISCLOSURE – CEO AND DISCLOSED EXECUTIVE REMUNERATION FOR 2016 AND 2015

	Financial Year	Short-Term Employee Benefits			
		Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3,4] $	Other cash $
Current CEO and Current Disclosed Executives					
S Elliott Chief Executive Officer	**2016**	**1,723,744**	**17,110**	**775,000**	**–**
	2015	1,141,553	17,037	1,300,000	–
M Carnegie[10] Group Executive, Digital Banking	**2016**	**237,443**	**7,072**	**132,000**	**736,000**
A Currie Chief Operating Officer	**2016**	**966,077**	**17,110**	**495,000**	**–**
	2015	966,112	16,537	1,000,000	–
D Hisco[11] Group Executive and Chief Executive Officer, New Zealand	**2016**	**1,186,570**	**472,574**	**725,969**	**–**
	2015	1,181,243	439,790	1,162,631	–
G Hodges[12] Deputy Chief Executive Officer	**2016**	**958,904**	**17,110**	**589,050**	**–**
	2015	958,904	18,448	800,000	–
M Jablko[13] Chief Financial Officer	**2016**	**182,648**	**–**	**132,000**	**–**
F Ohlsson[11,14] Group Executive, Australia	**2016**	**602,740**	**30,072**	**279,873**	**–**
M Whelan[15] Group Executive, Institutional	**2016**	**1,064,840**	**11,610**	**750,750**	**–**
	2015	456,621	5,625	500,000	–
N Williams Chief Risk Officer	**2016**	**1,232,877**	**19,707**	**709,500**	**–**
	2015	1,232,877	21,441	1,000,000	–
Former CEO and Former Disclosed Executives					
M Smith[16] Former Chief Executive Officer	**2016**	**2,390,868**	**192,016**	**–**	**–**
	2015	3,308,557	204,530	2,050,000	–
P Chronican[17] Former Chief Executive Officer, Australia	2015	1,484,018	17,163	300,000	–
A Géczy[18] Former Chief Executive Officer, International & Institutional Banking	**2016**	**1,061,644**	**37,977**	**–**	**–**
	2015	1,141,553	856,640	850,000	–
J Phillips[19] Former Group Executive, Wealth, Marketing and Innovation	**2016**	**719,178**	**155,644**	**–**	**–**
	2015	958,904	156,957	900,000	–
Total of all Executive KMPs[20]	**2016**	**12,327,533**	**978,002**	**4,589,142**	**736,000**
	2015	12,830,342	1,754,168	9,862,631	–

1 Cash salary includes adjustments made in relation to the utilisation of ANZ's Lifestyle Leave Policy, where applicable.

2 Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services. This item also includes costs met by the company in relation to relocation, gifts received on leaving ANZ for former Disclosed Executives, and life insurance for the former CEO. The fringe benefits tax payable on any benefits is also included in this item.

3 The total cash incentive relates to the cash component only, with the relevant amortisation of the AVR/VR deferred components included in share-based payments and amortised over the vesting period. The total AVR/VR was approved by the Board on 13 October 2016. 100% of the cash component of the AVR/VR awarded for the 2015 and 2016 years vested to the Disclosed Executive in the applicable financial year.

4 The possible range of AVR/VR is between 0 and 1.5 times target AVR/VR. The actual AVR/VR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their AVR/VR entitlement. The minimum value is nil and the maximum value is what was actually paid.

5 For all Australian based Disclosed Executives, the superannuation contribution reflects the Superannuation Guarantee Contribution – individuals may elect to take this contribution as superannuation or a combination of superannuation and cash.

6 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, D Hisco, G Hodges and N Williams are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: three months of preserved notional salary (which is 65% of Fixed Remuneration) plus an additional 3% of notional salary for each year of full time service above 10 years, less the total accrual value of long service leave (including taken and untaken).

7 In accordance with the requirements of AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the equity become exercisable.

8 Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former KMP of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

9 While the CEO is an Executive Director, he has been included in this table with the Disclosed Executives.

10 M Carnegie commenced in a Disclosed Executive role on 27 June 2016 so 2016 remuneration reflects partial service year. As part of M Carnegie's employment arrangement, she will receive $836,000 in cash (of which $736,000 was paid in 2016) and $3.264 million in deferred equity vesting from November 2016 to June 2018, as compensation for bonus opportunity foregone and deferred remuneration forfeited.

11 D Hisco was eligible in 2015 and 2016, and F Ohlsson in 2016, to receive shares in relation to the Employee Share Offer, which provides a grant of ANZ shares in each financial year to eligible employees subject to Board approval. Refer to note 39 Employee Share and Option Plans for further details on the Employee Share Offer.

Post-Employment		Long-Term Employee Benefits	Share-Based Payments[7]					
			Total amortisation value of					
			Variable remuneration			Other equity allocations		
Super contributions[5] $	Retirement benefit accrued during year[6] $	Long service leave accrued during the year $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits $	Grand total remuneration[8, 9] $
163,756	–	113,522	1,211,322	–	1,065,203	–	–	5,069,657
108,447	–	18,940	1,191,554	–	988,004	–	–	4,765,535
22,557	–	3,985	14,282	–	10,496	689,853	–	1,853,688
95,434	–	16,713	538,038	151,198	783,998	–	–	3,063,568
95,434	–	25,567	843,979	–	713,982	–	–	3,661,611
–	7,034	19,566	–	865,109	788,989	710	–	4,066,521
–	8,529	25,130	–	1,028,252	619,810	466	–	4,465,851
91,096	4,522	16,203	607,475	–	587,186	–	–	2,871,546
91,096	4,565	15,910	670,413	–	496,497	–	–	3,055,833
17,352	–	3,113	11,486	–	8,340	181,983	–	536,922
57,260	–	68,843	–	333,975	163,593	469	–	1,536,825
101,160	–	51,210	950,540	–	442,551	–	–	3,372,661
43,379	–	22,550	463,499	–	61,893	–	–	1,553,567
117,123	5,814	20,511	757,057	918,106	–	–	–	3,780,695
117,123	13,830	65,795	862,272	664,022	–	–	–	3,977,360
227,132	–	–	464,059	1,182,925	3,904,672	–	1,350,640	9,712,312
91,443	–	78,054	1,172,496	767,058	3,170,182	–	–	10,842,320
140,982	–	–	719,083	200,000	818,698	–	104,145	3,784,089
100,856	–	–	632,817	–	717,064	–	310,494	2,860,852
108,447	–	18,940	608,406	–	436,929	–	–	4,020,915
68,822	–	–	677,356	–	721,214	–	756,961	3,099,175
91,096	–	19,779	753,726	–	553,742	–	–	3,434,204
1,062,548	17,370	313,666	5,864,432	3,451,313	9,193,306	873,015	2,418,095	41,824,422
887,447	26,924	290,665	7,285,428	2,659,332	7,859,737	466	104,145	43,561,285

12 Long service leave accrued during the year includes a one-off long service loyalty award for G Hodges.

13 M Jablko commenced in a Disclosed Executive role on 18 July 2016 so 2016 remuneration reflects partial service year. As part of M Jablko's employment arrangement, she will receive $268,082 in cash and $1,657,082 in deferred equity vesting from November 2017 to February 2021, as compensation for bonus opportunity foregone and deferred remuneration forfeited.

14 F Ohlsson commenced in a Disclosed Executive role on 1 February 2016 so 2016 remuneration reflects amounts prorated for the partial service year.

15 M Whelan commenced in a Disclosed Executive role on 3 April 2015 so 2015 remuneration reflects amounts prorated for the partial service year.

16 M Smith concluded in role on 31 December 2015 and ceased employment 7 July 2016. Statutory remuneration table reflects his expense up to his date of termination, 7 July 2016. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice payable upon termination.

17 P Chronican concluded in role on 2 April 2015 and ceased employment 31 December 2015. Statutory remuneration table reflects his expense up to his date of termination, 31 December 2015 (i.e. shows 15 months of fixed remuneration (noting his annual fixed remuneration for 2015 remained unchanged at $1.3 million) and share-based payments expensed to 31 December 2015). AVR reflects amounts received for the partial service year up to 2 April 2015, date concluded in role. Termination benefits reflect payment for accrued annual leave payable upon termination.

18 A Géczy concluded in role on 29 January 2016 and ceased employment 7 October 2016. Statutory remuneration table reflects his expense up to his date of termination, 7 October 2016 (noting his annual fixed remuneration for 2016 remained unchanged at $1.25 million) and share-based payments expensed to 7 October 2016. Termination benefits reflect payment for accrued annual leave and pay in lieu of notice payable upon termination.

19 J Phillips concluded in role on 11 March 2016 and ceased employment 1 July 2016. Statutory remuneration table reflects her expense up to her date of termination, 1 July 2016. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice payable upon termination.

20 For those Disclosed Executives who were disclosed in both 2015 and 2016, the following are noted:
- **S Elliott** – uplift in year–on–year remuneration, driven by an increase in fixed remuneration upon commencement in CEO role and amortised value of equity.
- **A Currie** – decrease in year–on–year total remuneration, driven by decrease in cash incentive and long service leave accrued.
- **D Hisco** – decrease in year–on–year total remuneration, driven by decrease in cash incentive, retirement benefit accrued and long service leave accrued.
- **G Hodges** – decrease in year–on–year total remuneration, driven by decrease in cash incentive.
- **M Whelan** – increase in year–on–year total remuneration, driven by 2015 remuneration reflecting amounts prorated for the partial service year.
- **N Williams** – decrease in year–on–year total remuneration, driven by decrease in cash incentive, retirement benefit accrued and long service leave accrued.
- **M Smith** – decrease in year–on–year total remuneration, driven by 2016 remuneration reflecting amounts prorated for the partial service year.
- **A Géczy** – decrease in year-on-year total remuneration, driven by decrease in cash incentive.
- **J Phillips** – decrease in year-on-year total remuneration, driven by 2016 remuneration reflecting amounts prorated for the partial service year.

9. Equity

All shares underpinning equity awards may be purchased on market, or be newly issued shares or a combination of both. For the 2015 equity granted to the CEO and Disclosed Executives in November/December 2015, all AVR deferred shares were satisfied through the new issue of shares and for LTVR performance rights, the approach to satisfying awards will be determined closer to the time of vesting. For the Former CEO, Michael Smith, the shares underpinning the AVR deferred share rights awarded in November 2015 will be purchased on market.

9.1 CEO AND DISCLOSED EXECUTIVES EQUITY

Details of deferred shares and rights granted to the CEO and Disclosed Executives during the 2016 year, and granted to the CEO and Disclosed Executives in prior years which vested, were exercised/sold or which lapsed/were forfeited during the 2016 year is set out below.

TABLE 8: CEO AND DISCLOSED EXECUTIVES EQUITY GRANTED, VESTED, EXERCISED/SOLD AND LAPSED/FORFEITED

						Vested			Lapsed/Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2016[3]	Unexercisable as at 30 Sep 2016
Current CEO and Disclosed Executives																
S Elliott[4]	Deferred shares	20,185	12-Nov-12	19-Nov-14	–	–	–	–	–	–	–	(20,185)	100	504,720	–	–
	Deferred shares	18,898	22-Nov-13	22-Nov-14	–	–	–	–	–	–	–	(18,898)	100	472,539	–	–
	Deferred shares	18,897	22-Nov-13	22-Nov-15	–	18,897	100	523,434	–	–	–	(18,897)	100	472,514	–	–
	Deferred shares	18,815	21-Nov-14	21-Nov-15	–	18,815	100	521,162	–	–	–	(18,815)	100	470,463	–	–
	Deferred shares	22,796	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	22,796
	Deferred shares	22,796	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	22,796
	Performance rights	118,110	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(118,110)	100	(3,140,238)	–	–	–	–	–
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
M Carnegie	Deferred shares	24,247	20-Aug-16	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	24,247
	Deferred shares	24,292	20-Aug-16	27-Feb-17	–	–	–	–	–	–	–	–	–	–	–	24,292
	Deferred shares	24,336	20-Aug-16	01-Jun-17	–	–	–	–	–	–	–	–	–	–	–	24,336
	Deferred shares	19,336	20-Aug-16	20-Aug-17	–	–	–	–	–	–	–	–	–	–	–	19,336
	Deferred shares	17,034	20-Aug-16	21-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,034
	Deferred shares	17,034	20-Aug-16	27-Feb-18	–	–	–	–	–	–	–	–	–	–	–	17,034
	Deferred shares	18,141	20-Aug-16	01-Jun-18	–	–	–	–	–	–	–	–	–	–	–	18,141
A Currie[5]	Deferred shares	10,236	22-Nov-13	22-Nov-15	–	10,236	100	283,530	–	–	–	(10,236)	100	284,515	–	–
	Deferred shares	13,327	21-Nov-14	21-Nov-15	–	13,327	100	369,149	–	–	–	(13,327)	100	370,431	–	–
	Deferred shares	17,097	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred shares	17,097	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,097
	Performance rights	73,818	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(73,818)	100	(1,962,629)	–	–	–	–	–
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
D Hisco[6]	Deferred shares	16,000	31-Oct-08	31-Oct-11	–	–	–	–	–	–	–	(9,000)	56	218,431	7,000	–
	Employee Share Offer	26	03-Dec-15	03-Dec-18	–	–	–	–	–	–	–	–	–	–	–	26
	Deferred share rights	16,608	22-Nov-13	22-Nov-15	21-Nov-17	16,608	100	460,030	–	–	–	(16,608)	100	380,346	–	–
	Deferred share rights	17,408	21-Nov-14	21-Nov-15	21-Nov-17	17,408	100	482,189	–	–	–	(17,408)	100	398,668	–	–
	Deferred share rights	21,109	18-Nov-15	18-Nov-16	18-Nov-18	–	–	–	–	–	–	–	–	–	–	21,109
	Deferred share rights	22,427	18-Nov-15	18-Nov-17	18-Nov-19	–	–	–	–	–	–	–	–	–	–	22,427
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
G Hodges[7]	Deferred shares	9,055	22-Nov-13	22-Nov-15	–	9,055	100	250,817	–	–	–	–	–	–	9,055	–
	Deferred shares	10,975	21-Nov-14	21-Nov-15	–	10,975	100	304,000	–	–	–	–	–	–	10,975	–
	Deferred shares	13,298	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	13,298
	Deferred shares	13,297	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	13,297
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664

Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/Forfeited Number	Lapsed/Forfeited %	Lapsed/Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exercisable as at 30 Sep 2016[3]	Unexercisable as at 30 Sep 2016
M Jablko	Deferred shares	20,825	20-Aug-16	27-Feb-17	–	–	–	–	–	–	–	–	–	–	–	20,825
	Deferred shares	3,153	20-Aug-16	20-Aug-17	–	–	–	–	–	–	–	–	–	–	–	3,153
	Deferred shares	11,444	20-Aug-16	27-Feb-18	–	–	–	–	–	–	–	–	–	–	–	11,444
	Deferred shares	3,153	20-Aug-16	20-Aug-18	–	–	–	–	–	–	–	–	–	–	–	3,153
	Deferred shares	11,444	20-Aug-16	27-Feb-19	–	–	–	–	–	–	–	–	–	–	–	11,444
	Deferred shares	7,617	20-Aug-16	27-Feb-20	–	–	–	–	–	–	–	–	–	–	–	7,617
	Deferred shares	4,540	20-Aug-16	27-Feb-21	–	–	–	–	–	–	–	–	–	–	–	4,540
F Ohlsson[8]																
M Whelan[9]	Deferred shares	20,185	12-Nov-12	12-Nov-15	–	20,185	100	536,667	–	–	–	(20,185)	100	523,290	–	–
	Deferred shares	9,448	22-Nov-13	22-Nov-15	–	9,448	100	261,703	–	–	–	(9,448)	100	262,612	–	–
	Deferred shares	9,407	21-Nov-14	21-Nov-15	–	9,407	100	260,567	–	–	–	(9,407)	100	261,472	–	–
	Deferred shares	16,147	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	16,147
	Deferred shares	16,147	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	16,147
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
N Williams[10]	Deferred shares	11,811	22-Nov-13	22-Nov-15	–	11,811	100	327,156	–	–	–	(11,811)	100	328,293	–	–
	Deferred shares	13,327	21-Nov-14	21-Nov-15	–	13,327	100	369,149	–	–	–	(13,327)	100	370,431	–	–
	Deferred shares	17,097	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred shares	17,097	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred share rights	29,225	12-Nov-12	12-Nov-15	12-Nov-17	29,225	100	777,017	–	–	–	(29,225)	100	777,017	–	–
	Deferred share rights	33,632	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	33,632
Former CEO and Disclosed Executives																
M Smith[11]	Deferred shares	30,708	22-Nov-13	22-Nov-15	–	30,708	100	850,590	–	–	–	(30,708)	100	853,544	–	–
	Deferred shares	30,574	21-Nov-14	21-Nov-15	–	30,574	100	846,878	–	–	–	(30,574)	100	849,820	–	–
	Deferred share rights	38,736	18-Nov-15	18-Nov-16	18-Nov-18	–	–	–	–	–	–	–	–	–	–	38,736
	Deferred share rights	41,156	18-Nov-15	18-Nov-17	18-Nov-19	–	–	–	–	–	–	–	–	–	–	41,156
	Performance rights	328,810	19-Dec-12	19-Dec-15	19-Dec-17	–	–	–	(328,810)	100	(8,669,898)	–	–	–	–	–
A Géczy[12]	Deferred shares	12,543	21-Nov-14	21-Nov-15	–	12,543	100	347,432	–	–	–	(12,543)	100	325,250	–	–
	Deferred shares	14,248	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	14,248
	Deferred shares	14,247	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	14,247
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
J Phillips[13]	Deferred shares	9,448	22-Nov-13	22-Nov-15	–	9,448	100	261,703	–	–	–	–	–	–	9,448	–
	Deferred shares	12,543	21-Nov-14	21-Nov-15	–	12,543	100	347,432	–	–	–	–	–	–	12,543	–
	Deferred shares	15,198	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	15,198
	Deferred shares	15,197	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	15,197
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	24,578	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	(5,943)	24	(142,968)	–	–	–	–	18,635
	Performance rights	22,624	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	(5,471)	24	(131,613)	–	–	–	–	17,153
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587

1 Executives, for the purpose of the five highest paid executive disclosures, are defined as Disclosed Executives or other members of the Group Executive Committee. Rights granted to the five highest paid executives as remuneration in 2016 are included above.

2 The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights.

3 The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.

4 S Elliott – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 68,965 (Nov 2016), 53,945 (Nov 2017) and 159,573 (Nov 2018).

5 A Currie – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 51,723 (Nov 2016), 50,574 (Nov 2017) and 56,988 (Nov 2018).

6 D Hisco – Deferred share rights granted 22 Nov 2013 and 21 Nov 2014 were exercised on 1 Apr 2016, the one day VWAP on date of exercise was $22.9014. Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 48,220 (Nov 2016), 47,152 (Nov 2017) and 53,133 (Nov 2018).

7 G Hodges – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 34,482 (Nov 2016), 33,716 (Nov 2017) and 37,992 (Nov 2018).

8 F Ohlsson – Commenced in a Disclosed Executive role on 1 Feb 2016 and there are no disclosable transactions from this date.

9 M Whelan – Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 13,792 (Nov 2016), 13,486 (Nov 2017) and 53,190 (Nov 2018).

10 N Williams – Deferred share rights granted 12 Nov 2012 were exercised on 12 Nov 2015, the one day VWAP on date of exercise was $26.5874. Prior year grants of deferred share rights that remained unexerciseable as at 30 Sep 2016 include: 27,603 (Nov 2016), 27,685 (Nov 2017) and 33,632 (Nov 2018).

11 M Smith – Performance rights granted 19 Dec 2012 lapsed on 19 Dec 2015 and the one day VWAP was $26.3675. Prior year grants of performance rights that remained unexerciseable as at date of termination include: 201,086 (Dec 2016) and 229,272 (Dec 2017).

12 A Géczy – Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 43,102 (Nov 2016), 53,945 (Nov 2017) and 60,789 (Nov 2018).

13 J Phillips – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Performance rights granted Nov 2014 and Nov 2015 lapsed on 1 Jul 2016 and the one day VWAP was $24.0565. Prior year grants of performance rights that remained unexerciseable as at date of termination include: 34,482 (Nov 2016), 35,788 (Nov 2017) and 22,761 (Nov 2018).

9.2 NED, CEO AND DISCLOSED EXECUTIVES EQUITY HOLDINGS

Details of shares held directly, indirectly or beneficially by each NED, including their related parties, are provided below.

TABLE 9: NED SHAREHOLDINGS (INCLUDING MOVEMENTS DURING THE 2016 YEAR)

Name	Type	Opening balance at 1 Oct 2015	Resulting from any other changes during the year[1]	Closing balance at 30 Sep 2016[2,3]
Current Non-Executive Directors				
D Gonski	Ordinary shares	31,488	–	31,488
I Atlas	Ordinary shares	7,360	–	7,360
P Dwyer	Ordinary shares	10,567	4,433	15,000
H Lee	Directors' Share Plan	2,230	152	2,382
	Ordinary shares	8,000	–	8,000
G Liebelt	Ordinary shares	10,315	–	10,315
	Capital notes 1	1,500	–	1,500
	Capital notes 2	2,500	–	2,500
I Macfarlane	Ordinary shares	18,183	–	18,183
	Capital notes 1	1,500	–	1,500
	Capital notes 4	–	1,000	1,000
	Convertible preference shares (CPS2)	1,000	(1,000)	–
	Convertible preference shares (CPS3)	1,000	–	1,000
J Macfarlane	Ordinary shares	12,851	–	12,851
	Capital notes 2	2,000	–	2,000
	Capital notes 3	5,000	–	5,000

1 Shares from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), sold, or acquired under the Dividend Reinvestment Plan.

2 The following securities (included in the holdings above) were held on behalf of the NEDs (i.e. indirect beneficially held securities) as at 30 September 2016:

D Gonski	31,488
I Atlas	7,360
P Dwyer	15,000
H Lee	2,382
G Liebelt	14,315
I Macfarlane	21,683
J Macfarlane	19,851

3 There was no change in the balance as at the Director's Report sign-off date.

Details of shares, deferred share rights and performance rights held directly, indirectly or beneficially by the CEO and each Disclosed Executive, including their related parties, are provided below.

TABLE 10: CEO AND DISCLOSED EXECUTIVE SHAREHOLDINGS AND RIGHTS HOLDINGS (INCLUDING MOVEMENTS DURING THE 2016 YEAR)

Name	Type	Opening balance at 1 Oct 2015	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2016[3,4]
CEO and Current Disclosed Executives						
S Elliott	Deferred shares	103,142	45,592	–	(82,252)	66,482
	Ordinary shares	44	–	–	87,949	87,993
	Performance rights	241,020	159,573	–	(118,110)	282,483
M Carnegie[5]	Deferred shares	–	144,420	–	–	144,420
A Currie	Deferred shares	38,958	34,194	–	(22,689)	50,463
	Ordinary shares	1,042	–	–	–	1,042
	Performance rights	176,115	56,988	–	(73,818)	159,285
D Hisco	Deferred shares	16,000	–	–	(9,000)	7,000
	Employee Share Offer	48	26	–	–	74
	Ordinary shares	91,162	–	34,016	86,000	211,178
	Deferred share rights	52,386	43,536	(34,016)	–	61,906
	Performance rights	144,584	53,133	–	(49,212)	148,505
G Hodges	Deferred shares	172,939	26,595	–	9,158	208,692
	Capital notes 4	–	–	–	1,350	1,350
	Ordinary shares	70,639	–	–	–	70,639
	Performance rights	117,410	37,992	–	(49,212)	106,190
M Jablko[5]	Deferred shares	–	62,176	–	–	62,176
F Ohlsson[5]	Employee Share Offer	74	–	–	–	74
	Deferred share rights	45,718	–	–	–	45,718
	Performance rights	33,818	–	–	–	33,818
M Whelan	Deferred shares	118,763	32,294	–	(38,342)	112,715
	Performance rights	27,278	53,190	–	–	80,468
N Williams	Deferred shares	40,636	34,194	–	(24,305)	50,525
	Ordinary shares	567	–	29,225	(29,792)	–
	Deferred share rights	84,513	33,632	(29,225)	–	88,920
Former CEO and Disclosed Executives						
M Smith[6]	Deferred shares	94,329	–	–	(59,354)	34,975
	Ordinary shares	978,838	–	–	63,756	1,042,594
	Deferred share rights	–	79,892	–	–	79,892
	Performance rights	759,168	–	–	(328,810)	430,358
A Géczy	Deferred shares	25,761	28,495	–	(11,895)	42,361
	Ordinary shares	–	–	–	4,022	4,022
	Performance rights	97,047	60,789	–	–	157,836
J Phillips[6]	Deferred shares	61,528	30,395	–	5,191	97,114
	Ordinary shares	5,835	–	–	–	5,835
	Performance rights	130,896	53,190	–	(91,055)	93,031

1 Details of options/rights granted as remuneration during 2016 are provided in Table 7.

2 Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), forfeited, sold or acquired under the Dividend Reinvestment Plan.

3 The following shares (included in the holdings above) were held on behalf of the CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2015:

S Elliott	154,475
M Carnegie	144,420
A Currie	50,463
D Hisco	102,074
G Hodges	252,777
M Jablko	62,176
F Ohlsson	74
M Whelan	112,715
N Williams	50,525
M Smith	1,077,569
A Géczy	42,361
J Phillips	42,938

4 No options/rights were vested and exercisable or vested and unexerciseable as at 30 September 2016. There was no change in the balance as at the Director's Report sign-off date.

5 Commencing balance is based on holdings as at the date of commencement in a Disclosed Executive role.

6 Concluding balance is based on holdings as at the date of termination.

9.3 EQUITY VALUATIONS

This section outlines the valuations used throughout this report in relation to equity grants.

ANZ engages an external expert to independently value any required deferred share rights and performance rights, taking into account factors including the performance conditions, share price volatility, life of the instrument, dividend yield and share price at grant date.

The following table provides details of the valuations of the various equity instruments issued during the year and in prior years for shares and rights where vesting, lapse/forfeiture or exercise/sale has occurred during the year:

TABLE 11: EQUITY VALUATION INPUTS – SHARES AND RIGHTS

Recipients	Type	Grant date	Exercise price $	Equity fair value[1] $	Share closing price at grant $	ANZ expected volatility %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Executives	Deferred shares	31-Oct-08	–	17.18	17.36	–	–	3	–	–	–
CEOs and Executives	Deferred shares	12-Nov-12	–	24.57	24.45	–	–	2	–	–	–
CEOs and Executives	Deferred shares	12-Nov-12	–	24.57	24.45	–	–	3	–	–	–
CEOs and Executives	Deferred shares	22-Nov-13	–	31.66	31.68	–	–	1	–	–	–
CEOs and Executives	Deferred shares	22-Nov-13	–	31.66	31.68	–	–	2	–	–	–
CEOs and Executives	Deferred shares	21-Nov-14	–	31.84	31.82	–	–	1	–	–	–
Current CEO and Executives	Deferred shares	18-Nov-15	–	26.66	26.75	–	–	1	–	–	–
Current CEO and Executives	Deferred shares	18-Nov-15	–	26.66	26.75	–	–	2	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.3	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.8	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.3	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.8	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	2	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	2.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	3.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	4.5	–	–	–
Executives	Employee Share Offer shares	3-Dec-15	–	27.79	27.81	–	–	3	–	–	–
Executives	Deferred share rights	12-Nov-12	0.00	20.53	24.45	22.5	5	3	3	6.00	2.58
Executives	Deferred share rights	22-Nov-13	0.00	28.60	31.68	20.0	4	2	2	5.25	2.75
Executives	Deferred share rights	21-Nov-14	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
Former CEO and Executives	Deferred share rights	18-Nov-15	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
Former CEO and Executives	Deferred share rights	18-Nov-15	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
Executives	Deferred share rights	18-Nov-15	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
Current CEO and Executives	Performance rights	12-Nov-12	0.00	10.16	24.45	22.5	5	3	3	6.00	2.58
Former CEO	Performance rights	19-Dec-12	0.00	9.58	24.64	22.5	5	3	3	6.00	2.77
Executives	Performance rights	21-Nov-14	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
Executives	Performance rights	21-Nov-14	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	9.94	26.75	20.0	5	3	3	6.25	2.02
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	9.02	26.75	20.0	5	3	3	6.25	2.11
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	4.80	26.75	20.0	5	3	3	6.25	2.20
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	11.28	26.53	25.0	5	3	3	6.50	2.10
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	11.16	26.53	25.0	5	3	3	6.50	2.10
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	7.36	26.53	25.0	5	3	3	6.50	2.10

1 For shares, the volume weighted average share price of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value. No dividends are incorporated into the measurement of the fair value of shares. For rights, an independent fair value calculation is conducted to determine the fair value.

10. NEDs, CEO and Disclosed Executives Loan and Other Transactions (non remuneration)

10.1 LOAN TRANSACTIONS

Loans made to the NEDs, the CEO and Disclosed Executives are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

Details of loans outstanding at the reporting date to NEDs, the CEO and Disclosed Executives including their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the year, are provided below. Other than the loans disclosed below no other loans were made, guaranteed or secured by any entity in the Group to the NEDs, the CEO and Disclosed Executives, including their related parties.

TABLE 12: NED LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2015 $	Closing balance at 30 Sep 2016 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Non-Executive Directors				
J Macfarlane	7,882,159	8,851,891	282,972	10,418,743
Total	**7,882,159**	**8,851,891**	**282,972**	**10,418,743**

1 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.

TABLE 13: CEO AND DISCLOSED EXECUTIVE LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2015[1] $	Closing balance at 30 Sep 2016 $	Interest paid and payable in the reporting period[2] $	Highest balance in the reporting period $
Current CEO and Current Disclosed Executives				
S Elliott	1,598,516	2,598,510	52,684	2,598,516
A Currie	3,833,108	3,668,573	162,158	4,586,240
D Hisco	2,116,292	2,114,163	102,310	4,360,325
G Hodges	3,961,872	3,231,536	138,877	4,199,572
F Ohlsson	1,500,000	3,000,000	–	3,000,000
M Whelan	2,690,090	1,718,615	82,008	2,763,650
N Williams	286,000	39,192	7,188	541,254
Former CEO and Former Disclosed Executives				
M Smith[3]	1,000,000	4,500,000	84,199	4,500,000
A Géczy[4]	24,777,211	21,169,935	1,110,753	24,780,089
J Phillips[3]	2,254,377	–	67,973	2,263,443
Total	**44,017,466**	**42,040,523**	**1,808,149**	**53,593,089**

1 For Disclosed Executives who commenced during the 2016 financial year, opening balances are as at date of commencement.
2 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.
3 Concluding balance is based on balance as at the date of termination.
4 A Géczy's loan balance has reduced significantly post the balance date and it is expected that this will reduce to nil by the end of December 2016.

10.2 OTHER TRANSACTIONS

All other transactions of the NEDs, the CEO and Disclosed Executives and their related parties are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers, and are deemed trivial or domestic in nature.

Signed in accordance with a resolution of the Directors

David M Gonski, AC
Chairman

2 November 2016

Shayne Elliott
Director

SECTION

02

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL STATEMENTS

Income Statement for the year ended 30 September

	Note	Consolidated[1] 2016 $m	Consolidated[1] 2015 $m	The Company[1] 2016 $m	The Company[1] 2015 $m
Interest income	3	29,951	30,526	26,387	26,665
Interest expense	3	(14,856)	(15,910)	(15,622)	(16,249)
Net interest income		15,095	14,616	10,765	10,416
Other operating income	4	3,129	4,034	5,660	6,587
Net funds management and insurance income	4	1,764	1,815	198	210
Share of associates' profit	4	541	625	347	376
Operating income		20,529	21,090	16,970	17,589
Operating expenses	5	(10,422)	(9,378)	(8,340)	(7,369)
Profit before credit impairment and income tax		10,107	11,712	8,630	10,220
Credit impairment charge	16	(1,929)	(1,179)	(1,539)	(969)
Profit before income tax		8,178	10,533	7,091	9,251
Income tax expense	6	(2,458)	(3,026)	(1,404)	(1,945)
Profit for the year		5,720	7,507	5,687	7,306
Comprising:					
Profit attributable to non-controlling interests		11	14	–	–
Profit attributable to shareholders of the Company		5,709	7,493	5,687	7,306
Earnings per ordinary share (cents)					
Basic	8	197.4	271.5	n/a	n/a
Diluted	8	189.3	257.2	n/a	n/a
Dividend per ordinary share (cents)	7	160.0	181.0	n/a	n/a

1 Comparative amounts have changed. Refer to note 43 for details.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 30 September

	Note	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Profit for the year		5,720	7,507	5,687	7,306
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans[1]	31,38	(72)	(6)	(88)	24
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		(10)	52	(10)	52
Income tax on items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans		11	4	16	(4)
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		3	(15)	3	(15)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation reserve					
Exchange differences taken to equity[2]	31	(456)	1,736	(476)	878
Exchange differences transferred to income statement		(126)	(4)	(126)	(4)
Available-for-sale revaluation reserve					
Valuation gain/(loss) taken to equity	31	42	(40)	(15)	(74)
Transferred to income statement		(48)	(71)	(4)	(49)
Cash flow hedge reserve					
Valuation gain/(loss) taken to equity	31	64	160	(22)	149
Transferred to income statement		17	(15)	10	–
Income tax on items that may be reclassified subsequently to profit or loss					
Available-for-sale revaluation reserve		7	36	9	39
Cash flow hedge reserve		(21)	(45)	5	(46)
Share of associates' other comprehensive income[3]		4	59	13	44
Other comprehensive income net of tax		(585)	1,851	(685)	994
Total comprehensive income for the year		5,135	9,358	5,002	8,300
Comprising total comprehensive income attributable to:					
Non-controlling interests		4	30	–	–
Shareholders of the Company		5,131	9,328	5,002	8,300

1 Includes a foreign exchange loss on GBP denominated defined benefit plans of $15 million (2015: nil) for the Group and $15 million (2015: nil) for the Company.

2 Includes a $7 million loss of foreign currency translation differences attributed to non-controlling interests (2015: $16 million gain) for the Group.

3 Share of associates' other comprehensive income includes items that may be reclassified subsequently to profit or loss comprised of Available-for-sale assets reserve gain of $10 million (2015: gain of $53 million) for the Group and gain of $13 million (2015: gain of $44 million) for the Company; Foreign currency translation reserve of nil (2015: gain of $8 million) for the Group, as well as items that will not be reclassified subsequently to profit or loss comprised of Defined Benefit Plans loss of $6 million (2015: loss of $2 million) for the Group.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Balance Sheet as at 30 September

	Note	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Assets					
Cash	11	48,675	53,903	46,072	51,217
Settlement balances owed to ANZ		21,951	18,596	19,905	16,601
Collateral paid		12,723	9,967	10,878	8,234
Trading securities	12	47,188	49,000	35,059	37,373
Derivative financial instruments	13	87,496	85,625	75,872	75,694
Available-for-sale assets	14	63,113	43,667	55,721	37,612
Net loans and advances	15	575,852	562,173	446,531	440,383
Regulatory deposits		2,296	1,773	671	557
Due from controlled entities		–	–	106,797	109,920
Shares in controlled entities	33	–	–	18,117	17,823
Investments in associates	34	4,272	5,440	1,974	3,018
Current tax assets	6	126	90	116	84
Deferred tax assets	6	623	402	887	712
Goodwill and other intangible assets	26	7,672	8,312	2,214	2,830
Investments backing policy liabilities	37	35,656	34,820	–	–
Premises and equipment	27	2,205	2,221	967	990
Other assets	28	5,021	5,846	2,181	2,949
Esanda Dealer Finance assets held for sale	15	–	8,065	–	8,065
Total assets		914,869	889,900	823,962	814,062
Liabilities					
Settlement balances owed by ANZ		10,625	11,250	9,079	9,901
Collateral received		6,386	7,829	5,882	6,886
Deposits and other borrowings	17	588,195	570,794	479,963	472,031
Derivative financial instruments	13	88,725	81,270	76,243	71,844
Due to controlled entities		–	–	103,416	105,079
Current tax liabilities	6	188	267	62	94
Deferred tax liabilities	6	227	249	78	123
Policy liabilities	37	36,145	35,401	–	–
External unit holder liabilities (life insurance funds)		3,333	3,291	–	–
Provisions	29	1,209	1,074	832	731
Payables and other liabilities	30	8,865	10,366	5,566	6,294
Debt issuances	18	91,080	93,747	71,875	75,579
Subordinated debt	19	21,964	17,009	20,707	15,812
Total liabilities		856,942	832,547	773,703	764,374
Net assets		57,927	57,353	50,259	49,688
Shareholders' equity					
Ordinary share capital	31	28,765	28,367	29,162	28,611
Reserves	31	1,078	1,571	344	939
Retained earnings	31	27,975	27,309	20,753	20,138
Share capital and reserves attributable to shareholders of the Company		57,818	57,247	50,259	49,688
Non-controlling interests	31	109	106	–	–
Total shareholders' equity		57,927	57,353	50,259	49,688

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Cash Flow Statement for the year ended 30 September

	Note	Consolidated[1] 2016 $m	Consolidated[1] 2015 $m	The Company[1] 2016 $m	The Company[1] 2015 $m
Cash flows from operating activities					
Interest received		29,992	30,667	26,409	26,754
Interest paid		(15,038)	(15,458)	(15,743)	(15,809)
Dividends received		120	231	2,076	2,630
Other operating income received		1,770	18,237	2,091	15,830
Other operating expenses paid		(8,725)	(8,592)	(6,919)	(6,825)
Income taxes paid		(2,840)	(3,082)	(2,104)	(2,388)
Net cash flows from funds management and insurance business					
Premiums, other income and life investment deposits received		6,795	7,681	122	161
Investment income and policy deposits received		135	286	–	–
Claims and policyholder liability payments		(5,604)	(5,955)	–	–
Commission expense (paid)/received		(545)	(648)	75	49
Cash flows from operating activities before changes in operating assets and liabilities		6,060	23,367	6,007	20,402
Changes in operating assets and liabilities arising from cash flow movements					
(Increase)/decrease in operating assets					
Collateral paid		(3,183)	(3,585)	(3,157)	(2,427)
Trading securities		332	2,870	203	2,161
Loans and advances		(14,797)	(32,280)	(9,503)	(21,759)
Net intra-group loans and advances		–	–	2,053	(992)
Net cash flows from investments backing policyholder liabilities					
Purchase of insurance assets		(16,614)	(7,065)	–	–
Proceeds from sale/maturity of insurance assets		17,461	7,239	–	–
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		23,128	30,050	14,708	22,210
Settlement balances owed by ANZ		(589)	781	(794)	1,422
Collateral received		(1,027)	1,073	(554)	854
Payables and other liabilities		70	(974)	619	(1,491)
Change in operating assets and liabilities arising from cash flow movements		4,781	(1,891)	3,575	(22)
Net cash provided by operating activities	10(a)	10,841	21,476	9,582	20,380
Cash flows from investing activities					
Available-for-sale assets					
Purchases		(44,182)	(24,236)	(26,035)	(18,876)
Proceeds from sale or maturity		23,745	15,705	8,771	11,256
Controlled entities and associates					
Purchases (net of cash acquired)	10(c)	–	–	(387)	(1,375)
Proceeds from sale (net of cash disposed)	10(c)	–	4	–	–
Premises and equipment					
Purchases		(337)	(321)	(227)	(204)
Proceeds from sale		17	–	–	
Esanda Dealer Finance divestment		6,682	–	6,682	–
Other assets		(335)	(928)	83	(280)
Net cash used in investing activities		(14,410)	(9,776)	(11,113)	(9,479)
Cash flows from financing activities					
Debt issuances					
Issue proceeds		29,204	16,637	22,330	12,969
Redemptions		(27,959)	(15,966)	(23,389)	(12,250)
Subordinated debt					
Issue proceeds		6,177	2,683	6,176	2,517
Redemptions		(900)	–	(900)	–
Dividends paid		(4,564)	(3,763)	(4,589)	(3,784)
Share capital issues		–	3,207	–	3,207
Preference shares bought back		–	(755)	–	(755)
Net cash provided by financing activities		1,958	2,043	(372)	1,904
Net (decrease)/increase in cash and cash equivalents		(1,611)	13,743	(1,903)	12,805
Cash and cash equivalents at beginning of year		69,278	48,229	64,836	45,048
Effects of exchange rate changes on cash and cash equivalents		(1,447)	7,306	(939)	6,983
Cash and cash equivalents at end of year	10(b)	66,220	69,278	61,994	64,836

1 Comparative amounts have changed. Refer to note 43 for details.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 30 September

Consolidated	Ordinary share capital $m	Preference shares $m	Reserves[1] $m	Retained earnings $m	Shareholders' equity attributable to equity holders of the Bank $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2014	24,031	871	(239)	24,544	49,207	77	49,284
Profit or loss	–	–	–	7,493	7,493	14	7,507
Other comprehensive income for the year	–	–	1,802	33	1,835	16	1,851
Total comprehensive income for the year	–	–	1,802	7,526	9,328	30	9,358
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,907)	(4,907)	(1)	(4,908)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	22	22	–	22
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference shares bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and Share purchase plan	3,206	–	–	–	3,206	–	3,206
Treasury shares adjustment	5	–	–	–	5	–	5
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,367	–	1,571	27,309	57,247	106	57,353
Profit or loss	–	–	–	5,709	5,709	11	5,720
Other comprehensive income for the year	–	–	(504)	(74)	(578)	(7)	(585)
Total comprehensive income for the year	–	–	(504)	5,635	5,131	4	5,135
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(5,001)	(5,001)	(1)	(5,002)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	24	24	–	24
Dividend reinvestment plan	413	–	–	–	413	–	413
Preference shares bought back	–	–	–	–	–	–	–
Other equity movements:							
Share-based payments/(exercises)	–	–	19	–	19	–	19
Share placement and Share purchase plan	–	–	–	–	–	–	–
Treasury shares adjustment	(153)	–	–	–	(153)	–	(153)
Group share option scheme	–	–	–	–	–	–	–
Group employee share acquisition scheme	138	–	–	–	138	–	138
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	–	–	–	–
As at 30 September 2016	28,765	–	1,078	27,975	57,818	109	57,927

1 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

The Company	Ordinary share capital $m	Preference shares $m	Reserves[1] $m	Retained earnings[1] $m	Shareholders' equity attributable to equity holders of the Bank[1] $m	Non-controlling interests $m	Total shareholders' equity[1] $m
As at 1 October 2014	24,280	871	(6)	17,557	42,702	–	42,702
Profit or loss	–	–	–	7,306	7,306	–	7,306
Other comprehensive income for the year	–	–	937	57	994	–	994
Total comprehensive income for the year	–	–	937	7,363	8,300	–	8,300
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,906)	(4,906)	–	(4,906)
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference shares bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and Share purchase plan	3,206	–	–	–	3,206	–	3,206
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,611	–	939	20,138	49,688	–	49,688
Profit or loss	–	–	–	5,687	5,687	–	5,687
Other comprehensive income for the year	–	–	(606)	(79)	(685)	–	(685)
Total comprehensive income for the year	–	–	(606)	5,608	5,002	–	5,002
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(5,001)	(5,001)	–	(5,001)
Dividend reinvestment plan	413	–	–	–	413	–	413
Preference shares bought back	–	–	–	–	–	–	–
Other equity movements:							
Share-based payments/(exercises)	–	–	19	–	19	–	19
Share placement and Share purchase plan	–	–	–	–	–	–	–
Group share option scheme	–	–	–	–	–	–	–
Group employee share acquisition scheme	138	–	–	–	138	–	138
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	–	–	–	–
As at 30 September 2016	29,162	–	344	20,753	50,259	–	50,259

1 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

1: Significant Accounting Policies

The financial statements of Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (the Group) for the year ended 30 September 2016 were authorised for issue in accordance with a resolution of the Directors on 2 November 2016.

The Company is incorporated and domiciled in Australia. The address of the Company's registered office is ANZ Centre, Level 9, 833 Collins Street, Docklands, Victoria, Australia 3008.

The Company and Group are for-profit entities.

ANZ provides a broad range of banking and financial products and services to retail, high net worth, small business, corporate and commercial and institutional customers.

Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Company and all Group entities for all years presented in these financial statements.

A) BASIS OF PREPARATION

i) Statement of compliance

The financial statements of the Company and Group are general purpose financial statements (Tier 1) which have been prepared in accordance with the relevant provisions of the Banking Act 1959, Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). IFRS forms the basis of AASs. The Group's application of AASs ensures that the financial statements of the Company and Group comply with IFRS.

ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates, judgements and assumptions are reviewed on an ongoing basis.

iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments;
- available-for-sale financial assets;
- financial instruments held for trading; and
- assets and liabilities designated as fair value through profit or loss.

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

In accordance with AASB 119 Employee Benefits ('AASB 119'), defined benefit obligations are measured using the Projected Unit Credit Method.

iv) Rounding

The Company is an entity of the kind referred to in Australian Securities and Investments Commission Corporations Instrument 2016/191. Consequently, amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise indicated.

v) Comparatives

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations. Refer to note 43 for further details.

vi) Principles of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Group when it is determined that control over the entity exists. Control is deemed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give the Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgement involved in assessing control has been provided in note 2 (iii).

The effect of all transactions between entities in the Group has been eliminated.

Where subsidiaries are sold or acquired during the year, their operating results are included to the date of disposal or from the date of acquisition. When control ceases, the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity are derecognised.

Any interest retained in the former subsidiary is initially measured at fair value and any resulting gain or loss is recognised in the income statement.

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses.

vii) Associates

The equity method is applied to accounting for associates in both the consolidated financial statements of the Group and the financial statements of the Company.

Under the equity method, the share of results of associates is included in the income statement and statement of other comprehensive income. Investments in associates are carried in the balance sheet at cost plus the post-acquisition share of changes in associates' net assets less accumulated impairment.

Investments in associates are reviewed for any indication of impairment at least at each reporting date. Where an indication of impairment exists the recoverable amount of the associate is determined based on the higher of the associate's fair value less costs to sell and its value in use. A discounted cash flow methodology and other methodologies such as the capitalisation of earnings methodology are used to determine the recoverable amount.

1: Significant Accounting Policies (continued)

viii) Fiduciary activities

The Group provides fiduciary services to third parties including custody, nominee, trustee, administration and investment management services predominantly through the Wealth segment. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. In circumstances where ANZ is not the beneficial owner or does not control the assets, they are not recognised in these financial statements.

ix) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the income statement in the period in which they arise.

Translation differences on non-monetary items measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items.

Translation differences on non-monetary items classified as available-for-sale financial assets are included in the available-for-sale revaluation reserve in equity.

Translation to presentation currency

The results and financial position of all Group entities (none of which has the functional currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities are translated at the rates of exchange ruling at reporting date;
- revenue and expenses are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed, cumulative exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the spot rate at reporting date.

B) INCOME RECOGNITION

i) Interest income

Interest income is recognised as it accrues using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest rate method. For example, loan origination fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

iii) Dividend income

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

iv) Leasing income

Income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

v) Gain or loss on sale of assets

The gain or loss on the disposal of assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other income in the year in which the significant risks and rewards of ownership transfer to the buyer.

C) EXPENSE RECOGNITION

i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised as it accrues using the effective interest rate method.

ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the origination of a financial asset.

1: Significant Accounting Policies (continued)

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest rate method.

iii) Share-based compensation expense

The Group has various equity settled share-based compensation plans. These are described in note 39 and comprise the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Employee Share Acquisition Plan

The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as share-based compensation expense with a corresponding increase in share capital.

ANZ Share Option Plan

The fair value of share options (deferred share rights, performance rights) is measured at grant date, using an option pricing model. The fair value is expensed on a straight line basis over the relevant vesting period. This is recognised as share based compensation expense with a corresponding increase in the share options reserve.

The option pricing model takes into account the exercise price of the option, the risk-free interest rate, the expected volatility of ANZ's ordinary share price and other factors. Market vesting conditions are taken into account in determining the fair value.

A deferred share right or a performance right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and/or performance hurdles. For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

Other adjustments

Subsequent to the grant of an equity-based award, the amount recognised as an expense is reversed when an employee fails to satisfy the minimum service period specified in the award upon resignation, termination or notice of dismissal for serious misconduct.

The expense is not reversed where the award does not vest due to the failure to meet a market-based performance condition.

iv) Lease payments

Leases entered into by the Group as lessee are predominantly operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

D) INCOME TAX

i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

ii) Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date, including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, expects to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

E) ASSETS

FINANCIAL ASSETS

i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of trading securities are recognised on trade date.

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedges are measured at fair value through profit or loss.

The Group may designate certain financial assets and liabilities as measured at fair value through profit or loss in any of the following circumstances:

1: Significant Accounting Policies (continued)

- investments backing policy liabilities (refer to note 1 l (iii));
- life investment contract liabilities (refer to note 1 l (i));
- external unit holder liabilities (life insurance funds) (refer to note 1 l (ii);
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance is evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value of these financial instruments are recognised in the income statement except in the case of financial liabilities designated as fair value through profit or loss. For financial liabilities designated as fair value through profit or loss, the amount of fair value gain or loss attributable to changes in the Group's own credit risk is recognised in other comprehensive income (retained earnings). The remaining amount of fair value gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are not subsequently reclassified to profit or loss.

ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures and options.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons), or for hedging purposes where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, credit risk and other exposures relating to non-trading positions.

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a derivative credit valuation adjustment (CVA) methodology change to reflect the credit worthiness of the counterparty and a funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

Where the derivative is effective as a hedging instrument and is designated as such, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation.

Derivative credit valuation adjustment methodology change

In determining the fair value of a derivative the Group recognises CVA to reflect the probability that the counterparty may default at some point over the life of the transaction. It is calculated by applying a probability of default (PD) on the potential estimated future positive exposure of the counterparty after taking into account the impact of collateral arrangements. At 30 September 2016, the Group revised its methodology for estimating CVA to align with industry best practice. The revised methodology makes greater use of market information for determining the PD and enhanced exposure modelling. At 30 September 2016 the effect of the changes in fair value as a result of the revisions to the methodology was to increase the CVA applicable to derivative positions by $237 million with a corresponding charge recognised in Other operating income. It is impracticable to estimate the effect of the changes in fair value estimate on future periods.

Fair value hedge

Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised in other comprehensive income and then recycled to the income statement in the periods when the hedged item is recognised in the income statement. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the cash flow hedge reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in the cash flow hedge reserve is recognised immediately in the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are deferred in the foreign currency translation reserve in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of a foreign operation.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in Net interest income. The remainder of the fair value movement is included in Other income.

iii) Available-for-sale financial assets

Purchases and sales of available-for-sale financial assets are recognised on trade date being the date on which the Group commits to purchase or sell the asset.

1: Significant Accounting Policies (continued)

Available-for-sale financial assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for sale revaluation reserve except for interest, dividends and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. When the asset is sold, the cumulative gain or loss relating to the asset is transferred from the available-for-sale revaluation reserve to the income statement.

Where there is objective evidence of impairment of an available-for-sale financial asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement, as an impairment expense for debt instruments or as other income for equity instruments. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement through the impairment expense line.

iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the loans and advances. Loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest rate method (refer to note 1 B (i)) unless specifically designated on initial recognition as fair value through profit or loss.

All loans are graded according to the level of credit risk.

Net loans and advances includes direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value assets) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool.

The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value.

As the discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

Impairment of capitalised acquisition-related expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectable, either partially or in full, it is written-off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received if there is a shortfall.

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

A provision is also raised for off-balance sheet items such as loan commitments that are considered to be onerous.

v) Lease receivables

Contracts to lease assets and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group. A counterparty liability is recognised and classified as deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as receivables in cash or net loans and advances if the original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

vii) Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, of the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

1: Significant Accounting Policies (continued)

The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

NON-FINANCIAL ASSETS

viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using a discounted cash flow methodology or capitalisation of earnings methodology to determine the expected recoverable amount of the cash-generating units (CGU) to which the goodwill relates. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

ix) Software

Software includes costs incurred in acquiring and building software and computer systems.

In the current year the Group made a number of changes to the application of its accounting policy relating to the capitalisation of internally generated software assets by increasing the threshold for capitalisation of software development spend, reflecting the increasingly shorter useful life of smaller items of software, and by direct expensing of more project related costs. The impact of these changes was an accelerated amortisation charge of $556 million relating to previously capitalised software balances (of this, $183 million would otherwise have been amortised during the September 2016 full year) and higher operating expenses during the period of $370 million relating to development costs that would otherwise have been capitalised. These costs would otherwise have been amortised to the Income Statement in future periods of up to 5 years.

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years, except for certain major core infrastructure projects where the useful life has been determined to be 7 or 10 years and has been approved by the Audit Committee. The amortisation period for software assets is reviewed at least annually. Where the expected useful life of the asset is different from previous estimates the amortisation period is changed prospectively.

At each reporting date, software assets are reviewed for impairment indicators. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

x) Acquired portfolio of insurance and investment business

Identifiable intangible assets in respect of acquired portfolios of insurance and investment business acquired in a business combination are stated initially at fair value at acquisition date. These are amortised over the period of expected benefits of between 15 and 23 years.

The amortisation period is reviewed annually and the asset is reviewed for indicators of impairment. Any impairment identified is charged to the income statement.

xi) Deferred acquisition costs

Refer to note 1 I (vii).

xii) Other intangible assets

Other intangible assets include management fee rights and aligned advisor relationships.

Management fee rights and aligned advisor relationships are amortised over the expected useful lives to the Group using the straight line method.

Where the intangible asset is assessed to have an indefinite life, it is carried at cost less any impairment losses.

The period of amortisation is no longer than:

Management fee rights	7 years
Aligned advisor relationships	8 years

The amortisation period is reviewed at least at the end of each annual reporting period and changed if there has been a significant change in the pattern of expected future benefits from the asset.

xiii) Premises and equipment

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight-line method. The depreciation rates used for each class of asset are:

Buildings	1.5%
Building integrals	10%
Furniture and equipment	10%–20%
Computer and office equipment	12.5%–33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful life or the remaining term of the lease.

The depreciation rate is reviewed annually and changed if there has been a significant change in the pattern of expected future benefits from the asset.

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any impairment indicator exists, the recoverable amount of the assets are estimated and compared against the carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

A previously recognised impairment loss is reversed if there has been an increase in the estimated recoverable amount.

xiv) Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalised into the cost of the qualifying asset during the period of time that is required to complete and prepare the asset for its intended use. The calculation of borrowing costs is based on an internal measure of the costs associated with the borrowing of funds.

F) LIABILITIES

FINANCIAL LIABILITIES

i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures and other similar interest bearing financial instruments. Deposits and other borrowings not designated at fair value through profit or loss on initial recognition are measured at amortised cost. The interest expense is recognised using the effective interest rate method.

1: Significant Accounting Policies (continued)

ii) Financial liabilities at fair value through profit or loss

Refer to note 1 E (i).

iii) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings, except for those debt securities which are designated as at fair value through profit or loss on initial recognition.

iv) Financial guarantee contracts

Financial guarantee contracts that require the issuer to make specified payments to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when due, are initially recognised in the financial statements at fair value on the date the guarantee is given (typically this is the premium received). Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and the history of past losses.

v) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NON-FINANCIAL LIABILITIES

vi) Employee benefits

Leave benefits

The liability for long service leave (including on-costs) is calculated and accrued for in respect of all applicable employees using an actuarial valuation. Expected future payments for long service leave are discounted using market yields at the reporting date for a blended rate of high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes and also contributes, according to local law, in the various countries in which it operates, to government and other plans that have the characteristics of defined contribution schemes.

The Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries.

A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in an asset of the Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each reporting period, the movements in the net defined benefit liability are treated as follows:

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

vii) Provisions

The Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

G) EQUITY

i) Ordinary shares

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue costs.

ii) Treasury shares

Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan or issued by the Company to the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share based awards) and are deducted from share capital.

In addition, the life insurance business may also purchase and hold shares in the Company to back policy liabilities in the life insurance statutory funds. These shares are also classified as treasury shares and deducted from share capital. These assets, plus any corresponding income statement fair value movement on the assets and dividend income, are eliminated when the life statutory funds are consolidated into the Group. The cost of the investment in the shares is deducted from share capital. However, the corresponding life investment contract and life insurance contract liabilities, and related changes in the liabilities recognised in the income statement, remain upon consolidation.

Treasury shares are excluded from the weighted average number of ordinary shares used in the earnings per share calculations.

iii) Non-controlling interest

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Company.

iv) Reserves

Foreign currency translation reserve

As indicated in note 1 A (ix), exchange differences arising on translation of assets and liabilities into the Group's presentation currency are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect, are also reflected in this reserve. When a foreign operation is sold, attributable exchange differences are recognised in the income statement.

1: Significant Accounting Policies (continued)

Available-for-sale revaluation reserve

This reserve includes changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

Cash flow hedge reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments net of tax. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

Share option reserve

This reserve includes the amounts which arise on the recognition of share-based compensation expense (see note 1 C (iii)). Amounts are transferred out of the reserve into share capital when the equity instruments are exercised.

Transactions with non-controlling interests reserve

The transactions with non-controlling interests reserve represents the impact of transactions with non-controlling shareholders in their capacity as shareholders.

H) PRESENTATION

i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income/ expense as part of the effective yield; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

ii) Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

iii) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available. Changes in the internal organisational structure of the Group can cause the composition of the Group's reportable segments to change. Where this occurs corresponding segment information for the previous financial year is restated, unless the information is not available and the cost to prepare it would be excessive.

I) LIFE INSURANCE AND FUNDS MANAGEMENT BUSINESS

The Group conducts its life insurance and funds management business (the Life Business) in Australia primarily through OnePath Life Limited, which is registered under the Life Insurance Act 1995 (Life Act) and in New Zealand through OnePath Life (NZ) Limited which is licensed under the Insurance (Prudential Supervision) Act 2010.

The operations of the Life Business are conducted within separate statutory funds, as required by the Life Act and are reported in aggregate with the shareholders' fund in the Income Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statements of the Group. The assets of the Life Business in Australia are allocated between policyholder and shareholder funds in accordance with the requirements of the Life Act. Under AASs, the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policyholders. Accordingly, the consolidated financial statements include both policyholder (statutory) and shareholders' funds.

i) Policy liabilities

Policy liabilities include liabilities arising from life insurance contracts and life investment contracts.

Life insurance contracts are insurance contracts regulated under the Life Act and similar contracts issued by entities operating outside Australia. An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

All contracts written by registered life insurers that do not meet the definition of an insurance contract are referred to as life investment contracts. Life investment contract business relates to funds management products in which the Group issues a contract where the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

Whilst the underlying assets are registered in the name of the life insurer and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the policyholder bears the risks and rewards of the fund's underlying assets investment performance with the exception of capital guaranteed products where the policyholder is guaranteed a minimum return or asset value. The Group derives fee income from the administration of the underlying assets.

Life investment contracts that include a discretionary participation feature (participating contracts) are accounted for as if they are life insurance contracts under AASB 1038.

Life insurance liabilities

Life insurance liabilities are determined using the 'Margin on Services' (MoS) model using a projection method. Under the projection method, the liability is determined as the net present value of the expected future cash flows, plus planned margins of revenues over expenses relating to services yet to be provided, discounted using a risk-free discount rate that reflects the nature, structure and term of the liabilities. Expected future cash flows include premiums, expenses, redemptions and benefit payments, including bonuses.

Profits from life insurance contracts are brought to account using the MoS model in accordance with Actuarial Standard LPS 340 Valuation of Policy Liabilities as issued by APRA under the Life Act and Professional Standard 20 Determination of Life Insurance Policy Liabilities as issued by the New Zealand Society of Actuaries. Under the MoS model, profit is recognised as premiums are received and services are provided to policyholders. When premiums are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Costs associated with the acquisition of policies are recognised over the period that the policy generates profits. Costs are only deferred to the extent that a contract is expected to be profitable.

1: Significant Accounting Policies (continued)

Participating contracts, defined as those contracts that entitle the policyholder to participate in the performance and value of certain assets in addition to the guaranteed benefit, are entitled to share in the profits that arise from the participating business. This profit sharing is governed by the Life Act and the life insurance company's constitution. The profit sharing entitlement is treated as an expense in the consolidated financial statements. Any benefits which remain payable at the end of the reporting period are recognised as part of life insurance liabilities.

Life investment contract liabilities

Life investment contracts consist of two components: a financial instrument and an investment management service.

The financial instrument component of the life investment contract liabilities is designated at fair value through profit or loss. The investment management service component, including associated acquisition costs, is recognised as revenue in the profit or loss as services are performed. See note 1 I (vii) for the deferral and amortisation of life investment contract acquisition costs and entry fees.

The life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies the liability is determined as the net present value of expected cash flows subject to a minimum of current surrender value.

ii) External unit holder liabilities (life insurance funds)

The life insurance business includes controlling interests in investment funds. The total amounts of the underlying assets, liabilities, revenues and expenses of the controlled entities are recognised in the Group's consolidated financial statements. When a controlled investment fund is consolidated, the share of the unit holder liability attributable to the Group is eliminated but amounts due to external unit holders remain as liabilities in the Group's consolidated balance sheet.

iii) Investments backing policy liabilities

All investments backing policy liabilities are designated as at fair value through profit or loss. All policyholder assets, being those assets held within the statutory funds of the life company that are not segregated and managed under a distinct shareholder investment mandate are held to back life insurance and life investment contract liabilities (collectively referred to as policy liabilities).

iv) Claims

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim.

Claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life investment contract liabilities.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract.

v) Revenue

Life insurance premiums

Life insurance premiums earned by providing services and bearing risks are treated as revenue. For annuity, risk and traditional business, all premiums are recognised as revenue. Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis.

Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as other assets in the balance sheet.

Life investment contract premiums

There is no premium revenue in respect of life investment contracts. Life investment deposit premiums are recognised as an increase in policy liabilities. Amounts received from policyholders in respect of life investment contracts are recognised as an investment contract liability where the receipt is in the nature of a deposit, or progressively as an investment management fee.

Fees

Fees are charged to policyholders in connection with life insurance and life investment contracts and are recognised when the service has been provided. Entry fees from life investment contracts are deferred and recognised over the average expected life of the contracts. Deferred entry fees are presented within other liabilities in the balance sheet.

vi) Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the underlying direct insurance contracts for which the reinsurance was purchased.

vii) Policy acquisition costs

Life insurance contract acquisition costs

Policy acquisition costs are the fixed and variable costs of acquiring new business. The appointed actuary assesses the value and future recoverability of these costs in determining policy liabilities. The net profit impact is presented in the income statement as a change in policy liabilities. The deferral is determined as the lesser of actual costs incurred and the allowance for recovery of these costs from the premiums or policy charge as appropriate for each business class. This is subject to an overall limit that future profits are anticipated to cover these costs. Amounts which are deemed recoverable from future premiums or policy charges are deferred and amortised over the life of the policy. Losses arising on acquisition are recognised in the income statement in the year in which they occur.

Life investment contract acquisition costs

Incremental acquisition costs, such as commissions, that are directly attributable to securing a life investment contract are recognised as an asset where they can be identified separately and measured reliably and if it is probable that they will be recovered. These deferred acquisition costs are presented in the balance sheet as an intangible asset and are amortised over the period that they will be recovered from future policy charges.

Any impairment losses arising on deferred acquisition costs are recognised in the income statement in the period in which they occur.

viii) Basis of expense apportionment

All life investment contracts and insurance contracts are categorised based on individual policy or product. Expenses for these products are then allocated between acquisition, maintenance, investment management and other expenses.

Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product, they are appropriately apportioned based on detailed expense analysis having regard to the objective in incurring that expense and the outcome achieved.

1: Significant Accounting Policies (continued)

The apportionment has been made in accordance with Actuarial Standard LPS 340, issued by the Australian Prudential Regulation Authority, and on an equitable basis to the different classes of business in accordance with Division 2 of Part 6 of the Life Act.

J) OTHER

i) Contingent liabilities

Contingent liabilities acquired in a business combination are measured at fair value at the acquisition date. At subsequent reporting dates the value of such contingent liabilities is reassessed based on the estimate of the expenditure required to settle the contingent liability.

Other contingent liabilities are not recognised in the balance sheet but disclosed in note 41 unless it is considered remote that the Group will be liable to settle the possible obligation.

ii) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of dilutive ordinary shares.

iii) Accounting Standards not early adopted

The following accounting standards relevant to the Company and/or the Group have been issued but are not yet effective and have not been applied in these financial statements.

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

The AASB issued the final version of AASB 9 in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 is not mandatorily effective for the Group until 1 October 2018. The Group is in the process of assessing the impact of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

The Group early adopted, in isolation, the part of AASB 9 relating to gains and losses attributable to changes in own credit risk of financial liabilities designated as fair value through profit or loss in the prior financial year (effective from 1 October 2013). Refer to note 1 E (i) for a description of the accounting policy.

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

The AASB issued AASB 15 in December 2014. The standard is not mandatorily effective for the Group until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue.

While it is expected that a significant proportion of the Group's revenue will be outside the scope of AASB 15, the Group is in the process of assessing the impact of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 16 Leases ('AASB 16')

The AASB issued the final version of AASB 16 in February 2016. The standard is not mandatorily effective for the Group until 1 October 2019. AASB 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases.

The Group is in the process of assessing the impact of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

2: Critical Estimates and Judgements Used in Applying Accounting Policies

The preparation of the financial statements of the Company and Group involves making estimates and judgements that affect the reported amounts within the financial statements. The estimates and judgements are continually evaluated based on historical factors and expectations of future events, which are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of the critical estimates and judgements follows.

i) Provisions for credit impairment

The measurement of impairment of loans and advances requires management's best estimate of the losses incurred in the portfolio at reporting date.

Individual and collective provisioning involves the use of assumptions for estimating the amount and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are regularly revised to reduce any differences between loss estimates and actual loss experience.

The collective provision involves estimates regarding the historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account management's assessment of the impact of large concentrated losses inherent within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the financial reporting process and does not impact on the reliability of the provision.

ii) Impairment of non-lending assets

The carrying values of non-lending assets are subject to impairment assessments at each reporting date. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

Impairment testing involves identifying appropriate internal and external indicators of impairment and whether these exist at each reporting date. Where an indication of impairment exists, the recoverable amount of the asset is determined based on the higher of the assets fair value less costs to sell and its value in use. Judgement is applied when determining the assumptions supporting the recoverable amount calculations.

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

During the year the impairment assessment of non-lending assets identified that two of the Group's associate investments (AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin)) had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use (VIU) calculations to assess if the carrying value of the investments were impaired. The VIU calculation is sensitive to a number of key assumptions, including discount rate, long term growth rates, future profitability and capital levels. The key assumptions used in the VIU calculations are outlined in note 34.

The VIU calculation continues to support the carrying value of the investment in PT Panin, however did not support the carrying value of the Group's investment in Ambank. As a consequence the Group recorded an impairment charge of $260 million for the full year to reduce the carrying value to its VIU. The associate investment in Ambank forms part of the TSO and Group Centre operating segment.

iii) Consolidation

The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy outlined in note 1 A (vi). Such assessments are predominantly required for structured entities involved in securitisation activities and structured finance transactions, and investment funds. When assessing whether the Company controls (and therefore consolidates) such entities, judgement is required about whether the Company has power over the relevant activities as well as exposure to variable returns of that entity.

The Company is deemed to have power over an investment fund when it performs the function of Manager/Responsible Entity of that investment fund. Whether the Company controls the investment fund depends on whether it holds that power as principal, or as an agent for other investors. The Company is considered the principal, and thus controls an investment fund, when it cannot be easily removed from the position of Manager/Responsible Entity by other investors and has variable returns through significant aggregate economic interest in that investment fund. In all other cases the Company is considered to be acting in an agency capacity and does not control the investment fund.

iv) Financial instruments at fair value

The Group's financial instruments measured at fair value are stated in note 1 A (iii). In estimating the fair value of financial instruments the Group uses quoted market prices in an active market, wherever possible.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads and other factors that market participants would consider in determining the fair value. The selection of appropriate valuation techniques, methodologies and inputs requires judgement. These are reviewed and updated as market practices evolve.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments, the fair value cannot be determined with reference to current market transactions or valuation techniques whose variables only include data from observable markets. For these financial instruments, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Application of professional judgement is required to analyse the data available to support each assumption upon which these valuations are based. Changing the assumptions changes the resulting estimate of fair value.

The majority of outstanding derivative positions are transacted over-the-counter where no active market exists for such instruments and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a CVA to reflect the credit worthiness of the counterparty. Judgement is required in selecting the appropriate methodology and determining credit related inputs where they are not readily observable. Further, in order to account for the funding costs inherent in the derivative, a funding valuation adjustment (FVA) is applied. Judgment is required to determine the appropriate cost of funding and the future expected cash flows used to determine FVA.

v) Provisions (other than loan impairment)

The Group holds provisions for various obligations including employee entitlements, restructurings and litigation related claims. The provision for long-service leave is supported by an independent actuarial report and involves assumptions regarding employee turnover, future salary growth rates and discount rates. Other provisions involve judgements regarding the outcome of future events including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

vi) Life insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular class of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing the benefits and administering the insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes and general economic conditions affect the level of these liabilities.

The total value of policy liabilities for life insurance contracts have been appropriately calculated in accordance with these principles.

vii) Taxation

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

3: Net Interest Income

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Interest income				
Loans and advances and acceptances	26,842	27,515	20,555	20,657
Trading securities	1,288	1,594	851	1,109
Available-for-sale assets	1,028	759	842	609
Other	793	658	550	468
Total external interest income	29,951	30,526	22,798	22,843
Controlled entities	–	–	3,589	3,822
Total interest income	29,951	30,526	26,387	26,665
Interest income is analysed by types of financial assets as follows:				
Financial assets not classified at fair value through profit or loss	28,649	28,916	25,533	25,549
Trading securities	1,288	1,594	851	1,109
Financial assets designated at fair value through profit or loss	14	16	3	7
Total interest income	29,951	30,526	26,387	26,665
Interest expense				
Deposits	10,145	11,159	7,920	8,514
Borrowing corporation debt	63	70	–	–
Commercial paper	571	515	360	255
Debt issuances and subordinated debt	3,773	3,747	3,043	2,874
Other	304	419	262	358
Total external interest expense	14,856	15,910	11,585	12,001
Controlled entities	–	–	4,037	4,248
Total interest expense	14,856	15,910	15,622	16,249
Interest expense is analysed by types of financial liabilities as follows:				
Financial liabilities not classified at fair value through profit or loss	14,379	15,427	15,376	16,048
Securities sold short	166	145	146	123
Financial liabilities designated at fair value through profit or loss	311	338	100	78
Total interest expense	14,856	15,910	15,622	16,249
Net Interest Income	15,095	14,616	10,765	10,416

4: Non-Interest Income

	Consolidated[1]		The Company[1]	
	2016 $m	2015 $m	2016 $m	2015 $m
Non Interest Income				
i) Fee and commission income				
Lending fees[2]	779	833	670	727
Non-lending fees and commissions[3,4]	2,911	2,885	2,108	2,104
	3,690	3,718	2,778	2,831
Controlled entities	–	–	1,252	1,144
Total fee and commission income[3,4]	3,690	3,718	4,030	3,975
Fee and commission expense[3,5]	(1,162)	(1,087)	(936)	(887)
Net fee and commission income[3,4]	2,528	2,631	3,094	3,088
ii) Net funds management and insurance income				
Funds management income[4]	932	942	75	84
Investment income	2,350	1,848	–	–
Insurance premium income[4]	1,562	1,633	48	43
Commission income/(expense)[4]	(457)	(452)	75	83
Claims[4]	(734)	(743)	–	–
Changes in policy liabilities	(1,843)	(1,434)	–	–
Elimination of treasury share (loss)/gain	(46)	21	–	–
Total net funds management and insurance income[4]	1,764	1,815	198	210
iii) Share of associates' profit	541	625	347	376
iv) Other income				
Net foreign exchange earnings[4]	1,176	1,005	767	719
Net (losses) from trading securities and derivatives[4]	(101)	(125)	(37)	(161)
Credit risk on credit intermediation trades	6	8	6	8
Movement on other financial instruments measured at fair value through profit or loss[6]	(214)	241	(116)	129
Dividends received from controlled entities[7]	–	–	2,010	2,571
Brokerage income/(expense)	50	58	–	–
Impairment of AMMB Holdings Berhad	(260)	–	–	–
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	29	–	29	–
Gain on Esanda Dealer Finance divestment	66	–	66	–
Derivative CVA methodology change[8]	(237)	–	(196)	–
Other[3,4]	86	216	37	233
Total other income[3,4]	601	1,403	2,566	3,499
Total non-interest income[3,4]	5,434	6,474	6,205	7,173

1 Comparative amounts have changed. Refer to note 43 for details.
2 Lending fees exclude fees treated as part of the effective yield calculation and included in interest income. Refer to note 1 B (ii).
3 Certain card related fees integral to the generation of income have been reclassified within operating income and operating expenses to better reflect the nature of the items. Comparatives have been restated. Refer to note 43 for details.
4 Income from certain insurance and other wealth related products have been reclassified within operating income to better reflect the nature of the items. Comparatives have been restated. Refer to note 43 for details.
5 Includes interchange fees paid.
6 Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and financial liabilities designated at fair value.
7 Dividends received from controlled entities are subject to meeting applicable regulatory and company law requirements, including solvency requirements.
8 Represents $237 million charge for the Group and $196 million for the Company due to revising the methodology for calculating the credit valuation adjustment applied to the Group's derivatives portfolio. Refer to note 1 E (ii).

5: Expenses

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Operating expenses				
i) Personnel				
Salaries and related costs[1]	4,879	4,749	3,580	3,441
Superannuation costs				
– defined benefit plans (note 38)	4	7	(2)	2
– defined contribution plans	333	324	281	269
Equity-settled share-based payments	182	216	152	185
Other[1]	143	183	84	118
Total personnel expenses	5,541	5,479	4,095	4,015
ii) Premises				
Depreciation of buildings and integrals	194	192	128	128
Rent	485	479	387	379
Utilities and other outgoings	170	180	110	119
Other	79	71	63	57
Total premises expenses	928	922	688	683
iii) Technology				
Data communications	121	115	70	70
Depreciation and amortisation[2]	1,198	675	1,041	599
Licences and outsourced services	597	447	400	290
Rentals and repairs	168	158	135	129
Software impairment	27	17	23	12
Other	39	50	25	31
Total technology expenses	2,150	1,462	1,694	1,131
iv) Restructuring	278	31	249	24
v) Other				
Advertising and public relations[3]	261	325	199	236
Audit and other fees (note 42)	22	21	11	11
Non-lending losses, frauds and forgeries	112	66	80	56
Professional fees	413	324	364	273
Travel and entertainment expenses	158	205	113	146
Amortisation and impairment of other intangible assets	83	88	8	9
Freight, stationery, postage and telephone	277	263	211	192
Other[3]	199	192	628	593
Total other expenses	1,525	1,484	1,614	1,516
Total operating expenses	10,422	9,378	8,340	7,369

1 In 2015 $705 million for the Group and $530 million for the Company previously classified as 'other personnel expenses' moved to 'salaries and related costs'.
2 In 2016 the Group recorded a $556 million charge for accelerated amortisation associated with software capitalisation changes. Refer to note 1 E (ix).
3 Certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. Comparatives have been restated and $19 million of card related fees for the Group and the Company have been reclassified from other operating income to operating expenses. Refer to note 43 for details.

6: Income Tax

INCOME TAX EXPENSE

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Income tax recognised in the income statement				
Tax expense comprises:				
Current tax expense	2,738	2,932	1,630	1,866
Adjustments recognised in the current year in relation to the current tax of prior years	(23)	–	(17)	1
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(257)	94	(209)	78
Total income tax expense charged in the income statement	2,458	3,026	1,404	1,945
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the income statement				
Profit before income tax	8,178	10,533	7,091	9,251
Prima facie income tax expense at 30%	2,453	3,160	2,127	2,775
Tax effect of permanent differences:				
Overseas tax rate differential	(45)	(95)	10	(22)
Share of associates' profit	(162)	(187)	(104)	(113)
Offshore Banking Units	–	(1)	–	(1)
Wealth Australia – policyholder income and contributions tax	152	130	–	–
Wealth Australia – tax consolidation benefit	–	(56)	–	–
Write-down of investment in Ambank	78	–	–	–
Gain on cessation of equity accounting for BoT	(9)	–	(9)	–
Tax provisions no longer required	(71)	(17)	(73)	(17)
Interest on convertible instruments	70	72	70	72
Rebateable and non-assessable dividends	–	(2)	(603)	(771)
Other	15	22	3	21
	2,481	3,026	1,421	1,944
Income tax under/(over) provided in previous years	(23)	–	(17)	1
Total income tax expense charged in the income statement	2,458	3,026	1,404	1,945
Effective tax rate	30.1%	28.7%	19.8%	21.0%
Australia	1,752	2,144	1,332	1,806
Overseas	706	882	72	139

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

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

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

6: Income Tax (continued)

TAX ASSETS

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Australia				
Current tax asset	88	59	88	59
Deferred tax asset	457	208	800	585
	545	267	888	644
New Zealand				
Deferred tax asset	–	–	3	5
	–	–	3	5
Asia Pacific, Europe and America				
Current tax asset	38	31	28	25
Deferred tax asset	166	194	84	122
	204	225	112	147
Total current and deferred tax assets	749	492	1,003	796
Total current tax assets	126	90	116	84
Total deferred tax assets	623	402	887	712
Deferred tax assets recognised in profit or loss				
Collective provision for loans and advances	762	767	588	626
Individual provision for impaired loans and advances	278	259	232	215
Other provisions	324	285	224	205
Provision for employee entitlements	155	158	116	120
Software	152	10	120	6
Other	133	160	61	60
	1,804	1,639	1,341	1,232
Deferred tax assets recognised directly in equity				
Available-for-sale revaluation reserve	–	–	25	9
	–	–	25	9
Set-off of deferred tax assets pursuant to set-off provisions[1]	(1,181)	(1,237)	(479)	(529)
Net deferred tax assets	623	402	887	712

Unrecognised deferred tax assets

The following deferred tax assets will only be recognised if:

- assessable income derived is of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

Unused realised tax losses (on revenue account)	4	5	–	–
Total unrecognised deferred tax assets	4	5	–	–

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

6: Income Tax (continued)

TAX LIABILITIES

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
New Zealand				
Current tax payable	21	74	20	18
Deferred tax liabilities	141	113	–	–
	162	187	20	18
Asia Pacific, Europe and America				
Current tax payable	167	193	42	76
Deferred tax liabilities	86	136	78	123
	253	329	120	199
Total current and deferred income tax liability	415	516	140	217
Total current tax liabilities	188	267	62	94
Total deferred income tax liabilities	227	249	78	123
Deferred tax liabilities recognised in profit or loss				
Acquired portfolio of insurance and investment business	193	214	–	–
Insurance related deferred acquisition costs	160	135	–	–
Lease finance	273	289	28	64
Software	65	64	65	64
Other	528	596	291	370
	1,219	1,298	384	498
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	138	117	115	122
Foreign currency translation reserve	36	36	36	–
Available-for-sale revaluation reserve	–	14	–	–
Defined benefits obligation	13	16	20	27
Own credit risk of financial liabilities	2	5	2	5
	189	188	173	154
Set-off of deferred tax liabilities pursuant to set-off provision[1]	(1,181)	(1,237)	(479)	(529)
Net deferred tax liability	227	249	78	123
Unrecognised deferred tax liabilities				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences[2]	416	386	67	70
Total unrecognised deferred tax liabilities	416	386	67	70

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

2 Represents additional potential foreign tax costs should all retained earnings in offshore branches and subsidiaries be repatriated.

7: Dividends

	Consolidated[1]		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Ordinary share dividends[2]				
Interim dividend	2,334	2,379	2,334	2,379
Final dividend	2,758	2,619	2,758	2,619
Bonus option plan adjustment	(91)	(92)	(91)	(92)
Dividend on ordinary shares	5,001	4,906	5,001	4,906

1 Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (2016: $1.4 million, 2015: $1.0 million).
2 Dividends are recorded when paid and not accrued.

A final dividend of 80 cents, fully franked for Australian tax purposes, is proposed to be paid on each eligible fully paid ANZ ordinary share on 16 December 2016 (2015: final dividend of 95 cents, paid 16 December 2015, fully franked for Australian tax purposes). It is proposed that New Zealand imputation credits of NZ 9 cents per fully paid ANZ ordinary share will also be attached to the 2016 final dividend (2015: NZ 11 cents). The 2016 interim dividend of 80 cents, paid 1 July 2016, was fully franked for Australian tax purposes (2015: interim dividend of 86 cents, paid 1 July 2015, fully franked for Australian tax purposes). New Zealand imputation credits of NZ 10 cents per fully paid ANZ ordinary share were attached to the 2016 interim dividend (2015: NZ 10 cents).

The tax rate applicable to the Australian franking credits attached to the 2016 interim dividend and to be attached to the proposed 2016 final dividend is 30% (2015: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2016 and 2015 were as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Paid in cash[1]	4,588	3,784	4,588	3,784
Satisfied by share issue[2]	413	1,122	413	1,122
	5,001	4,906	5,001	4,906

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Preference share dividend[3]				
Euro Trust Securities[4]	–	1	–	–
Dividend on preference shares	–	1	–	–

1 Refers to cash paid to shareholders who did not elect to participate in the dividend reinvestment plan or the bonus option plan.
2 Includes shares issued to participating shareholders under the dividend reinvestment plan.
3 Dividends are recorded when paid and not accrued.
4 Refer to note 31 for details.

DIVIDEND FRANKING ACCOUNT

	2016 $m	2015 $m
Australian franking credits available for subsequent financial years at a corporate tax rate of 30% (2015: 30%)	118	593

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

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

7: Dividends (continued)

The final proposed 2016 dividend will utilise the entire balance of $118 million franking credits available at 30 September 2016. Instalment tax payments on account of the 2017 financial year which will be made after 30 September 2016 will generate sufficient franking credits to enable the final 2016 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits that will be subject to tax in Australia.

New Zealand imputation credits can be attached to our Australian dividends, but may only be used by New Zealand resident shareholders. The amount of available New Zealand imputation credits at the end of the financial year, adjusted for credits that will arise from the payment of New Zealand income tax payable as at the end of the financial year and New Zealand imputation credits that will arise from dividends receivable as at the end of the financial year, is NZ$3,494 million (2015: NZ$3,508 million).

RESTRICTIONS WHICH LIMIT THE PAYMENT OF DIVIDENDS

There are presently no significant restrictions on the payment of dividends from material controlled entities to the Company. There are various capital adequacy, liquidity, foreign currency controls, statutory reserve and other prudential and legal requirements that must be observed by certain controlled entities and the impact of these requirements on the payment of cash dividends is monitored. In particular, if any interest payment is not paid on any scheduled payment date on the ANZ NZ Capital Notes, ANZ Bank New Zealand Limited may be restricted from paying a dividend on its ordinary shares (subject to a number of exceptions).

There are presently no significant restrictions on the payment of dividends by the Company, although reductions in shareholders' equity through the payment of cash dividends are monitored having regard to the following:

- There are regulatory and other legal requirements to maintain a specified level of capital. Further, APRA has advised that a bank under its supervision, including the Company, must obtain its written approval before paying dividends (i) on ordinary shares which exceed its after tax earnings after taking into account any payments on more senior capital instruments in the financial year to which they relate or (ii) where the Company's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA from time to time;
- The Corporations Act 2001 (Cth) provides that the Company must not pay a dividend on any instrument unless (i) it has sufficient net assets for the payment, (ii) the payment is fair and reasonable to the Company's shareholders as a whole, and (iii) the payment does not materially prejudice the Company's ability to pay its creditors;
- The terms of the Company's ANZ Convertible Preference Shares also limit the payment of dividends on these securities in certain circumstances. Generally the Company may not pay a dividend on these securities if to do so would result in the Company becoming, or likely to become, insolvent or breaching specified capital adequacy ratios, if the dividend would exceed its after tax prudential profits (as defined by APRA from time to time) or if APRA so directs; and
- If any dividend, interest or redemption payments or other distributions are not paid on the scheduled payment date, or shares or other qualifying Tier 1 securities are not issued on the applicable conversion or redemption dates, on the Company's ANZ Convertible Preference Shares, ANZ Capital Notes or ANZ Capital Securities in accordance with their terms, the Company may be restricted from declaring or paying any dividends or other distributions on Tier 1 securities including ANZ ordinary shares and preference shares. This restriction is subject to a number of exceptions.

DIVIDEND REINVESTMENT PLAN

During the year ended 30 September 2016, 7,937,264 fully paid ANZ ordinary shares were issued at $27.08 per share and 7,979,719 fully paid ANZ ordinary shares at $24.82 per share to participating shareholders under the Dividend Reinvestment Plan (2015: 8,031,825 fully paid ANZ ordinary shares at $32.02 per share, and 27,073,309 fully paid ANZ ordinary shares at $31.93 per share). All eligible shareholders can elect to participate in the Dividend Reinvestment Plan.

For the 2016 final dividend, no discount will be applied when calculating the 'Acquisition Price' used in determining the number of fully paid ANZ ordinary shares to be provided under the Dividend Reinvestment Plan and Bonus Option Plan terms and conditions, and the 'Pricing Period' under the Dividend Reinvestment Plan and Bonus Option Plan terms and conditions will be the ten trading days commencing on 18 November 2016 (unless otherwise determined by the Directors and announced to ASX).

BONUS OPTION PLAN

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued fully paid ANZ ordinary shares under the bonus option plan.

During the year ended 30 September 2016, 3,516,214 fully paid ANZ ordinary shares were issued under the Bonus Option Plan (2015: 2,899,350 fully paid ANZ ordinary shares).

8: Earnings Per Ordinary Share

	Consolidated 2016 $m	2015 $m
Earnings reconciliation ($millions)		
Profit for the year	5,720	7,507
Less: profit attributable to non-controlling interests	11	14
Less: preference share dividend paid	–	1
Earnings used in calculating basic earnings per share	5,709	7,492
Weighted average number of ordinary shares (millions)[1]	2,891.7	2,759.0
Basic earnings per share (cents)	197.4	271.5
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	5,709	7,492
Add: ANZ Convertible Preference Shares interest expense	124	128
Add: ANZ Capital Notes interest expense	149	134
Add: ANZ NZ Capital Notes interest expense	24	12
Earnings used in calculating diluted earnings per share	6,006	7,766
Weighted average number of ordinary shares (millions)[1]		
Used in calculating basic earnings per share	2,891.7	2,759.0
Add: weighted average number of options/rights potentially convertible to ordinary shares	6.8	6.2
Add: weighted average number of ANZ Convertible Preference Shares	120.6	123.4
Add: weighted average number of ANZ Capital Notes	135.9	122.7
Add: weighted average number of ANZ NZ Capital Notes	17.4	8.5
Used in calculating diluted earnings per share	3,172.4	3,019.8
Diluted earnings per share (cents)	189.3	257.2

1 Weighted average number of ordinary shares excludes 11.1 million weighted average number of ordinary treasury shares held in ANZEST Pty Ltd (2015: 11.8 million) for the Group employee share acquisition scheme and 14.5 million weighted average number of ordinary treasury shares held in Wealth Australia (2015: 12.4 million).

9: Segment Analysis

(i) DESCRIPTION OF SEGMENTS

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

These divisions were created by removing the Asia Retail & Pacific business from the former International and Institutional Banking (IIB) division, and repositioning minority investments in Asia from IIB to the Group Centre with the residual IIB business re-named Institutional. The New Zealand funds management and insurance businesses were repositioned to the New Zealand division, and the Private Bank business was reorganised along geographic lines under the Australia, New Zealand and Asia Retail & Pacific divisions with the residual Global Wealth business re-named Wealth Australia. Comparative information has been restated.

Other than those described above, there have been no significant structural changes. However, certain prior period comparatives have been restated to align with current period presentation as a result of changes to customer segmentation and the continued realignment of support functions. The TSO organisational changes announced in September 2016 did not take effect until 1 October 2016.

The primary sources of external revenue across all divisions are interest income, fee income and trading income. The Australia and New Zealand divisions derive revenue from products and services from retail and commercial banking. The Institutional division derives its revenue from retail and institutional products and services. Wealth derives revenue from funds management and insurance businesses.

(ii) OPERATING SEGMENTS

Transactions between business units across segments within ANZ are conducted on an arms length basis.

Year ended 30 September 2016 ($m)	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO and Group Centre	Other items[1]	Group Total
External interest income	16,152	7,070	5,634	81	813	201	–	29,951
External interest expense	(4,404)	(3,036)	(2,705)	(16)	(283)	(4,412)	–	(14,856)
Adjustment for intersegment interest	(3,548)	(582)	(478)	(55)	168	4,495	–	–
Net interest income	8,200	3,452	2,451	10	698	284	–	15,095
Other external operating income	1,205	1,726	634	1,244	477	(345)	(48)	4,893
Share of associates' profit	3	(3)	5	–	–	536	–	541
Segment revenue	9,408	5,175	3,090	1,254	1,175	475	(48)	20,529
Other external expenses	(1,904)	(1,653)	(709)	(419)	(389)	(5,348)	–	(10,422)
Adjustments for intersegment expenses	(1,485)	(1,282)	(516)	(377)	(424)	4,084	–	–
Operating expenses	(3,389)	(2,935)	(1,225)	(796)	(813)	(1,264)	–	(10,422)
Profit before credit impairment and income tax	6,019	2,240	1,865	458	362	(789)	(48)	10,107
Credit impairment (charge)/release	(920)	(741)	(120)	–	(174)	(1)	27	(1,929)
Segment result before tax	5,099	1,499	1,745	458	188	(790)	(21)	8,178
Income tax expense	(1,526)	(431)	(478)	(133)	(34)	303	(159)	(2,458)
Non-controlling interests	–	(11)	–	2	(2)	–	–	(11)
Profit after income tax attributed to shareholders of the Company	3,573	1,057	1,267	327	152	(487)	(180)	5,709
Non-cash expenses								
Depreciation and amortisation	(176)	(164)	(14)	(80)	(17)	(1,024)	–	(1,475)
Equity-settled share based payment expenses	(16)	(105)	(11)	(6)	(4)	(40)	–	(182)
Credit impairment (charge)/release	(920)	(741)	(120)	–	(174)	(1)	27	(1,929)
Financial position								
Goodwill	–	1,119	2,061	1,452	97	–	–	4,729
Investments in associates	17	4	6	3	–	4,242	–	4,272

1 In evaluating the performance of the operating segments, certain items are removed from the operating segment result where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 188 to 189 for further analysis).

9: Segment Analysis (continued)

Year ended 30 September 2015 ($m)[1]	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO and Group Centre	Other items[2]	Group Total
External interest income	16,065	7,606	5,958	85	745	67	–	30,526
External interest expense	(4,764)	(3,041)	(3,311)	(40)	(287)	(4,467)	–	(15,910)
Adjustment for intersegment interest	(3,603)	(980)	(266)	(37)	185	4,701	–	–
Net interest income	7,698	3,585	2,381	8	643	301	–	14,616
Other external operating income	1,211	2,177	601	1,265	480	(438)	553	5,849
Share of associates' profit	3	–	3	–	–	619	–	625
Segment revenue	8,912	5,762	2,985	1,273	1,123	482	553	21,090
Other external expenses	(1,780)	(1,614)	(713)	(395)	(424)	(4,452)	–	(9,378)
Adjustments for intersegment expenses	(1,413)	(1,192)	(484)	(356)	(410)	3,855	–	–
Operating expenses	(3,193)	(2,806)	(1,197)	(751)	(834)	(597)	–	(9,378)
Profit before credit impairment and income tax	5,719	2,956	1,788	522	289	(115)	553	11,712
Credit impairment (charge)/release	(852)	(198)	(55)	–	(98)	(2)	26	(1,179)
Segment result before tax	4,867	2,758	1,733	522	191	(117)	579	10,533
Income tax expense	(1,454)	(779)	(479)	(94)	(50)	132	(302)	(3,026)
Non-controlling interests	–	(12)	–	–	(2)	–	–	(14)
Profit after income tax attributed to shareholders of the Company	3,413	1,967	1,254	428	139	15	277	7,493
Non-cash expenses								
Depreciation and amortisation	(158)	(165)	(20)	(104)	(22)	(486)	–	(955)
Equity-settled share based payment expenses	(16)	(132)	(12)	(6)	(5)	(45)	–	(216)
Credit impairment (charge)/release	(852)	(198)	(55)	–	(98)	(2)	26	(1,179)
Financial position								
Goodwill	–	1,078	1,964	1,452	103	–	–	4,597
Investments in associates	14	4	4	3	–	5,415	–	5,440

1 For the September 2015 full year, certain amounts reported as comparative information have changed as a result of organisational restructure. Refer to note 43 for details.

2 In evaluating the performance of the operating segments, certain items are removed from the operating segment result where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 188 to 189 for further analysis).

(iii) OTHER ITEMS

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

Item	Related segment	Profit after tax 2016 $m	Profit after tax 2015 $m
Treasury shares adjustment	Wealth Australia	(44)	16
Revaluation of policy liabilities	Wealth Australia and New Zealand Division	54	73
Economic hedges	Institutional	(102)	179
Revenue hedges	TSO and Group Centre	(92)	3
Structured credit intermediation trades	Institutional	4	6
Total		(180)	277

9: Segment Analysis (continued)

(iv) EXTERNAL SEGMENT REVENUE BY PRODUCTS AND SERVICES

The table below sets out revenue from external customers for groups of similar products and services. No single customer amounts to greater than 10% of the Group's revenue.

	Revenue[1]	
	2016 $m	2015 $m
Retail	9,167	8,323
Commercial	3,987	4,200
Funds management and insurance	1,764	1,815
Institutional	5,175	5,762
Minority investments in Asia	335	615
Other	101	375
	20,529	21,090

(v) GEOGRAPHICAL INFORMATION

The following table sets out revenue and non-current assets based on the geographical locations in which the Group operates.

	Australia		APEA		New Zealand		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Total external revenue[1]	13,266	13,365	3,686	4,013	3,577	3,712	20,529	21,090
Non-current assets[2]	378,774	347,041	48,479	55,257	92,006	79,337	519,259	481,635

1 Includes net interest income.
2 Consists of available-for-sale assets, net loans and advances and investments backing policy liabilities with a maturity of more than one year.

10: Notes to the Cash Flow Statement

a) Reconciliation of net profit after income tax to net cash provided by operating activities

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Operating profit after income tax attributable to shareholders of the Company	5,709	7,493	5,687	7,306
Adjustments to reconcile operating profit after income tax to net cash provided by operating activities				
Provision for credit impairment	1,929	1,179	1,539	969
Depreciation and amortisation	1,475	955	1,177	735
Profit on Esanda Dealer Finance divestment	(66)	–	(66)	–
(Profit)/Loss on disposal of premises and equipment	(4)	6	12	12
Net derivatives/foreign exchange adjustment	(1,434)	14,395	(1,420)	11,976
Equity settled share-based payments expense[1]	147	18	117	(13)
Impairment of investment in AmBank	260	–	–	–
Other non-cash movements	(485)	(499)	(331)	(429)
Net (increase)/decrease in operating assets				
Collateral paid	(3,183)	(3,585)	(3,157)	(2,427)
Trading securities	332	2,870	203	2,161
Loans and advances	(14,797)	(32,280)	(9,503)	(21,759)
Investments backing policy liabilities	(2,062)	(1,787)	–	–
Net intra-group loans and advances	–	–	2,053	(992)
Interest receivable	41	106	22	54
Accrued income	(99)	(44)	(100)	(46)
Net tax assets	(383)	(56)	(701)	(443)
Net (decrease)/increase in operating liabilities				
Deposits and other borrowings	23,128	30,050	14,708	22,210
Settlement balances owed by ANZ	(589)	781	(794)	1,422
Collateral received	(1,027)	1,073	(554)	854
Life insurance contract policy liabilities	1,921	1,507	–	–
Payables and other liabilities	70	(974)	619	(1,491)
Interest payable	(90)	452	(35)	435
Accrued expenses	(83)	(148)	1	(186)
Provisions including employee entitlements	131	(36)	105	32
Total adjustments	5,132	13,983	3,895	13,074
Net cash provided by operating activities	10,841	21,476	9,582	20,380

1 The equity settled share-based payments expense is net of on-market share purchases of $35 million (2015: $198 million) in the Group and the Company used to satisfy the obligation.

b) Reconciliation of cash and cash equivalents

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

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Cash	48,675	53,903	46,072	51,217
Settlement balances owed to ANZ	17,545	15,375	15,922	13,619
Total cash and cash equivalents	66,220	69,278	61,994	64,836

c) Acquisitions and disposals

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Cash (outflows) from acquisitions and investments (net of cash acquired)				
Investments in controlled entities	–	–	(387)	(1,375)
	–	–	(387)	(1,375)
Cash inflows from disposals (net of cash disposed)				
Disposals of associates	–	4	–	–
	–	4	–	–

d) Non-cash financing activities

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Dividends satisfied by share issue	413	1,122	413	1,122
Dividends satisfied by bonus share issue	91	92	91	92
	504	1,214	504	1,214

11: Cash

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Coins, notes and cash at bank	1,457	1,716	1,008	1,045
Money at call, bills receivable and remittances in transit	98	1	–	1
Securities purchased under agreements to resell in less than three months	21,200	12,053	20,950	11,757
Balances with Central Banks	25,920	40,133	24,114	38,414
Total cash	48,675	53,903	46,072	51,217

12: Trading Securities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Government securities	28,498	24,702	22,557	18,515
Corporate and financial institution securities	11,634	18,389	5,502	12,947
Equity and other securities	7,056	5,909	7,000	5,911
Total trading securities	47,188	49,000	35,059	37,373

13: Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying variables or indices defined in the contract, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading and sales activities. Derivatives are also used to manage the Group's own exposure to fluctuations in foreign exchange and interest rates as part of its asset and liability management activities.

Derivative financial instruments are subject to market and credit risk, and these risks are managed in a manner consistent with the risks arising on other financial instruments. Refer to note 1 E (ii) on page 71 for further information.

The Group's objectives and policies on managing risks that arise in connection with derivatives, including the policies for hedging, are outlined in note 20.

TYPES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group transacts principally in foreign exchange, interest rate, commodity and credit derivative contracts. The principal types of derivative contracts include swaps, forwards, futures and options contracts and agreements.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative financial instruments: those held as trading positions and those used in the Group's balance sheet risk management activities.

TRADING POSITIONS

Trading positions arise from both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products which enable customers to manage their own risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in prices or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Trading derivatives are managed within the Group's market risk management policies, which are outlined in note 20.

Gains or losses, including any current period interest, from the change in fair value of trading positions are recognised in the income statement as 'Other income' in the period in which they occur.

BALANCE SHEET RISK MANAGEMENT

The Group designates balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions.

Gains or losses from the change in fair value of balance sheet risk management derivatives that form part of an effective hedging relationship are recognised in the income statement based on the hedging relationship. Any ineffectiveness is recognised in the income statement as 'Other income' in the period in which it occurs.

Gains or losses, excluding any current period interest, from the change in fair value of balance sheet risk management positions that are not designated into hedging relationships are recognised in the income statement as 'Other income' in the period in which they occur. Current period interest is included in interest income and expense.

The tables on the following pages provide an overview of the Group's and the Company's foreign exchange, interest rate, commodity and credit derivatives. They include all trading and balance sheet risk management contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. Further information on netting of derivative financial instruments is included in note 24 Offsetting. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to the terms of the derivative. Notional amounts of the contracts are not recorded on the Balance sheet.

13: Derivative Financial Instruments (continued)

Consolidated at 30 September 2016	Notional Principal Amount $m	Fair Value – Trading Assets $m	Fair Value – Trading Liabilities $m	Hedging – Fair value Assets $m	Hedging – Fair value Liabilities $m	Hedging – Cash flow Assets $m	Hedging – Cash flow Liabilities $m	Hedging – Net investment Assets $m	Hedging – Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,301,257	10,957	(10,794)	–	–	–	–	3	–	10,960	(10,794)
Swap agreements	667,862	10,678	(14,306)	2	–	–	–	–	(3)	10,680	(14,309)
Options purchased	39,767	887	–	–	–	–	–	–	–	887	–
Options sold	44,204	–	(802)	–	–	–	–	–	–	–	(802)
	2,053,090	22,522	(25,902)	2	–	–	–	3	(3)	22,527	(25,905)
Commodity contracts											
Derivative contracts	49,555	2,294	(1,395)	–	–	–	–	–	–	2,294	(1,395)
Interest rate contracts											
Forward rate agreements	224,725	12	(17)	–	–	–	–	–	–	12	(17)
Swap agreements	5,042,302	57,656	(55,475)	2,661	(2,616)	1,038	(920)	–	–	61,355	(59,011)
Futures contracts	180,685	28	(107)	5	(12)	–	–	–	–	33	(119)
Options purchased	62,255	1,098	–	–	–	–	–	–	–	1,098	–
Options sold	59,874	–	(2,076)	–	–	–	–	–	–	–	(2,076)
	5,569,841	58,794	(57,675)	2,666	(2,628)	1,038	(920)	–	–	62,498	(61,223)
Credit default swaps											
Structured credit derivatives purchased	737	40	–	–	–	–	–	–	–	40	–
Other credit derivatives purchased	8,397	117	(125)	–	–	–	–	–	–	117	(125)
Total credit derivatives purchased	9,134	157	(125)	–	–	–	–	–	–	157	(125)
Structured credit derivatives sold	737	–	(50)	–	–	–	–	–	–	–	(50)
Other credit derivatives sold	7,796	20	(27)	–	–	–	–	–	–	20	(27)
Total credit derivatives sold	8,533	20	(77)	–	–	–	–	–	–	20	(77)
	17,667	177	(202)	–	–	–	–	–	–	177	(202)
Total	7,690,153	83,787	(85,174)	2,668	(2,628)	1,038	(920)	3	(3)	87,496	(88,725)

13: Derivative Financial Instruments (continued)

Consolidated at 30 September 2015	Notional Principal Amount $m	Fair Value									
		Trading		Hedging						Total	
				Fair value		Cash flow		Net investment			
		Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,164	15,200	(13,964)	–	–	–	–	8	–	15,208	(13,964)
Swap agreements	652,681	20,965	(20,257)	2	(4)	–	–	–	(9)	20,967	(20,270)
Options purchased	92,330	2,441	–	–	–	–	–	–	–	2,441	–
Options sold	110,956	–	(2,081)	–	–	–	–	–	–	–	(2,081)
	2,123,131	38,606	(36,302)	2	(4)	–	–	8	(9)	38,616	(36,315)
Commodity contracts											
Derivative contracts	43,869	2,750	(2,207)	–	–	–	–	–	–	2,750	(2,207)
Interest rate contracts											
Forward rate agreements	343,457	37	(51)	–	–	–	–	–	–	37	(51)
Swap agreements	3,665,593	39,278	(38,004)	2,329	(1,770)	1,360	(973)	–	–	42,967	(40,747)
Futures contracts	158,579	27	(79)	1	(17)	–	–	–	–	28	(96)
Options purchased	93,055	944	–	–	–	–	–	–	–	944	–
Options sold	72,462	–	(1,573)	–	–	–	–	–	–	–	(1,573)
	4,333,146	40,286	(39,707)	2,330	(1,787)	1,360	(973)	–	–	43,976	(42,467)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–	–	205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(20)	–	–	–	–	–	–	26	(20)
Total credit derivatives sold	22,202	26	(87)	–	–	–	–	–	–	26	(87)
	45,214	283	(281)	–	–	–	–	–	–	283	(281)
Total	6,545,360	81,925	(78,497)	2,332	(1,791)	1,360	(973)	8	(9)	85,625	(81,270)

13: Derivative Financial Instruments (continued)

The Company at 30 September 2016	Notional Principal Amount $m	Fair Value Trading Assets $m	Trading Liabilities $m	Hedging Fair value Assets $m	Hedging Fair value Liabilities $m	Hedging Cash flow Assets $m	Hedging Cash flow Liabilities $m	Hedging Net investment Assets $m	Hedging Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,227,265	10,410	(9,936)	–	–	–	–	–	–	10,410	(9,936)
Swap agreements	632,507	10,916	(13,251)	2	–	–	–	–	(3)	10,918	(13,254)
Options purchased	37,582	854	–	–	–	–	–	–	–	854	–
Options sold	42,120	–	(748)	–	–	–	–	–	–	–	(748)
	1,939,474	22,180	(23,935)	2	–	–	–	–	(3)	22,182	(23,938)
Commodity contracts											
Derivative contracts	50,590	2,291	(1,393)	–	–	–	–	–	–	2,291	(1,393)
Interest rate contracts											
Forward rate agreements	241,294	13	(14)	–	–	–	–	–	–	13	(14)
Swap agreements	4,619,614	46,665	(45,454)	2,522	(2,464)	897	(625)	–	–	50,084	(48,543)
Futures contracts	105,363	25	(64)	5	(12)	–	–	–	–	30	(76)
Options purchased	63,338	1,095	–	–	–	–	–	–	–	1,095	–
Options sold	61,696	–	(2,077)	–	–	–	–	–	–	–	(2,077)
	5,091,305	47,798	(47,609)	2,527	(2,476)	897	(625)	–	–	51,222	(50,710)
Credit default swaps											
Structured credit derivatives purchased	737	40	–	–	–	–	–	–	–	40	–
Other credit derivatives purchased	8,443	117	(125)	–	–	–	–	–	–	117	(125)
Total credit derivatives purchased	9,180	157	(125)	–	–	–	–	–	–	157	(125)
Structured credit derivatives sold	737	–	(50)	–	–	–	–	–	–	–	(50)
Other credit derivatives sold	7,842	20	(27)	–	–	–	–	–	–	20	(27)
Total credit derivatives sold	8,579	20	(77)	–	–	–	–	–	–	20	(77)
	17,759	177	(202)	–	–	–	–	–	–	177	(202)
Total	7,099,128	72,446	(73,139)	2,529	(2,476)	897	(625)	–	(3)	75,872	(76,243)

13: Derivative Financial Instruments (continued)

The Company at 30 September 2015	Notional Principal Amount $m	Fair Value Trading Assets $m	Trading Liabilities $m	Hedging Fair value Assets $m	Fair value Liabilities $m	Cash flow Assets $m	Cash flow Liabilities $m	Net investment Assets $m	Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,837	14,206	(13,352)	–	–	–	–	1	–	14,207	(13,352)
Swap agreements	630,805	20,554	(19,225)	2	(4)	–	–	–	(9)	20,556	(19,238)
Options purchased	90,683	2,392	–	–	–	–	–	–	–	2,392	–
Options sold	109,805	–	(2,066)	–	–	–	–	–	–	–	(2,066)
	2,099,130	37,152	(34,643)	2	(4)	–	–	1	(9)	37,155	(34,656)
Commodity contracts											
Derivative contracts	43,697	2,743	(2,205)	–	–	–	–	–	–	2,743	(2,205)
Interest rate contracts											
Forward rate agreements	334,992	45	(50)	–	–	–	–	–	–	45	(50)
Swap agreements	3,263,084	31,361	(30,833)	2,120	(1,526)	1,028	(640)	–	–	34,509	(32,999)
Futures contracts	117,310	16	(63)	1	(17)	–	–	–	–	17	(80)
Options purchased	93,515	942	–	–	–	–	–	–	–	942	–
Options sold	73,187	–	(1,574)	–	–	–	–	–	–	–	(1,574)
	3,882,088	32,364	(32,520)	2,121	(1,543)	1,028	(640)	–	–	35,513	(34,703)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–	–	205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(19)	–	–	–	–	–	–	26	(19)
Total credit derivatives sold	22,202	26	(86)	–	–	–	–	–	–	26	(86)
	45,214	283	(280)	–	–	–	–	–	–	283	(280)
Total	6,070,129	72,542	(69,648)	2,123	(1,547)	1,028	(640)	1	(9)	75,694	(71,844)

HEDGE ACCOUNTING

There are three types of hedge accounting relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Each type of hedge has specific requirements when accounting for the fair value changes in the hedge relationship. For details on the accounting treatment of each type of hedge relationship refer to note 1 E (ii).

FAIR VALUE HEDGE ACCOUNTING

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Group's fair value hedges consist principally of interest rate swaps and cross currency swaps that are used to protect against changes in the fair value of fixed-rate financial instruments due to movements in market interest rates and exchange rates.

The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued and the fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as 'other income' as a part of the gain or loss on disposal.

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Gain/(loss) arising from fair value hedges				
Hedged item	469	158	463	14
Hedging Instrument	(428)	(146)	(424)	(2)

13: Derivative Financial Instruments (continued)

CASH FLOW HEDGE ACCOUNTING

The risk being hedged in a cash flow hedge is the potential variability in future cash flows that may affect the income statement. The variability in future cash flows may result from changes in interest rates or exchange rates affecting recognised financial assets and liabilities and highly probable forecast transactions. The Group's cash flow hedges consist principally of interest rate swaps, forward rate agreements and cross currency swaps that are used to protect against exposures to variability in future cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The Group primarily applies cash flow hedge accounting to its variable rate loan assets, variable rate liabilities and short-term re-issuances of fixed rate customer and wholesale deposit liabilities. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is recognised initially in other comprehensive income. These are recognised in the income statement in the period during which the hedged forecast transactions take place. The ineffective portion of a designated cash flow hedge relationship is recognised immediately as other income in the income statement. The schedule below shows the movements in the hedging reserve:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Opening balances	269	169	277	174
Item recorded in net interest income	17	(15)	10	–
Tax effect on items recorded in net interest income	(5)	4	(3)	–
Valuation gain/(loss) taken to other comprehensive income	64	160	(22)	149
Tax effect on net gain/(loss) on cash flow hedges	(16)	(49)	8	(46)
Closing balance	329	269	270	277

The table below shows the breakdown of the hedging reserve attributable to each type of cash flow hedging relationship:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Variable rate assets	863	799	581	628
Variable rate liabilities	(256)	(255)	(175)	(191)
Re-issuances of short term fixed rate liabilities	(278)	(275)	(136)	(160)
Total hedging reserve	329	269	270	277

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0–10 years (2015: 0–10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as 'Other income' in the income statement. Ineffectiveness recognised in the income statement in respect of cash flow hedges amounted to a $5 million gain for the Group (2015: nil) and a $5 million gain for the Company (2015: $1 million gain).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

In a hedge of a net investment in a foreign operation, the risk being hedged is the exposure to exchange rate differences arising on consolidation of foreign operations with a functional currency other than the Australian Dollar. Hedging is undertaken using foreign exchange derivative contracts or by financing with borrowings in the same currency as the applicable foreign functional currency.

Ineffectiveness arising from hedges of net investments in foreign operations and recognised as 'Other income' in the income statement amounted to nil (2015: nil).

14: Available-for-sale Assets

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Government securities	39,466	25,012	34,829	20,419
Corporate and Financial institution securities	19,115	14,506	16,535	13,381
Equity and other securities	4,532	4,149	4,357	3,812
Total available-for-sale assets	63,113	43,667	55,721	37,612

During the year net gains (before tax) recognised in the income statement in respect of available-for-sale assets amounted to $48 million for the Group (2015: $71 million net gain before tax) and $4 million for the Company (2015: $49 million net gain before tax).

AVAILABLE-FOR-SALE ASSETS BY MATURITY AT 30 SEPTEMBER 2016

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	3,760	2,483	9,762	20,189	3,272	–	39,466
Corporate and Financial institution securities	1,457	2,729	14,045	824	60	–	19,115
Equity and other securities	–	–	592	693	2,392	855	4,532
Total available-for-sale assets	5,217	5,212	24,399	21,706	5,724	855	63,113

AVAILABLE-FOR-SALE ASSETS BY MATURITY AT 30 SEPTEMBER 2015[1]

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	4,878	2,712	6,238	10,248	936	–	25,012
Corporate and Financial institution securities	932	1,793	10,281	1,429	71	–	14,506
Equity and other securities	–	38	214	1,023	2,823	51	4,149
Total available-for-sale assets	5,810	4,543	16,733	12,700	3,830	51	43,667

1 Certain amounts in Equity and other securities in 2015 have been restated between maturity buckets 1–5 years, 5–10 years and after 10 years.

15: Net Loans and Advances

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Overdrafts	8,153	8,955	6,805	7,472
Credit card outstandings	11,846	11,930	9,340	9,446
Commercial bills	12,592	14,201	12,397	13,982
Term loans – housing	323,144	300,468	256,004	242,949
Term loans – non-housing	219,198	232,693	162,577	174,277
Lease receivables	1,605	1,901	953	1,166
Hire purchase	1,877	1,971	786	1,048
Other	529	251	40	34
Subtotal	578,944	572,370	448,902	450,374
Unearned income	(544)	(739)	(261)	(438)
Capitalised brokerage/mortgage origination fees[1]	1,064	1,253	697	944
Customer liability for acceptances	571	1,371	321	649
Gross loans and advances (including assets classified as held for sale)	580,035	574,255	449,659	451,529
Provision for credit impairment (refer to note 16)	(4,183)	(4,017)	(3,128)	(3,081)
Net loans and advances (including assets classified as held for sale)	575,852	570,238	446,531	448,448
Esanda Dealer Finance assets held for sale	–	(8,065)	–	(8,065)
Net loans and advances	575,852	562,173	446,531	440,383

1 Capitalised brokerage/mortgage origination fees are amortised over the term of the loan.

15: Net Loans and Advances (continued)

LEASE RECEIVABLES

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	208	276	107	117
1 to 5 years	622	912	438	590
Later than 5 years	326	196	8	17
Net investment in finance lease receivables	1,156	1,384	553	724
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	80	22	34	19
1 to 5 years	369	495	366	423
Later than 5 years	–	–	–	–
Total operating lease receivables	449	517	400	442
Total lease receivables	1,605	1,901	953	1,166
Less: unearned future finance income on finance leases	(108)	(142)	(26)	(36)
Net lease receivables	1,497	1,759	927	1,130
Present value of net investment in finance lease receivables				
Less than 1 year	189	248	102	112
1 to 5 years	579	830	418	560
Later than 5 years	280	164	7	16
Total net investment in finance lease receivables	1,048	1,242	527	688
Add back: unearned future finance income on finance leases	108	142	26	36
Total finance lease receivables	1,156	1,384	553	724
Hire purchase receivables				
Less than 1 year	592	678	193	310
1 to 5 years	1,267	1,282	575	727
Later than 5 years	18	11	18	11
Total hire purchase	1,877	1,971	786	1,048

16: Provision for Credit Impairment

Credit impairment charge analysis	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
New and increased provisions				
Australia	1,607	1,203	1,606	1,190
New Zealand	227	211	7	13
Asia Pacific, Europe and America	611	343	345	117
	2,445	1,757	1,958	1,320
Write-backs	(311)	(434)	(200)	(245)
	2,134	1,323	1,758	1,075
Recoveries of amounts previously written off	(222)	(239)	(176)	(193)
Individual credit impairment charge	1,912	1,084	1,582	882
Collective credit impairment charge/(release)	17	95	(43)	87
Credit impairment charge	1,929	1,179	1,539	969

MOVEMENT IN PROVISION FOR CREDIT IMPAIRMENT BY FINANCIAL ASSET CLASS

Consolidated	Net loans and advances 2016 $m	Net loans and advances 2015 $m	Credit related commitments 2016 $m	Credit related commitments 2015 $m	Total provision 2016 $m	Total provision 2015 $m
Individual provision						
Balance at start of year	1,038	1,130	23	46	1,061	1,176
New and increased provisions	2,435	1,757	10	–	2,445	1,757
Write-backs	(311)	(434)	–	–	(311)	(434)
Adjustment for exchange rate fluctuations and transfers	(5)	63	(4)	(23)	(9)	40
Discount unwind	(65)	(54)	–	–	(65)	(54)
Bad debts written off	(1,722)	(1,424)	–	–	(1,722)	(1,424)
Esanda Dealer Finance divestment	(92)	–	–	–	(92)	–
Total individual provision	1,278	1,038	29	23	1,307	1,061
Collective provision						
Balance at start of year	2,279	2,144	677	613	2,956	2,757
Adjustment for exchange rate fluctuations and transfers	(5)	67	(14)	37	(19)	104
Esanda Dealer Finance divestment	(78)	–	–	–	(78)	–
Charge/(release) to income statement	49	68	(32)	27	17	95
Total collective provision	2,245	2,279	631	677	2,876	2,956
Total provision for credit impairment	3,523	3,317	660	700	4,183	4,017

	Consolidated 2016 %	Consolidated 2015 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.23	0.18
Collective provision	0.50	0.52
Bad debts written off	0.30	0.25

The table below contains a detailed analysis of the movements in individual provisions for net loans and advances.

Consolidated	Australia[2] 2016 $m	Australia[2] 2015 $m	Institutional Banking[2] 2016 $m	Institutional Banking[2] 2015 $m	New Zealand[2] 2016 $m	New Zealand[2] 2015 $m	Retail Asia & Pacific[2] 2016 $m	Retail Asia & Pacific[2] 2015 $m	Other[1] 2016 $m	Other[1] 2015 $m	Total 2016 $m	Total 2015 $m
Individual provision												
Balance at start of year	590	631	278	237	138	187	32	75	–	–	1,038	1,130
New and increased provisions	1,223	1,103	807	289	202	190	203	175	–	–	2,435	1,757
Write-backs	(179)	(194)	(50)	(73)	(76)	(110)	(6)	(56)	–	(1)	(311)	(434)
Adjustment for exchange rate fluctuations and transfers	7	–	(17)	51	5	6	–	4	–	2	(5)	63
Discount unwind	(23)	(32)	(32)	(17)	(10)	(4)	–	–	–	(1)	(65)	(54)
Bad debts written off	(920)	(918)	(447)	(209)	(144)	(131)	(211)	(166)	–	–	(1,722)	(1,424)
Esanda Dealer Finance divestment	(92)	–	–	–	–	–	–	–	–	–	(92)	–
Total individual provision	606	590	539	278	115	138	18	32	–	–	1,278	1,038

1 Other contains Wealth Australia and TSO and Group Centre.
2 Comparative amounts have changed due to organisational changes. Refer to note 43 for details.

16: Provision for Credit Impairment (continued)

The Company	Net loans and advances 2016 $m	Net loans and advances 2015 $m	Credit related commitments 2016 $m	Credit related commitments 2015 $m	Total provision 2016 $m	Total provision 2015 $m
Individual provision						
Balance at start of year	740	814	19	40	759	854
New and increased provisions	1,958	1,319	–	–	1,958	1,319
Adjustment for exchange rate fluctuations and transfers	(6)	45	(4)	(21)	(10)	24
Write-backs	(200)	(245)	–	–	(200)	(245)
Discount unwind	(42)	(45)	–	–	(42)	(45)
Bad debts written off	(1,416)	(1,148)	–	–	(1,416)	(1,148)
Esanda Dealer Finance divestment	(92)	–	–	–	(92)	–
Total individual provision	942	740	15	19	957	759
Collective provision						
Balance at start of year	1,765	1,669	557	488	2,322	2,157
Adjustment for exchange rate fluctuations and transfers	(14)	43	(16)	35	(30)	78
Esanda Dealer Finance divestment	(78)	–	–	–	(78)	–
Charge/(credit) to income statement	5	53	(48)	34	(43)	87
Total collective provision	1,678	1,765	493	557	2,171	2,322
Total provision for credit impairment	2,620	2,505	508	576	3,128	3,081

	The Company 2016 %	The Company 2015 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.21	0.17
Collective provision	0.48	0.52
Bad debts written off	0.31	0.25

IMPAIRED ASSETS

The table below is a summary of impaired financial assets that are measured on the balance sheet at amortised cost. The table also includes financial assets carried on the balance sheet at fair value, such as derivatives.

Detailed information on impaired financial assets is provided in note 20 Financial Risk Management.

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Summary of impaired financial assets				
Impaired loans	2,646	2,441	1,851	1,574
Restructured items[1]	403	184	247	94
Non-performing commitments and contingencies[2]	124	94	63	80
Gross impaired financial assets	3,173	2,719	2,161	1,748
Individual provisions				
Impaired loans	(1,278)	(1,038)	(942)	(740)
Non-performing commitments and contingencies	(29)	(23)	(15)	(19)
Net impaired financial assets	1,866	1,658	1,204	989
Accruing loans past due 90 days or more[3]				
These amounts are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held on a productive basis for up to 180 days past due	2,703	2,378	2,512	2,127

1 Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.
2 Includes impaired derivative financial instruments.
3 Includes unsecured credit card and personal loans 90 days past due accounts which are retained on a performing basis for up to 180 days past due amounting to $204 million (2015: $180 million) for the Group and $152 million (2015: $126 million) for the Company.

17: Deposits and Other Borrowings

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Certificates of deposit	61,429	63,446	59,626	62,980
Term Deposits	192,147	194,676	147,754	154,485
On demand and short term deposits	235,101	229,330	190,621	187,327
Deposits not bearing interest	20,892	19,013	11,095	9,970
Deposits from banks	57,278	38,985	56,480	38,448
Commercial Paper	19,349	22,988	14,236	18,477
Securities sold under repurchase agreements	481	778	151	344
Borrowing corporation debt[1]	1,518	1,578	–	–
Deposits and other borrowings	588,195	570,794	479,963	472,031

1 Secured investments of the consolidated subsidiary UDC Finance Limited (UDC) of NZD 1.6 billion (September 2015: NZD 1.7 billion) and the accrued interest thereon which are secured by a security interest over all the assets of UDC NZD $2.7 billion (September 2015: NZD 2.6 billion).

18: Debt Issuances

ANZ utilises a variety of established and flexible funding programmes to issue medium term notes featuring either senior or subordinated debt status (details of subordinated debt are presented in note 19: Subordinated Debt). All risks associated with originating term funding are closely managed. Refer to description of ANZ risk management practices in note 20: Financial Risk Management in relation to market risks such as interest rate and foreign currency risks, as well as liquidity risk.

The table below presents debt issuances by currency of issue which is broadly representative of the investor base location.

		Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Debt issuances by currency					
USD	United States dollars	38,666	42,367	32,015	36,009
GBP	Pounds Sterling	1,744	6,317	1,744	5,744
AUD	Australian dollars	11,988	7,694	11,958	7,289
NZD	New Zealand dollars	5,703	4,947	1,773	1,639
JPY	Japanese yen	3,547	4,499	3,521	4,412
EUR	Euro	23,917	22,048	16,775	16,356
HKD	Hong Kong dollars	1,188	858	1,188	858
CHF	Swiss francs	2,074	3,063	749	1,450
CAD	Canadian dollars	152	430	152	430
NOK	Norwegian krone	447	465	447	465
SGD	Singapore dollars	188	202	87	70
TRY	Turkish lira	258	265	258	265
ZAR	South African rand	133	151	133	151
MXN	Mexico peso	147	255	147	255
CNH	Chinese yuan	928	186	928	186
Total Debt issuances		91,080	93,747	71,875	75,579

19: Subordinated Debt

Subordinated debt comprises perpetual and dated securities as follows (net of issue costs):

			Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Additional Tier 1 capital (perpetual subordinated securities)						
ANZ Convertible Preference Shares (ANZ CPS)[1]						
AUD	1,068m	ANZ CPS2[2]	1,068	1,969	1,068	1,969
AUD	1,340m	ANZ CPS3	1,340	1,336	1,340	1,336
ANZ Capital Notes (ANZ CN)						
AUD	1,120m	ANZ CN1	1,115	1,112	1,115	1,112
AUD	1,610m	ANZ CN2	1,602	1,598	1,602	1,598
AUD	970m	ANZ CN3	962	959	962	959
AUD	1,622m	ANZ CN4	1,604	–	1,604	–
ANZ Capital Securities						
USD	1,000m	ANZ Capital Securities	1,329	–	1,329	–
ANZ NZ Capital Notes (ANZ NZ CN)						
NZD	500m	ANZ NZ Capital Notes	473	449	–	–
			9,493	7,423	9,020	6,974
Tier 2 capital (subordinated notes)						
Perpetual subordinated notes						
USD	300m	floating rate notes[3]	394	429	394	429
NZD	835m	fixed rate notes[4]	796	759	–	–
			1,190	1,188	394	429
Dated subordinated notes						
EUR	750m	fixed rate notes due 2019	1,224	1,355	1,225	1,355
AUD	500m	floating rate notes due 2022[5]	499	499	500	500
AUD	1,509m	floating rate notes due 2022[5]	1,507	1,504	1,507	1,506
USD	750m	fixed rate notes due 2022[5]	978	1,068	981	1,071
AUD	750m	floating rate notes due 2023[5]	749	748	750	750
AUD	750m	floating rate notes due 2024[5,6]	750	750	750	750
USD	800m	fixed rate notes due 2024[6]	1,158	1,222	1,164	1,226
CNY	2,500m	fixed rate notes due 2025[5,6]	491	562	491	562
SGD	500m	fixed rate notes due 2027[5,6]	493	491	493	491
AUD	200m	fixed rate notes due 2027[5,6]	199	199	199	198
JPY	20,000m	fixed rate notes due 2026[6]	264	–	264	–
AUD	700m	floating rate notes due 2026[5,6]	700	–	700	–
USD	1,500m	fixed rate notes due 2026[6]	2,011	–	2,011	–
JPY	10,000m	fixed rate notes due 2026[5,6]	129	–	129	–
JPY	10,000m	fixed rate notes due 2028[5,6]	129	–	129	–
			11,281	8,398	11,293	8,409
Total subordinated debt			21,964	17,009	20,707	15,812
Subordinated debt by currency						
AUD	Australian dollars		12,095	10,674	12,097	10,678
NZD	New Zealand dollars		1,269	1,208	–	–
USD	United States dollars		5,870	2,719	5,879	2,726
CNY	Chinese renminbi		491	562	491	562
SGD	Singapore dollars		493	491	493	491
EUR	Euro		1,224	1,355	1,225	1,355
JPY	Japanese yen		522	–	522	–
			21,964	17,009	20,707	15,812

1 Fully franked preference share dividend cash payments on ANZ CPS2 and ANZ CPS3 made during the years ended 30 September 2016 and 30 September 2015 (which are treated as interest expense):

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
ANZ CPS2	75	77	75	77
ANZ CPS3	51	52	51	52

2 $900 million of ANZ CPS2 was bought back and cancelled on 27 September 2016 and reinvested into ANZ CN4.
3 Callable on each semi-annual interest payment date (subject to prior APRA approval).
4 Rate reset on 18 April 2013 to the five year swap rate +2.00% until the call date on 18 April 2018, whereupon if not called, reverts to a floating rate at the three month FRA rate +3.00% and is callable on any interest payment date thereafter (subject to prior RBNZ and APRA approval).
5 Callable five years prior to maturity (subject to prior APRA approval).
6 The convertible subordinated notes convert into ANZ ordinary shares if a Non-viability Trigger Event occurs.

19: Subordinated Debt (continued)

Subordinated debt is subordinated in right of payment to the claims of depositors and other creditors of the Company or its controlled entities which have issued the notes or preference shares.

As defined by APRA for capital adequacy purposes, ANZ CPS, ANZ Capital Notes, ANZ Capital Securities and ANZ NZ Capital Notes constitute Additional Tier 1 ('AT1') capital and all other subordinated notes constitute Tier 2 capital.

ADDITIONAL TIER 1 CAPITAL (PERPETUAL SUBORDINATED SECURITIES)

The ANZ Capital Notes, ANZ Capital Securities and ANZ NZ Capital Notes are Basel 3 compliant instruments. APRA has granted ANZ transitional Basel 3 capital treatment for each of the ANZ CPS until their first conversion date. Each of the ANZ CPS, the ANZ Capital Notes and the ANZ Capital Securities issued by the Company rank equally with each other.

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

Where specified, if a Common Equity Capital Trigger Event or a Non-viability Trigger Event occurs, the AT1 capital securities will immediately convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number. A Common Equity Capital Trigger Event occurs if ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%. A Non-viability Trigger Event occurs if APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable.

The AT1 capital securities (other than the ANZ Capital Securities) are mandatorily convertible into a variable number of ANZ ordinary shares based on the average market price of the shares less a 1% discount on a specified date, or on an earlier date under certain circumstances. The mandatory conversion is deferred for a specified period if conversion tests are not met.

ANZ CONVERTIBLE PREFERENCE SHARES (ANZ CPS)

ANZ CPS are fully paid, mandatorily convertible preference shares and are listed on the Australian Securities Exchange. A summary of the key terms of the ANZ CPS are as follows:

	CPS2	CPS3
Issue Date	17 December 2009	28 September 2011
Issue Amount	$1,068 million[1]	$1,340 million
Face Value	$100	$100
Dividend Frequency	Quarterly in arrears in March, June, September and December	Semi-annually in arrears in March and September
Dividend Rate	Floating rate: (90 day Bank Bill Rate + 3.1%) x (1 – Australian corporate tax rate)	Floating rate: (180 day Bank Bill Rate + 3.1%) x (1 – Australian corporate tax rate)
Issuer's early redemption or conversion option[2]	No	1 September 2017 and each subsequent semi-annual dividend payment date
Mandatory conversion date	15 December 2016[3]	1 September 2019
Common Equity Capital Trigger Event	No	Yes
Non-viability Trigger Event	No	No

1 $900 million of ANZ CPS2 was bought back and cancelled on 27 September 2016 and reinvested into ANZ CN4.
2 Subject to receiving APRA's prior approval and satisfying certain other conditions, ANZ also has a right in other limited circumstances (such as certain tax or regulatory events).
3 Subject to receipt of various approvals, ANZ expects to issue a CPS2 resale notice so that a nominated purchaser purchases all of the CPS2 held by a CPS2 holder for their face value on 15 December 2016.

19: Subordinated Debt (continued)

ANZ CAPITAL NOTES (ANZ CN)

ANZ CN are fully paid mandatorily convertible subordinated perpetual notes and are listed on the Australian Securities Exchange. A summary of the key terms of the ANZ CN are as follows:

	CN1	CN2	CN3[1]	CN4
Issue Date	7 August 2013	31 March 2014	5 March 2015	27 September 2016
Issue Amount	$1,120 million	$1,610 million	$970 million	$1,622 million
Face Value	$100	$100	$100	$100
Distribution Frequency	Semi-annually in arrears in March and September	Semi-annually in arrears in March and September	Semi-annually in arrears in March and September	Quarterly in arrears in March, June, September and December
Distribution Rate	Floating rate: (180 day Bank Bill Rate + 3.4%) x (1 – Australian corporate tax rate)	Floating rate: (180 day Bank Bill Rate + 3.25%) x (1 – Australian corporate tax rate)	Floating rate: (180 day Bank Bill Rate + 3.6%) x (1 – Australian corporate tax rate)	Floating rate: (90 day Bank Bill Rate + 4.7%) x (1 – Australian corporate tax rate)
Issuer's early redemption or conversion option[2]	1 September 2021	24 March 2022	24 March 2023	20 March 2024
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025	20 March 2026
Common Equity Capital Trigger Event	Yes	Yes	Yes	Yes
Non-viability Trigger Event	Yes	Yes	Yes	Yes

1 Issued by the New Zealand branch of the Company.
2 Subject to receiving APRA's prior approval and satisfying other certain conditions. ANZ also has a right in other limited circumstances (such as certain tax or regulatory events).

ANZ CAPITAL SECURITIES

On 15 June 2016, the Company acting through its London branch issued fully-paid perpetual subordinated contingent convertible securities ('ANZ Capital Securities') with a minimum denomination of USD200,000 and an integral multiple of USD1,000 above that, raising USD1,000 million. The ANZ Capital Securities are listed on the Australian Securities Exchange.

Interest on the securities is payable semi annually in arrears in June and December in each year. The initial fixed interest rate until 15 June 2026 ('First Reset Date') is 6.75% per annum. On the First Reset Date and each 5 year anniversary, the fixed interest rate is reset to the aggregate of the 5 year USD mid-market swap rate and 5.168%.

If a Common Equity Capital Trigger Event or a Non-viability Trigger Event occurs, the securities will immediately convert into a variable number of ANZ ordinary shares, subject to a maximum conversion number.

On the First Reset Date and each 5 year anniversary, subject to receiving APRA's prior approval and satisfying certain conditions, the Company has the right to redeem all of the securities at its discretion.

ANZ NZ CAPITAL NOTES

On 31 March 2015, ANZ Bank New Zealand Limited ('ANZ NZ') issued 500 million convertible notes ('ANZ NZ CN') at NZ$1 each, raising NZ$500 million.

ANZ NZ CN are fully paid, mandatorily convertible subordinated perpetual notes and are listed on the New Zealand Stock Exchange.

Interest on the notes is payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and subsequently will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin. Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions being satisfied (including APRA and Reserve Bank of New Zealand ('RBNZ') requirements).

On 25 May 2022, or an earlier date under certain circumstances, the notes will mandatorily convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount. The mandatory conversion is however deferred for a specified period if conversion tests are not met.

If a Common Equity Capital Trigger Event, a Non-viability Trigger Event or an RBNZ Non-viability Trigger Event occurs the notes will immediately convert into ANZ ordinary shares, subject to a maximum conversion number. A Common Equity Capital Trigger Event in this case occurs if ANZ's or ANZ NZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%. An RBNZ Non-viability Trigger Event occurs if the RBNZ directs ANZ NZ to convert or write-off the notes or a statutory manager is appointed to ANZ NZ and decides that ANZ NZ must convert or write-off the notes.

On 25 May 2020, ANZ NZ has the right to, subject to satisfying certain conditions, redeem (subject to receiving APRA's and RBNZ's prior approval), or convert into ANZ ordinary shares, all or some of the notes at its discretion.

TIER 2 SECURITIES (SUBORDINATED NOTES)

The convertible dated subordinated notes are Basel 3 compliant instruments. If a Non-viability Trigger Event occurs, the convertible dated subordinated notes will immediately convert into ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number.

APRA has granted transitional Basel 3 capital treatment for:

- all other term subordinated notes until their first call date;
- the USD300 million perpetual subordinated notes until the end of the transitional period (December 2021); and
- the NZD835 million perpetual subordinated notes until the April 2018 call date.

20: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded and non-traded interest rate and foreign currency related risks) and liquidity risks of the Group's balance sheet. These risks, and the Group's objectives, policies and processes for managing and measuring such risks are outlined below.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Group has an overall objective of sound growth for appropriate returns. The credit risk principles of the Group have been set by the Board and are implemented and monitored within a tiered structure of delegated authority designed to oversee multiple facets of credit risk, including business writing strategies, credit policies and controls, portfolio monitoring and risk concentrations.

Credit Risk Management Overview

The credit risk management framework ensures a consistent approach is applied across the Group in measuring, monitoring and managing the credit risk appetite set by the Board.

The Board is assisted and advised by the Board Risk Committee in discharging its duty to oversee credit risk. The Board Risk Committee sets the credit risk appetite and credit strategies, as well as approving credit transactions beyond the discretion of executive management.

Responsibility for the oversight and control of the credit risk framework (including the risk appetite) resides with the Credit and Market Risk Committee (CMRC), which is an executive management committee comprising senior risk, business and Group executives, chaired by the Chief Risk Officer (CRO).

Central to the Group's management of credit risk is the existence of an independent credit risk management function that is staffed by risk specialists. Independence is achieved by having all credit risk staff ultimately report to the CRO, including where they are embedded in business units. The primary responsibility for prudent and profitable management of credit risk and customer relationships rests with the business units.

The authority to make credit decisions is delegated by the Board to the CEO who in turn delegates authority to the CRO. The CRO in turn delegates some of his credit discretion to individuals as part of a 'cascade' of authority from senior to the most junior credit officers. Individuals must be suitably skilled and accredited in order to be granted and retain a credit discretion. Credit discretions are reviewed on an annual basis, and may be varied based on the holder's performance.

The Group has two main approaches to assessing credit risk arising from transactions:

- the larger and more complex credit transactions are assessed on a judgemental credit basis. Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. Credit approval for judgemental lending is typically on a dual approval basis, jointly by the business writer in the business unit and an independent credit officer; and
- programmed credit assessment typically covers retail and some small business lending, and refers to the automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. Where an application does not meet the automated assessment criteria it will be referred out for manual assessment, with assessors considering the decision tool recommendation.

Central and divisional credit risk teams perform key roles in portfolio management such as the development and validation of credit risk measurement systems, loan asset quality reporting, stress testing, and the development of credit policies and requirements. Credit policies and requirements cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.

The Group's credit grading system is fundamental to the management of credit risk, seeking to measure the probability of default (PD), the exposure at default (EAD) and the loss in the event of default (LGD) for all transactions.

From an operational perspective, the Group's credit grading system has two separate and distinct dimensions that:

- measure the PD, which is expressed by a 27-grade Customer Credit Rating (CCR), reflecting the ability to service and repay debt. Within the programmed credit assessment sphere, the CCR is typically expressed as a score which maps back to the PD; and
- measure the LGD, which is expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of the loan covered by security which can be realised in the event of default. The security-related SIs are supplemented with a range of other SIs to cover situations where ANZ's LGD research indicates certain transaction characteristics have different recovery outcomes. Within the programmed credit assessment sphere, exposures are grouped into large homogenous pools – and the LGD is assigned at the pool level.

The development and regular validation of rating models is undertaken by specialist central risk teams. The outputs from these models drive many day-to-day credit decisions, such as origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation and provisioning. The risk grading process includes monitoring of model-generated results to ensure appropriate judgement is exercised (such as overrides to take into account any out-of-model factors).

20: Financial Risk Management (continued)

Collateral management

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.

ANZ credit principles specify to only lend when the counterparty has the capacity and ability to repay, and the Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (such as the scheduled repayment of principal and interest).

In certain cases, such as where the customer risk profile is considered very sound or by the nature of the product (for instance, small limit products such as credit cards), a transaction may not be supported by collateral. For some products, the collateral provided is fundamental to its structuring so is not strictly the secondary source of repayment. For example, lending secured by trade receivables is typically repaid by the collection of those receivables.

The most common types of collateral typically taken by ANZ include:

- collateral received in respect of derivative trading;
- charges over cash deposits;
- security over real estate including residential, commercial, industrial or rural property; and
- other security includes charges over business assets, security over specific plant and equipment, charges over listed shares, bonds or securities and guarantees and pledges.

Credit policy requirements set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval. ANZ's credit risk modelling approach uses historical internal loss data and other relevant external data to assist in determining the discount that each type of collateral would be expected to incur in a forced sale. This discounted value is used in the determination of the SI for LGD purposes.

In the event of customer default, any loan security is usually held as mortgagee in possession while the Group is actively seeking to realise it. Therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Group generally uses Master Agreements with its counterparties for derivatives activities. Generally, International Swaps and Derivatives Association (ISDA) Master Agreements will be used. Under the ISDA Master Agreement, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default.

In addition to the terms noted above, ANZ's preferred practice is to use a Credit Support Annex (CSA) to the ISDA Master Agreement. Under a CSA, open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty that is out of the money. Upon termination of the trade, payment is required only for the final daily mark-to-market movement rather than the mark-to-market movement since inception.

Concentrations of credit risk

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

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

20: Financial Risk Management (continued)

Concentrations of credit risk analysis

Composition of financial instruments that give rise to credit risk by industry:

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Australia														
Agriculture, forestry, fishing and mining	–	–	13	60	492	691	14,670	15,192	85	119	8,584	9,713	23,844	25,775
Business services	13	4	–	–	84	108	5,994	6,254	35	49	3,348	3,365	9,474	9,780
Construction	–	–	–	23	28	20	5,485	5,516	32	43	3,473	4,568	9,018	10,170
Electricity, gas and water supply	–	–	91	99	1,052	837	3,537	3,462	20	27	2,449	2,388	7,149	6,813
Entertainment, leisure and tourism	–	–	16	37	466	323	9,830	8,908	57	70	2,532	2,494	12,901	11,832
Financial, investment and insurance	32,567	21,885	16,608	18,722	50,011	49,733	23,990	22,061	138	174	10,171	6,757	133,485	119,332
Government and official institutions	907	130	50,339	32,305	582	685	781	707	5	6	681	2,081	53,295	35,914
Manufacturing	12	4	159	1,382	2,126	2,535	7,127	6,844	41	54	7,395	7,815	16,860	18,634
Personal lending	–	–	–	–	–	–	263,544	252,242	1,524	1,983	47,796	48,282	312,864	302,507
Property services	–	–	18	79	821	677	27,653	27,034	160	212	11,023	10,199	39,675	38,201
Retail trade	4	2	–	50	169	221	9,974	11,273	58	89	4,102	3,639	14,307	15,274
Transport and storage	104	2	76	181	984	951	7,307	7,052	42	55	3,673	4,145	12,186	12,386
Wholesale trade	183	354	2	12	1,701	1,520	5,981	6,287	35	49	5,882	8,212	13,784	16,434
Other	1	30	198	251	384	453	10,611	10,397	61	82	5,536	5,878	16,791	17,091
	33,791	22,411	67,520	53,201	58,900	58,754	396,484	383,229	2,293	3,012	116,645	119,536	675,633	640,143
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	66	61	18,391	17,554	100	108	1,645	1,749	20,202	19,472
Business services	–	–	–	–	12	5	871	996	5	6	338	380	1,226	1,387
Construction	–	–	–	–	16	11	1,423	1,222	8	7	799	713	2,246	1,953
Electricity, gas and water supply	–	–	20	37	613	430	1,119	1,122	6	7	1,121	1,079	2,879	2,675
Entertainment, leisure and tourism	–	–	–	–	30	43	1,286	972	7	6	344	243	1,667	1,264
Financial, investment and insurance	2,250	2,217	7,369	6,322	13,556	10,118	906	1,132	5	9	765	874	24,851	20,672
Government and official institutions	1,766	1,679	6,704	5,884	1,025	1,216	1,188	1,052	6	6	652	664	11,341	10,501
Manufacturing	–	–	11	28	176	379	3,304	3,155	18	19	1,702	1,597	5,211	5,178
Personal lending	–	–	–	–	–	–	71,434	63,067	387	387	13,479	12,534	85,300	75,988
Property services	–	–	–	1	63	16	9,898	8,836	54	54	1,931	1,399	11,946	10,306
Retail trade	–	–	–	–	61	16	1,876	1,827	10	11	818	827	2,765	2,681
Transport and storage	–	–	5	5	87	55	1,536	1,489	8	9	831	688	2,467	2,246
Wholesale trade	–	–	–	–	22	15	1,542	1,334	8	8	1,457	1,132	3,029	2,489
Other	–	–	40	52	134	40	733	670	4	4	923	1,042	1,834	1,808
	4,016	3,896	14,149	12,329	15,861	12,405	115,507	104,428	626	641	26,805	24,921	176,964	158,620

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	2	3	62	43	68	94	3,942	5,659	170	166	6,861	9,326	11,105	15,291
Business services	2	5	22	–	26	15	981	1,331	42	39	3,734	4,988	4,807	6,378
Construction	10	2	7	1	5	27	357	716	15	21	2,396	3,637	2,790	4,404
Electricity, gas and water supply	28	35	60	60	53	56	1,732	3,520	75	103	2,330	2,600	4,278	6,374
Entertainment, leisure and tourism	–	–	2	–	–	16	856	1,382	37	40	753	853	1,648	2,291
Financial, investment and insurance	43,753	54,079	18,467	17,666	11,773	12,661	14,198	13,534	614	397	11,271	13,703	100,076	112,040
Government and official institutions	125	1	8,311	8,083	25	281	255	475	11	14	1,751	928	10,478	9,782
Manufacturing	40	230	103	107	280	611	12,482	18,831	540	553	36,500	43,000	49,945	63,332
Personal lending	1	2	–	–	–	–	11,944	12,867	516	377	8,881	8,782	21,342	22,028
Property services	1	1	34	8	86	112	3,936	5,303	170	155	1,657	2,495	5,884	8,074
Retail trade	–	1	86	26	8	21	1,481	2,344	64	69	1,828	3,597	3,467	6,058
Transport and storage	1	–	128	87	85	81	4,305	4,679	186	137	2,438	2,575	7,143	7,559
Wholesale trade	36	64	117	60	292	437	7,276	12,084	315	354	18,291	27,006	26,327	40,005
Other	86	20	378	945	34	54	3,779	3,359	163	98	3,048	3,182	7,488	7,658
	44,085	54,443	27,777	27,086	12,735	14,466	67,524	86,084	2,918	2,523	101,739	126,672	256,778	311,274
Consolidated – aggregate														
Agriculture, forestry, fishing and mining	2	3	75	103	626	846	37,003	38,405	355	393	17,090	20,788	55,151	60,538
Business services	15	9	22	–	122	128	7,846	8,581	82	94	7,420	8,733	15,507	17,545
Construction	10	2	7	24	49	58	7,265	7,454	55	71	6,668	8,918	14,054	16,527
Electricity, gas and water supply	28	35	171	196	1,718	1,323	6,388	8,104	101	137	5,900	6,067	14,306	15,862
Entertainment, leisure and tourism	–	–	18	37	496	382	11,972	11,262	101	116	3,629	3,590	16,216	15,387
Financial, investment and insurance	78,570	78,181	42,444	42,710	75,340	72,512	39,094	36,727	757	580	22,207	21,334	258,412	252,044
Government and official institutions	2,798	1,810	65,354	46,272	1,632	2,182	2,224	2,234	22	26	3,084	3,673	75,114	56,197
Manufacturing	52	234	273	1,517	2,582	3,525	22,913	28,830	599	626	45,597	52,412	72,016	87,144
Personal lending	1	2	–	–	–	–	346,922	328,176	2,427	2,747	70,156	69,598	419,506	400,523
Property services	1	1	52	88	970	805	41,487	41,173	384	421	14,611	14,093	57,505	56,581
Retail trade	4	3	86	76	238	258	13,331	15,444	132	169	6,748	8,063	20,539	24,013
Transport and storage	105	2	209	273	1,156	1,087	13,148	13,220	236	201	6,942	7,408	21,796	22,191
Wholesale trade	219	418	119	72	2,015	1,972	14,799	19,705	358	411	25,630	36,350	43,140	58,928
Other	87	50	616	1,248	552	547	15,123	14,426	228	184	9,507	10,102	26,113	26,557
Gross Total	81,892	80,750	109,446	92,616	87,496	85,625	579,515	573,741	5,837	6,176	245,189	271,129	1,109,375	1,110,037
Individual provision for credit impairment	–	–	–	–	–	–	(1,278)	(1,038)	–	–	(29)	(23)	(1,307)	(1,061)
Collective provision for credit impairment	–	–	–	–	–	–	(2,245)	(2,279)	–	–	(631)	(677)	(2,876)	(2,956)
	81,892	80,750	109,446	92,616	87,496	85,625	575,992	570,424	5,837	6,176	244,529	270,429	1,105,192	1,106,020
Income yet to mature	–	–	–	–	–	–	(544)	(739)	–	–	–	–	(544)	(739)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	1,064	1,253	–	–	–	–	1,064	1,253
	81,892	80,750	109,446	92,616	87,496	85,625	576,512	570,938	5,837	6,176	244,529	270,429	1,105,712	1,106,534
Excluded from analysis above	1,457	1,716	855	51	–	–	–	–	35,656	34,820	–	–	37,968	36,587
Net Total	83,349	82,466	110,301	92,667	87,496	85,625	576,512	570,938	41,493	40,996	244,529	270,429	1,143,680	1,143,121

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Australia														
Agriculture, forestry, fishing and mining	–	–	13	59	492	691	14,598	15,185	49	79	8,494	9,573	23,646	25,587
Business services	13	4	–	–	84	108	5,985	6,254	20	32	3,308	3,340	9,410	9,738
Construction	–	–	–	23	28	20	5,477	5,516	18	29	3,467	4,537	8,990	10,125
Electricity, gas and water supply	–	–	91	99	1,052	837	3,531	3,455	12	18	2,449	2,266	7,135	6,675
Entertainment, leisure and tourism	–	–	16	37	466	323	9,816	8,888	33	46	2,532	2,494	12,863	11,788
Financial, investment and insurance[5]	33,578	22,601	16,898	18,547	61,257	59,663	23,956	22,086	81	115	9,820	6,499	145,590	129,511
Government and official institutions	907	130	50,338	32,008	582	685	780	706	3	4	681	2,081	53,291	35,614
Manufacturing	12	4	159	1,369	2,126	2,535	7,114	6,844	24	36	6,973	7,333	16,408	18,121
Personal lending	–	–	–	–	–	–	263,167	251,707	885	1,306	47,798	48,282	311,850	301,295
Property services	–	–	18	78	821	677	27,610	26,991	93	140	10,913	10,194	39,455	38,080
Retail trade	4	2	–	50	169	221	9,958	11,269	33	59	3,999	3,567	14,163	15,168
Transport and storage	104	2	76	180	984	951	7,296	7,052	25	37	3,663	4,114	12,148	12,336
Wholesale trade	183	354	2	12	1,701	1,520	5,972	6,287	20	33	5,447	7,544	13,325	15,750
Other	1	30	198	248	384	453	10,595	10,374	36	54	5,264	5,693	16,478	16,852
	34,802	23,127	67,809	52,710	70,146	68,684	395,855	382,614	1,332	1,988	114,808	117,517	684,752	646,640
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Business services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Electricity, gas and water supply	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Entertainment, leisure and tourism	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Financial, investment and insurance	–	–	–	–	46	64	–	–	–	–	–	–	46	64
Government and official institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Manufacturing	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Personal lending	–	–	–	–	–	–	5,746	7,289	–	–	–	19	5,746	7,308
Property services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retail trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transport and storage	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Wholesale trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–	–	1	–	1
	–	–	–	–	46	64	5,746	7,289	–	–	–	20	5,792	7,373

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
5 Includes amounts due from other Group entities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	–	–	58	42	31	47	3,477	4,839	77	84	6,146	8,174	9,789	13,186
Business services	2	5	20	–	12	7	777	1,073	17	19	3,257	4,436	4,085	5,540
Construction	–	2	6	1	2	14	177	519	4	9	1,897	3,047	2,086	3,592
Electricity, gas and water supply	28	34	38	28	18	20	1,317	2,948	29	51	1,989	2,170	3,419	5,251
Entertainment, leisure and tourism	–	–	2	–	–	8	608	1,165	13	20	580	677	1,203	1,870
Financial, investment and insurance	40,755	51,586	15,732	15,566	5,336	6,216	10,705	9,687	237	168	9,883	11,785	82,648	95,008
Government and official institutions	125	1	5,749	5,586	12	145	240	446	5	8	1,740	919	7,871	7,105
Manufacturing	40	193	2	17	73	216	7,523	11,050	167	191	27,528	31,817	35,333	43,484
Personal lending	–	1	–	–	–	–	6,843	7,581	152	131	4,660	4,351	11,655	12,064
Property services	–	–	32	7	40	58	3,462	4,519	77	78	1,540	2,142	5,151	6,804
Retail trade	–	1	19	7	4	10	993	1,570	22	27	1,251	1,216	2,289	2,831
Transport and storage	1	–	119	84	34	27	3,543	3,832	79	66	1,704	1,947	5,480	5,956
Wholesale trade	8	37	10	24	102	155	5,133	9,505	114	165	15,231	22,672	20,598	32,558
Other	86	20	352	883	16	23	2,824	2,386	63	41	2,307	2,650	5,648	6,003
	41,045	51,880	22,139	22,245	5,680	6,946	47,622	61,120	1,056	1,058	79,713	98,003	197,255	241,252
The Company – aggregate														
Agriculture, forestry, fishing and mining	–	–	71	101	523	738	18,075	20,024	126	163	14,640	17,747	33,435	38,773
Business services	15	9	20	–	96	115	6,762	7,327	37	51	6,565	7,776	13,495	15,278
Construction	–	2	6	24	30	34	5,654	6,035	22	38	5,364	7,584	11,076	13,717
Electricity, gas and water supply	28	34	129	127	1,070	857	4,848	6,403	41	69	4,438	4,436	10,554	11,926
Entertainment, leisure and tourism	–	–	18	37	466	331	10,424	10,053	46	66	3,112	3,171	14,066	13,658
Financial, investment and insurance	74,333	74,187	32,630	34,113	66,639	65,943	34,661	31,773	318	283	19,703	18,284	228,284	224,583
Government and official institutions	1,032	131	56,087	37,594	594	830	1,020	1,152	8	12	2,421	3,000	61,162	42,719
Manufacturing	52	197	161	1,386	2,199	2,751	14,637	17,894	191	227	34,501	39,150	51,741	61,605
Personal lending	–	1	–	–	–	–	275,756	266,577	1,037	1,437	52,458	52,652	329,251	320,667
Property services	–	–	50	85	861	735	31,072	31,510	170	218	12,453	12,336	44,606	44,884
Retail trade	4	3	19	57	173	231	10,951	12,839	55	86	5,250	4,783	16,452	17,999
Transport and storage	105	2	195	264	1,018	978	10,839	10,884	104	103	5,367	6,061	17,628	18,292
Wholesale trade	191	391	12	36	1,803	1,675	11,105	15,792	134	198	20,678	30,216	33,923	48,308
Other	87	50	550	1,131	400	476	13,419	12,760	99	95	7,571	8,344	22,126	22,856
Gross Total	75,847	75,007	89,948	74,955	75,872	75,694	449,223	451,023	2,388	3,046	194,521	215,540	887,799	895,265
Individual provision for credit impairment	–	–	–	–	–	–	(942)	(740)	–	–	(15)	(19)	(957)	(759)
Collective provision for credit impairment	–	–	–	–	–	–	(1,678)	(1,765)	–	–	(493)	(557)	(2,171)	(2,322)
	75,847	75,007	89,948	74,955	75,872	75,694	446,603	448,518	2,388	3,046	194,013	214,964	884,671	892,184
Income yet to mature	–	–	–	–	–	–	(261)	(438)	–	–	–	–	(261)	(438)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	697	944	–	–	–	–	697	944
	75,847	75,007	89,948	74,955	75,872	75,694	447,039	449,024	2,388	3,046	194,013	214,964	885,107	892,690
Excluded from analysis above	1,008	1,045	832	30	–	–	–	–	–	–	–	–	1,840	1,075
Net total	76,855	76,052	90,780	74,985	75,872	75,694	447,039	449,024	2,388	3,046	194,013	214,964	886,947	893,765

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Credit quality

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances, there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity investments which are primarily subject to market risk, or bank notes and coins. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following tables present the maximum exposure to credit risk of on-balance sheet and off-balance sheet financial assets before taking account of any collateral held or other credit enhancements.

	Reported on Balance Sheet		Excluded[1]		Maximum exposure to credit risk	
Consolidated	2016 $m	2015[5] $m	2016 $m	2015 $m	2016 $m	2015[5] $m
On-balance sheet positions						
Cash	48,675	53,903	1,457	1,716	47,218	52,187
Settlement balances owed to ANZ	21,951	18,596	–	–	21,951	18,596
Collateral paid	12,723	9,967	–	–	12,723	9,967
Trading securities	47,188	49,000	–	–	47,188	49,000
Derivative financial instruments[2]	87,496	85,625	–	–	87,496	85,625
Available-for-sale assets	63,113	43,667	855	51	62,258	43,616
Net loans and advances[3]						
– Australia	326,618	314,572	–	–	326,618	314,572
– Institutional	125,940	142,196	–	–	125,940	142,196
– New Zealand	107,893	97,020	–	–	107,893	97,020
– Wealth Australia	2,022	1,894	–	–	2,022	1,894
– Asia Retail & Pacific	13,379	14,556	–	–	13,379	14,556
Regulatory deposits	2,296	1,773	–	–	2,296	1,773
Investments backing policy liabilities	35,656	34,820	35,656	34,820	–	–
Other financial assets[4]	3,541	4,403	–	–	3,541	4,403
	898,491	871,992	37,968	36,587	860,523	835,405
Off-balance sheet positions						
Undrawn facilities	207,410	230,794	–	–	207,410	230,794
Contingent facilities	37,779	40,335	–	–	37,779	40,335
	245,189	271,129	–	–	245,189	271,129
Total	1,143,680	1,143,121	37,968	36,587	1,105,712	1,106,534

	Reported on balance Sheet		Excluded[1]		Maximum exposure to credit risk	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
On-balance sheet positions						
Cash	46,072	51,217	1,008	1,045	45,064	50,172
Settlement balances owed to ANZ	19,905	16,601	–	–	19,905	16,601
Collateral paid	10,878	8,234	–	–	10,878	8,234
Trading securities	35,059	37,373	–	–	35,059	37,373
Derivative financial instruments[2]	75,872	75,694	–	–	75,872	75,694
Available-for-sale assets	55,721	37,612	832	30	54,889	37,582
Net loans and advances[3]	446,531	448,448	–	–	446,531	448,448
Regulatory deposits	671	557	–	–	671	557
Other financial assets[4]	1,717	2,489	–	–	1,717	2,489
	692,426	678,225	1,840	1,075	690,586	677,150
Off-balance sheet positions						
Undrawn facilities	161,178	180,847	–	–	161,178	180,847
Contingent facilities	33,343	34,693	–	–	33,343	34,693
	194,521	215,540	–	–	194,521	215,540
Total	886,947	893,765	1,840	1,075	885,107	892,690

1 Includes bank notes and coins and cash at bank within liquid assets, equity instruments within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed onto the policy holder.
2 Derivative financial instruments are net of credit valuation adjustments.
3 Includes individual and collective provisions for credit impairment held in respect of credit related commitments. Australia includes net loans and advances for TSO and Group Centre.
4 Mainly comprises trade dated assets and accrued interest.
5 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Distribution of financial assets by credit quality

The Group has a comprehensive rating system that is used to quantify credit risk. The use of masterscales ensures consistency across exposure types at the Group, providing a consistent framework for reporting and analysis.

All customers with whom ANZ has a credit relationship, including guarantors, are assigned a Customer Credit Rating (CCR) or score at origination either by programmed credit assessment or by judgemental assessment. In addition, the CCR or score is reviewed on an ongoing basis to ensure it accurately reflects the credit risk of the customer and the prevailing economic conditions.

The Group's risk grade profile therefore changes dynamically through new lending, repayment and/or existing counterparty movements in either risk or volume.

Restructured items

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

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
Consolidated	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m
Cash	47,218	52,187	–	–	–	–	–	–	47,218	52,187
Settlement balances owed to ANZ	21,951	18,596	–	–	–	–	–	–	21,951	18,596
Collateral paid	12,723	9,967	–	–	–	–	–	–	12,723	9,967
Trading securities	47,188	49,000	–	–	–	–	–	–	47,188	49,000
Derivative financial instruments[1]	87,482	85,588	–	–	–	–	14	37	87,496	85,625
Available-for-sale assets	62,258	43,616	–	–	–	–	–	–	62,258	43,616
Net loans and advances[2]										
– Australia	314,862	303,696	11,420	10,505	40	5	516	586	326,838	314,792
– Institutional	125,359	141,778	162	193	163	36	590	569	126,274	142,576
– New Zealand	106,199	95,138	1,536	1,753	24	13	202	182	107,961	97,086
– Wealth Australia	2,022	1,894	–	–	–	–	–	–	2,022	1,894
– Asia Retail & Pacific	12,650	13,887	531	507	176	130	60	66	13,417	14,590
Regulatory deposits	2,296	1,773	–	–	–	–	–	–	2,296	1,773
Other financial assets[3]	3,541	4,403	–	–	–	–	–	–	3,541	4,403
Credit related commitments[4]	244,448	270,395	–	–	–	–	81	34	244,529	270,429
Total	1,090,197	1,091,918	13,649	12,958	403	184	1,463	1,474	1,105,712	1,106,534

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Cash	45,064	50,172	–	–	–	–	–	–	45,064	50,172
Settlement balances owed to ANZ	19,905	16,601	–	–	–	–	–	–	19,905	16,601
Collateral paid	10,878	8,234	–	–	–	–	–	–	10,878	8,234
Trading securities	35,059	37,373	–	–	–	–	–	–	35,059	37,373
Derivative financial instruments[1]	75,861	75,657	–	–	–	–	11	37	75,872	75,694
Available-for-sale assets	54,889	37,582	–	–	–	–	–	–	54,889	37,582
Net loans and advances[2]	434,072	437,153	11,811	10,943	247	94	909	834	447,039	449,024
Regulatory deposits	671	557	–	–	–	–	–	–	671	557
Other financial assets[3]	1,717	2,489	–	–	–	–	–	–	1,717	2,489
Credit related commitments[4]	193,976	214,940	–	–	–	–	37	24	194,013	214,964
Total	872,092	880,758	11,811	10,943	247	94	957	895	885,107	892,690

1 Derivative financial instruments, considered impaired, are net of credit valuation adjustments.
2 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table. Australia includes net loans and advances for TSO and Group Centre.
3 Mainly comprises trade dated assets and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
5 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Credit quality of financial assets neither past due nor impaired

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

Internal rating

Strong credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings 'Aaa' to 'Baa3' and 'AAA' to 'BBB-' of Moody's and Standard & Poor's respectively.
Satisfactory risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long-term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings 'Ba2' to 'Ba3' and 'BB' to 'BB-' of Moody's and Standard & Poor's respectively.
Sub-standard but not past due or impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings 'B1' to 'Caa' and 'B+' to 'CCC' of Moody's and Standard & Poor's respectively.

	Strong credit profile		Satisfactory risk		Sub-standard but not past due or impaired		Total	
Consolidated	2016 $m	2015[4] $m	2016 $m	2015[4] $m	2016 $m	2015[4] $m	2016 $m	2015[4] $m
Cash	47,171	52,139	47	48	–	–	47,218	52,187
Settlement balances owed to ANZ	21,185	17,845	730	665	36	86	21,951	18,596
Collateral paid	12,635	9,957	15	6	73	4	12,723	9,967
Trading securities	47,009	48,898	123	79	56	23	47,188	49,000
Derivative financial instruments	86,144	84,074	1,266	1,351	72	163	87,482	85,588
Available-for-sale assets	60,729	42,097	1,529	1,519	–	–	62,258	43,616
Net loans and advances[1]								
– Australia	242,876	227,958	58,468	61,045	13,518	14,693	314,862	303,696
– Institutional	105,868	118,799	17,800	20,813	1,691	2,166	125,359	141,778
– New Zealand	73,995	66,914	29,663	26,032	2,541	2,192	106,199	95,138
– Wealth Australia	2,022	1,894	–	–	–	–	2,022	1,894
– Asia Retail & Pacific	7,288	8,007	4,930	4,932	432	948	12,650	13,887
Regulatory deposits	1,660	1,083	574	657	62	33	2,296	1,773
Other financial assets[2]	3,214	3,948	283	404	44	51	3,541	4,403
Credit related commitments[3]	200,510	220,815	41,500	46,681	2,438	2,899	244,448	270,395
Total	912,306	904,428	156,928	164,232	20,963	23,258	1,090,197	1,091,918

	Strong credit profile		Satisfactory risk		Sub-standard but not past due or impaired		Total	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Cash	45,017	50,126	47	46	–	–	45,064	50,172
Settlement balances owed to ANZ	19,656	16,253	217	277	32	71	19,905	16,601
Collateral paid	10,790	8,224	15	6	73	4	10,878	8,234
Trading securities	34,987	37,322	17	28	55	23	35,059	37,373
Derivative financial instruments	74,796	74,394	1,001	1,114	64	149	75,861	75,657
Available-for-sale assets	54,864	37,567	25	15	–	–	54,889	37,582
Net loans and advances[1]	343,830	339,549	75,439	80,488	14,803	17,116	434,072	437,153
Regulatory deposits	452	393	166	145	53	19	671	557
Other financial assets[2]	1,514	2,159	172	293	31	37	1,717	2,489
Credit related commitments[3]	161,559	177,323	30,498	35,132	1,919	2,485	193,976	214,940
Total	747,465	743,310	107,597	117,544	17,030	19,904	872,092	880,758

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
4 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Ageing analysis of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Group to measure and manage emerging credit risks. Financial assets that are past due but not impaired include those which are assessed, approved and managed on a portfolio basis within a centralised environment (for example credit cards and personal loans) that can be held on a productive basis until they are 180 days past due, as well as those which are managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the value of associated security is sufficient to cover amounts outstanding.

	Consolidated						The Company					
As at 30 September 2016	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]							2,430	4,267	1,678	924	2,512	11,811
– Australia	2,330	4,112	1,634	885	2,459	11,420	–	–	–	–	–	–
– Institutional	80	34	9	10	29	162	–	–	–	–	–	–
– New Zealand	778	271	219	123	145	1,536	–	–	–	–	–	–
– Wealth Australia	–	–	–	–	–	–	–	–	–	–	–	–
– Asia Retail & Pacific	173	188	48	52	70	531	–	–	–	–	–	–
Total	3,361	4,605	1,910	1,070	2,703	13,649	2,430	4,267	1,678	924	2,512	11,811

	Consolidated						The Company					
As at 30 September 2015[2]	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]							1,831	4,646	1,461	878	2,127	10,943
– Australia	1,813	4,373	1,431	814	2,074	10,505	–	–	–	–	–	–
– Institutional	14	108	8	28	35	193	–	–	–	–	–	–
– New Zealand	793	408	236	115	201	1,753	–	–	–	–	–	–
– Wealth Australia	–	–	–	–	–	–	–	–	–	–	–	–
– Asia Retail & Pacific	165	182	57	35	68	507	–	–	–	–	–	–
Total	2,785	5,071	1,732	992	2,378	12,958	1,831	4,646	1,461	878	2,127	10,943

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Greater granularity in past due loans has resulted in comparative information being restated accordingly.

Estimated value of collateral for all financial assets

	Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
Consolidated	2016 $m	2015[4] $m	2016 $m	2015[4] $m	2016 $m	2015[4] $m
Cash	19,673	11,770	47,218	52,187	27,545	40,417
Settlement balances owed to ANZ	149	300	21,951	18,596	21,802	18,296
Collateral paid	–	–	12,723	9,967	12,723	9,967
Trading securities	1,791	1,081	47,188	49,000	45,397	47,919
Derivative financial instruments	6,386	7,829	87,496	85,625	81,110	77,796
Available-for-sale assets	1,606	1,603	62,258	43,616	60,652	42,013
Net loans and advances[1]						
– Australia	301,332	284,671	326,838	314,792	25,506	30,121
– Institutional	47,115	44,554	126,274	142,576	79,159	98,022
– New Zealand	101,504	90,688	107,961	97,086	6,457	6,398
– Wealth Australia	1,241	1,239	2,022	1,894	781	655
– Asia Retail & Pacific	10,079	11,581	13,417	14,590	3,338	3,009
Regulatory deposits	–	–	2,296	1,773	2,296	1,773
Other financial assets[2]	1,363	1,351	3,541	4,403	2,178	3,052
Credit related commitments[3]	49,786	50,401	244,529	270,429	194,743	220,028
Total	542,025	507,068	1,105,712	1,106,534	563,687	599,466

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
4 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Estimated value of collateral for all financial assets

The Company	Total value of collateral 2016 $m	Total value of collateral 2015 $m	Credit exposure 2016 $m	Credit exposure 2015 $m	Unsecured portion of credit exposure 2016 $m	Unsecured portion of credit exposure 2015 $m
Cash	19,434	11,479	45,064	50,172	25,630	38,693
Settlement balances owed to ANZ	133	271	19,905	16,601	19,772	16,330
Collateral paid	–	–	10,878	8,234	10,878	8,234
Trading securities	555	838	35,059	37,373	34,504	36,535
Derivative financial instruments	5,882	6,886	75,872	75,694	69,990	68,808
Available-for-sale assets	1,500	1,603	54,889	37,582	53,389	35,979
Net loans and advances[1]	355,936	340,139	447,039	449,024	91,103	108,885
Regulatory deposits	–	–	671	557	671	557
Other financial assets[2]	923	1,000	1,717	2,489	794	1,489
Credit related commitments[3]	34,007	35,414	194,013	214,964	160,006	179,550
Total	418,370	397,630	885,107	892,690	466,737	495,060

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

Financial assets that are individually impaired

	Consolidated				The Company			
	Gross Impaired assets		Individual provision balance		Gross Impaired assets		Individual provision balance	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Australia								
Derivative financial instruments[1]	1	33	–	–	1	33	–	–
Loans and advances	1,538	1,446	742	679	1,529	1,356	739	667
Credit related commitments[2]	53	44	15	19	52	43	15	19
Subtotal	1,592	1,523	757	698	1,582	1,432	754	686
New Zealand								
Derivative financial instruments[1]	3	–	–	–	–	–	–	–
Loans and advances	389	354	133	143	6	20	3	7
Credit related commitments[2]	51	13	14	4	–	–	–	–
Subtotal	443	367	147	147	6	20	3	7
Asia Pacific, Europe and America								
Derivative financial instruments[1]	10	4	–	–	10	4	–	–
Loans and advances	719	641	403	216	316	198	200	66
Credit related commitments[2]	6	–	–	–	–	–	–	–
Subtotal	735	645	403	216	326	202	200	66
Aggregate								
Derivative financial instruments[1]	14	37	–	–	11	37	–	–
Loans and advances	2,646	2,441	1,278	1,038	1,851	1,574	942	740
Credit related commitments[2]	110	57	29	23	52	43	15	19
Total	2,770	2,535	1,307	1,061	1,914	1,654	957	759

1 Derivative financial instruments considered impaired are net of CVA.
2 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Market risk (excludes insurance and funds management)

Market Risk stems from ANZ's trading and balance sheet activities and is the risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, and correlations or from fluctuations in bond, commodity or equity prices.

ANZ has a detailed market risk management and control framework, to support its trading and balance sheet activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Group-wide responsibility for the strategies and policies relating to the management of market risk lies with the Board Risk Committee. Responsibility for day to day management of both market risks and compliance with market risk policy is delegated by the Risk Committee to the Credit and Market Risk Committee (CMRC) and the Group Asset and Liability Committee (GALCO). The CMRC, chaired by the Chief Risk Officer, is responsible for the oversight of market risk. All committees receive regular reporting on the range of trading and balance sheet market risks that ANZ incurs.

Within overall strategies and policies, the control of market risk at the Group level is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from the Board and CMRC allocated to both Risk Management and the Business Units.

The management of risk is supported by a comprehensive limit and policy framework to control the amount of risk that the Group will accept. Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (eg. interest rates, foreign exchange), risk factors (eg. interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Market risk management and control responsibilities

To facilitate the management, measurement and reporting of market risk, ANZ has grouped market risk into two broad categories:

a) Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or interbank counterparties.

The principal risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a benchmark.
- Commodity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in commodity prices or their implied volatilities.
- Equity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in equity prices or their implied volatilities.

b) Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to the Australian dollar denominated value of the Group's capital and earnings as a result of foreign exchange rate movements.

Some instruments that do not fall into either category also expose ANZ to market risk. These include equity securities classified as available-for-sale financial assets.

Value at Risk (VaR) measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the possible daily loss and is based on historical market movements.

ANZ measures VaR at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates, prices and volatilities over the previous 500 business days. Traded and non-traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (such as stress testing) and risk sensitivity limits to measure and manage market risk.

20: Financial Risk Management (continued)

Traded Market Risk

Below are the aggregate Value at Risk (VaR) exposures at a 99% confidence level covering both physical and derivative trading positions for the Bank's principal trading centres.

	30 September 2016				30 September 2015			
Consolidated	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Value at risk at 99% confidence								
Foreign exchange	4.0	11.4	2.2	5.2	5.0	18.2	2.8	7.9
Interest rate	4.7	20.1	4.1	9.1	10.1	20.2	4.8	9.3
Credit	3.3	4.6	2.2	3.2	3.5	5.4	2.9	3.8
Commodity	2.5	2.8	1.1	1.7	1.6	3.6	1.3	2.4
Equity	0.5	2.0	0.1	0.2	2.5	6.3	0.1	1.1
Diversification benefit	(6.8)	n/a	n/a	(6.2)	(6.0)	n/a	n/a	(13.2)
	8.2	25.4	6.1	13.2	16.7	19.7	6.9	11.3

	30 September 2016				30 September 2015			
The Company	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Value at risk at 99% confidence								
Foreign exchange	4.4	11.4	2.5	5.3	5.2	18.3	2.8	8.0
Interest rate	4.7	17.6	3.9	8.3	8.5	19.7	4.7	8.8
Credit	3.0	4.0	2.0	2.9	3.1	4.7	2.6	3.6
Commodity	2.5	2.8	1.1	1.7	1.6	3.6	1.3	2.4
Equity	0.5	2.0	0.1	0.2	2.5	6.3	0.1	1.1
Diversification benefit	(6.3)	n/a	n/a	(6.2)	(5.8)	n/a	n/a	(12.8)
	8.8	23.2	5.7	12.2	15.1	19.3	6.7	11.1

VaR is calculated separately for foreign exchange, interest rate, credit, commodity and equities and for the Group. The diversification benefit reflects the historical correlation between these products. Electricity commodities risk is measured under the standard approach for regulatory purposes.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at a Group level. ANZ's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual market factors. Extraordinary stress tests are applied daily and measure the potential loss arising as a result of scenarios generated from major financial market events.

Non-traded Market Risk (Balance Sheet Risk)

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

20: Financial Risk Management (continued)

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long-term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using various techniques including VaR and scenario analysis (to a 1% shock).

a) VaR non-traded interest rate risk

The repricing assumptions used to determine the VaR and 1% rate shock have been independently validated. Below are aggregate VaR figures covering non-traded interest rate risk.

	30 September 2016				30 September 2015			
Consolidated	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	38.4	40.6	28.0	33.7	25.4	38.5	21.2	27.2
New Zealand	11.4	11.4	8.8	10.0	9.7	11.4	8.9	10.2
Asia Pacific, Europe and America	14.7	17.3	14.4	15.8	14.4	14.4	7.9	10.4
Diversification benefit	(24.0)	n/a	n/a	(22.9)	(16.8)	n/a	n/a	(14.8)
	40.5	44.7	31.3	36.6	32.7	37.4	28.6	33.0

	30 September 2016				30 September 2015			
The Company	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	38.4	40.6	28.0	33.7	25.4	38.5	21.2	27.2
New Zealand	0.1	0.1	0.0	0.1	0.0	0.2	0.0	0.1
Asia Pacific, Europe and America	14.6	16.8	14.0	15.3	13.9	13.9	6.8	9.9
Diversification benefit	(9.2)	n/a	n/a	(13.2)	(11.2)	n/a	n/a	(7.9)
	43.9	43.9	29.4	35.9	28.1	39.2	21.3	29.3

VaR is calculated separately for the Australia, New Zealand and APEA geographies, as well as for the Group.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at Group level. ANZ's stress testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ.

b) Scenario Analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months.

	Consolidated		The Company	
	2016	2015	2016	2015
Impact of 1% rate shock				
As at period end	0.37%	0.61%	0.85%	0.86%
Maximum exposure	0.48%	1.36%	0.91%	1.74%
Minimum exposure	0.00%	0.45%	0.01%	0.86%
Average exposure (in absolute terms)	0.21%	0.93%	0.40%	1.19%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

20: Financial Risk Management (continued)

Equity securities classified as available-for-sale

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings which predominantly comprise investments held for longer term strategic reasons. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. Regular reviews are performed to substantiate valuation of the investments within the portfolio and the equity investments are regularly reviewed by management for impairment. The fair value of the equity securities can fluctuate.

The balance of available-for-sale equity securities for the Group amounts to $855 million (2015: $51 million) and $832 million (2015: $30 million) for the Company. Included in this is the $795 million investment in the Bank of Tianjin (BoT) that ceased equity accounting during the period.

Foreign currency risk – structural exposures

The investment of capital in foreign operations, such as branches, subsidiaries or associates with functional currencies other than the Australian Dollar, exposes the Group to the risk of changes in foreign exchange rates.

The main operating (or functional) currencies of Group entities are the Australian Dollar, the New Zealand Dollar and the US Dollar, with a number of overseas undertakings operating in various other currencies. The Group presents its consolidated financial statements in Australian Dollars, as the Australian Dollar is the dominant currency. The Group's consolidated balance sheet is therefore affected by exchange differences between the Australian Dollar and functional currencies of foreign operations. Variations in the value of these overseas operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

The Group routinely monitors this risk and conducts hedging, where it is expected to add shareholder value, in accordance with approved policies. The Group's exposures to structural foreign currency risks are managed with the primary objective of ensuring, where practical, that the consolidated capital ratios are neutral to the effect of changes in exchange rates.

Selective hedges were in place during the 2016 and 2015 financial years. For details on the hedging instruments used and effectiveness of hedges of net investments in foreign operations, refer to note 13 to these financial statements. The Group's economic hedges against New Zealand Dollar and US Dollar revenue streams are included within 'Trading derivatives' at note 13.

Liquidity Risk (Excludes Insurance and Funds Management)

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

The Group's liquidity and funding risks are governed by a set of principles which are approved by the ANZ Board Risk Committee. Following the global financial crisis, the framework was reviewed and updated. The following key components underpin the overall framework:

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

Management of liquidity and funding risks are overseen by the Group Asset and Liability Committee (GALCO).

20: Financial Risk Management (continued)

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

Scenario Modelling of Funding Sources

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

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

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

Liquid Assets

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

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

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

	Average For Year[1] 2016 $b	Average For Year[1] 2015 $b[2]
Market Values Post Discount		
HQLA1[3]	118.5	97.3
HQLA2	3.7	3.2
Internal Residential Mortgage Backed Securities (Australia)[3]	35.2	38.8
Internal Residential Mortgage Backed Securities (New Zealand)[4]	1.3	2.1
Other ALA[5]	18.1	16.1
Total Liquid Assets	176.8	157.5
Cash flows modelled under stress scenario		
Cash outflows	181.9	172.1
Cash inflows	41.1	42.9
Net cash outflows	140.8	129.2
Liquidity Coverage Ratio (%)[6]	126%	122%

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

20: Financial Risk Management (continued)

Liquidity Crisis Contingency Planning

The Group maintains APRA-endorsed liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event at a country and Group-wide level. To align with the enhanced liquidity scenario analysis framework, crisis management strategies are assessed against the Group's crisis stress scenarios.

The framework is compliant with APRA's key liquidity contingency crisis planning requirements and guidelines and includes:

- The establishment of crisis severity/stress levels;
- Clearly assigned crisis roles and responsibilities;
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- Crisis Declaration Assessment processes, and related escalation triggers set against early warning signals;
- Outlined action plans, and courses of action for altering asset and liability behaviour;
- Procedures for crisis management reporting, and making up cash-flow shortfalls;
- Guidelines determining the priority of customer relationships in the event of liquidity problems; and
- Assigned responsibilities for internal and external communications.

Regulatory Change

The Basel 3 Liquidity requirements changes include the introduction of two liquidity ratios to measure liquidity risk; (i) the Liquidity Coverage Ratio (LCR) which went live on 1st January 2015 and (ii) the Net Stable Funding Ratio (NSFR).

The Basel 3 NSFR standard was released in October 2014. APRA released their NSFR consultation papers and draft standards in March and September 2016 which confirmed that the NSFR will become a minimum requirement on 1 January 2018. In the draft standards, APRA also proposed that they may require an ADI to maintain a higher minimum than the stated 100% where APRA considers it appropriate to do so. As part of managing future liquidity requirements, ANZ monitors the NSFR ratio in its internal reporting and is well placed to meet this requirement.

Group Funding

ANZ manages its funding profile using a range of funding metrics and balance sheet disciplines. This approach is designed to ensure that an appropriate proportion of the Group's assets are funded by stable funding sources including core customer deposits, longer-dated wholesale funding (with a remaining term exceeding one year) and equity.

The Group's global wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency against prudent diversification and duration.

Funding plans and performance relative to those plans are reported regularly to senior management via the Group Asset and Liability Committee (GALCO). These plans address customer balance sheet growth and changes in wholesale funding including, targeted funding volumes, markets, investors, tenors and currencies for senior, secured, subordinated and hybrid transactions. Plans are supplemented with a monthly forecasting process which reviews the funding position to-date in light of market conditions and balance sheet requirements.

Funding plans are generated through the three-year strategic planning process and further refined by the annual funding plan and approved by the Board. Asset and deposit plans are submitted at the business segment level with the wholesale funding requirements then derived at the geographic level. To the extent that asset growth exceeds funding generated from customer deposits, additional wholesale funds are sourced.

Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Group Treasury and local Markets operations. Long-term wholesale funding is managed and executed through Group Treasury operations in Australia and New Zealand.

Funding Position 2016

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

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

20: Financial Risk Management (continued)

The following tables show the Group's funding composition as at 30 September:

	2016 $m	2015 $m
Customer deposits and other liabilities[1]		
Australia	187,640	177,293
International	171,122	183,040
New Zealand	72,818	64,890
Asia Retail & Pacific	22,814	24,355
Wealth Australia	343	367
TSO and Group Centre[1]	(5,114)	(5,361)
Customer deposits	449,623	444,584
Other Funding liabilities[2]	14,531	14,346
Total customer liabilities (funding)	464,154	458,930
Wholesale funding[3]		
Debt issuances[4]	91,080	93,347
Subordinated debt	21,964	17,009
Certificates of deposit	61,429	63,446
Commercial paper	19,349	22,987
Other wholesale borrowings[5, 6]	65,442	44,558
Total wholesale funding	259,264	241,347
Shareholders' equity	57,927	57,353
Total Funding	781,345	757,630

	2016 $m	2015 $m
Funded Assets		
Other short term assets and trade finance assets[7]	65,800	78,879
Liquids[6]	161,302	135,496
Short term funded assets	227,102	214,375
Lending and fixed assets[8]	554,243	543,255
Total Funded Assets	781,345	757,630
Funding Liabilities[3,4,6]		
Other short term liabilities	48,806	27,863
Short term funding[9]	69,028	73,261
Term funding < 12 months[9]	23,668	28,138
Other customer deposits[1,10]	79,597	88,288
Total short term funding liabilities	221,099	217,550
Stable customer deposits[1,11]	402,146	387,988
Term funding > 12 months	90,708	87,316
Shareholders' equity and hybrid debt	67,392	64,776
Total Stable Funding	560,246	540,080
Total Funding	781,345	757,630

1 Includes term deposits, other deposits and an adjustment recognised in Group Centre to eliminate Wealth Australia investments in ANZ deposit products.
2 Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.
3 Excludes liability for acceptances as they do not provide net funding.
4 Excludes term debt issued externally by Wealth Australia which matured during the September 2016 full year.
5 Includes borrowings from banks, net derivative balances, special purpose vehicles and other borrowing
6 RBA open-repo arrangement netted down by the exchange settlement account cash balance.
7 Includes short-dated assets such as trading securities, available-for-sale securities, trade dated assets and trade finance loans.
8 Excludes trade finance loans.
9 Prior period has been restated to reclassify items between Short term funding and Term funding less than 12 months.
10 Total customer liabilities (funding) plus Central Bank deposits less Stable customer deposits.
11 Stable customer deposits represent operational type deposits or those sourced from retail / business / corporate customers and the stable component of Other funding liabilities.

20: Financial Risk Management (continued)

Contractual maturity analysis of the Group's liabilities

The table below analyses the Group and Company's contractual liabilities, within relevant maturity groupings based on the earliest date on which the Group or Company may be required to pay. The amounts represent principal and interest cash flows and hence may differ compared to the amounts reported on the balance sheet.

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

Contractual maturity analysis of financial liabilities at 30 September:

Consolidated at 30 September 2016	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	6,386	–	–	–	–	6,386
Settlement balances owed by ANZ	10,625	–	–	–	–	10,625
Deposits and other borrowings						
Deposits from banks	54,687	2,650	5	–	–	57,342
Certificates of deposit	27,422	20,650	14,120	80	–	62,272
Term deposits	137,252	49,953	7,039	384	–	194,628
Other deposits interest bearing	234,903	161	16	–	–	235,080
Deposits not bearing interest	20,895	–	–	–	–	20,895
Commercial paper	7,064	12,325	–	–	–	19,389
Borrowing corporation debt	627	703	246	–	–	1,576
Other borrowing	514	–	–	–	–	514
Liability for acceptances	569	–	–	–	–	569
Debt issuances[2]	9,330	15,188	59,923	13,958	–	98,399
Subordinated debt[2,3]	1,727	5,160	9,040	11,448	–	27,375
Policyholder liabilities	35,910	1	29	15	190	36,145
External unit holder liabilities (life insurance funds)	3,333	–	–	–	–	3,333
Derivative liabilities (trading)[4]	73,592	–	–	–	–	73,592
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(35,443)	(26,506)	(85,478)	(31,163)	–	(178,590)
Pay leg	35,927	25,920	84,703	31,221	–	177,771
– other balance sheet management						
Receive leg	(13,169)	(9,529)	(14,494)	(6,610)	–	(43,802)
Pay leg	13,362	10,165	16,399	8,168	–	48,094

Consolidated at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	7,829	–	–	–	–	7,829
Settlement balances owed by ANZ	11,250	–	–	–	–	11,250
Deposits and other borrowings						
Deposits from banks	35,422	3,591	36	–	–	39,049
Certificates of deposit	31,333	16,515	16,551	95	–	64,494
Term deposits	142,342	47,843	7,105	48	–	197,338
Other deposits interest bearing	227,685	404	1,246	–	–	229,335
Deposits not bearing interest	19,014	–	–	–	–	19,014
Commercial paper	13,130	9,868	–	–	–	22,998
Borrowing corporation debt	571	782	300	–	–	1,653
Other borrowing	790	–	–	–	–	790
Liability for acceptances	1,371	–	–	–	–	1,371
Debt issuances[2]	7,994	22,138	61,800	10,657	–	102,589
Subordinated debt[2,3]	517	493	11,288	9,425	–	21,723
Policyholder liabilities	34,965	3	40	21	372	35,401
External unit holder liabilities (life insurance funds)	3,291	–	–	–	–	3,291
Derivative liabilities (trading)[4]	68,309	–	–	–	–	68,309
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(24,585)	(35,207)	(95,440)	(19,556)	–	(174,788)
Pay leg	22,439	31,710	85,900	18,179	–	158,228
– other balance sheet management						
Receive leg	(8,445)	(8,456)	(11,667)	(4,654)	–	(33,222)
Pay leg	8,512	8,882	12,944	5,956	–	36,294

1 Includes at call instruments.
2 Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows revised to improve comparability.
3 Includes instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
4 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

20: Financial Risk Management (continued)

The Company at 30 September 2016	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	5,882	–	–	–	–	5,882
Settlement balances owed by ANZ	9,079	–	–	–	–	9,079
Deposits and other borrowings						
Deposits from banks	53,898	2,638	5	–	–	56,541
Certificates of deposit	26,380	19,889	14,121	80	–	60,470
Term deposits	114,553	30,632	3,415	383	–	148,983
Other deposits interest bearing	190,476	155	1	–	–	190,632
Deposits not bearing interest	11,096	–	–	–	–	11,096
Commercial paper	6,057	8,203	–	–	–	14,260
Other borrowing	151	–	–	–	–	151
Liability for acceptances	321	–	–	–	–	321
Debt issuances[2]	6,895	13,350	47,033	10,798	–	78,076
Subordinated debt[2,3]	1,701	5,075	7,460	11,393	–	25,629
Derivative liabilities (trading)[4]	65,086	–	–	–	–	65,086
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(26,326)	(21,615)	(70,816)	(25,136)	–	(143,893)
Pay leg	26,417	20,898	69,047	25,038	–	141,400
– other balance sheet management						
Receive leg	(5,137)	(5,336)	(9,940)	(5,833)	–	(26,246)
Pay leg	5,224	5,694	11,544	7,386	–	29,848

The Company at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	6,886	–	–	–	–	6,886
Settlement balances owed by ANZ	9,901	–	–	–	–	9,901
Deposits and other borrowings						
Deposits from banks	34,981	3,506	23	–	–	38,510
Certificates of deposit	30,967	16,395	16,576	95	–	64,033
Term deposits	122,123	29,927	3,640	49	–	155,739
Other deposits interest bearing	186,387	311	644	–	–	187,342
Deposits not bearing interest	9,971	–	–	–	–	9,971
Commercial paper	10,419	8,063	–	–	–	18,482
Other borrowing	344	–	–	–	–	344
Liability for acceptances	649	–	–	–	–	649
Debt issuances[2]	5,332	19,213	49,483	9,389	–	83,417
Subordinated debt[2,3]	489	407	9,677	9,307	–	19,880
Derivative liabilities (trading)[4]	61,853	–	–	–	–	61,853
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(16,618)	(25,127)	(66,311)	(15,707)	–	(123,763)
Pay leg	14,935	22,118	58,353	14,527	–	109,933
– other balance sheet management						
Receive leg	(6,820)	(4,962)	(6,673)	(3,876)	–	(22,331)
Pay leg	6,885	5,204	7,611	5,163	–	24,863

1 Includes at call instruments.
2 Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows revised to improve comparability.
3 Includes instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
4 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

Credit related contingencies

Undrawn facilities and issued guarantees comprise the nominal principal amounts of commitments, contingencies and other undrawn facilities and represents the maximum liquidity at risk position should all facilities extended be drawn.

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be partially used, whereas others may never be required to be drawn upon. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements.

20: Financial Risk Management (continued)

The tables below analyse the Group's and Company's undrawn facilities and issued guarantees into relevant maturity groupings based on the earliest date on which ANZ may be required to pay.

30 September 2016	Consolidated Less than 1 year $m	Consolidated More than 1 year $m	Consolidated Total $m	The Company Less than 1 year $m	The Company More than 1 year $m	The Company Total $m
Undrawn facilities	207,410	–	207,410	161,178	–	161,178
Issued guarantees	37,779	–	37,779	33,343	–	33,343

30 September 2015	Consolidated Less than 1 year $m	Consolidated More than 1 year $m	Consolidated Total $m	The Company Less than 1 year $m	The Company More than 1 year $m	The Company Total $m
Undrawn facilities	230,794	–	230,794	180,847	–	180,847
Issued guarantees	40,335	–	40,335	34,693	–	34,693

Life insurance risk

Although not a significant contributor to the Group's balance sheet, the Group's insurance businesses give rise to unique risks which are managed separately from the Group's banking businesses. The nature of these risks and the manner in which they are managed is set out in note 37.

Operational risk management

Within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

The objective of operational risk management is to ensure that risks are identified, assessed, measured, evaluated, treated, monitored and reported in a structured environment with appropriate governance and oversight. ANZ does not expect to eliminate all risks. Rather it seeks to ensure that its residual risk exposure is managed as low as reasonably practical based on a sound risk/reward analysis in the context of an international financial institution.

The ANZ Board has delegated its powers to the Risk Committee to approve the ANZ Operational Risk Framework which is in accordance with Australian Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk. The Operational Risk Executive Committee (OREC) is the primary senior executive management committee responsible for oversight of ANZ's Risk Profile. The purpose of OREC is to assist the Board Risk Committee in the effective discharge of its responsibilities for operational risk management and the management of the compliance obligations of ANZBGL and its controlled entities.

Divisional Risk Committees and Business Unit Risk Forums manage and maintain oversight of operational and compliance risks supported by thresholds for escalation and monitoring which is used to inform and support senior management strategic business decision making. Day to day management of operational and compliance risk is the accountability of every employee. Business Units undertake operational risk activities as part of this accountability. Divisional risk personnel provide oversight of operational risk undertaken in the Business Units.

Enterprise Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, framework assurance, operational risk measurement and capital allocations and reporting of operational risk issues to executive committees.

The integration of the Operational Risk Measurement and Management and Compliance Frameworks, supported by common policies, procedures and tools allows for a simple and consistent way to identify, assess, measure and monitor risks across ANZ.

In line with industry practice, ANZ obtains insurance cover from third party and captive providers to cover those operational risks where cost-effective premiums can be obtained. In conducting their business, Business Units are advised to act as if uninsured and not to use insurance as a guaranteed mitigation for operational risk. Business disruption is a critical risk to a bank's ability to operate, so ANZ has comprehensive business continuity, recovery and crisis management plans. The intention of the business continuity and recovery plans is to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

Enterprise Operational Risk is responsible for maintaining ANZ's Advanced Measurement Approach (AMA) for operational risk. Operational risk capital is held to protect depositors and shareholders of the bank from rare and severe unexpected losses. ANZ maintains and calculates operational risk capital (including regulatory and economic capital), on at least a six monthly basis. The capital is calculated using external loss data, internal loss data and scenarios as a direct input and risk registers as an indirect input.

21: Fair value of financial assets and financial liabilities

A significant number of financial instruments are carried on the balance sheet at fair value. The following disclosures set out the classification of financial assets and financial liabilities and in respect of the fair value either recognised or disclosed, the various levels within which fair value measurements are categorised, and the valuation methodologies and techniques used. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective, such as intangible assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The determination of the fair value of financial instruments is fundamental to the financial reporting framework as all financial instruments are recognised initially at fair value and, with the exception of those financial instruments carried at amortised cost, are remeasured at fair value in subsequent periods.

On initial recognition, the best evidence of a financial instrument's fair value is the transaction price. However, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. For those financial instruments where the fair value at initial recognition would be based on unobservable inputs, the difference between the transaction price and the amount which would have been determined using a valuation technique (being the day one gain or loss) is not immediately recognised in the income statement.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair value is determined using market accepted valuation techniques that employ observable data. In limited cases where observable market data is not available, the input is estimated based on other observable market data, historical trends and other factors that may be relevant.

In the tables below, financial instruments have been allocated based on their accounting classification. The significant accounting policies in note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised.

(i) CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
Consolidated 30 September 2016	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	$m	$m
Financial assets							
Cash	48,675	–	–	–	–	–	48,675
Settlement balances owed to ANZ	21,951	–	–	–	–	–	21,951
Collateral paid	12,723	–	–	–	–	–	12,723
Trading securities	–	–	47,188	47,188	–	–	47,188
Derivative financial instruments[1]	–	–	83,787	83,787	3,709	–	87,496
Available-for-sale assets	–	–	–	–	–	63,113	63,113
Net loans and advances[2]	575,440	397	15	412	–	–	575,852
Regulatory deposits	2,296	–	–	–	–	–	2,296
Investments backing policy liabilities	–	35,656	–	35,656	–	–	35,656
Other financial assets	4,198	–	–	–	–	–	4,198
	665,283	36,053	130,990	167,043	3,709	63,113	899,148
Financial liabilities							
Settlement balances owed by ANZ	10,625	–	–	–	–	n/a	10,625
Collateral received	6,386	–	–	–	–	n/a	6,386
Deposits and other borrowings	583,002	5,193	–	5,193	–	n/a	588,195
Derivative financial instruments[1]	–	–	85,174	85,174	3,551	n/a	88,725
Policy liabilities[3]	190	35,955	–	35,955	–	n/a	36,145
External unit holder liabilities (life insurance funds)	–	3,333	–	3,333	–	n/a	3,333
Payables and other liabilities	6,485	–	2,380	2,380	–	n/a	8,865
Debt issuances	88,888	2,192	–	2,192	–	n/a	91,080
Subordinated debt	21,964	–	–	–	–	n/a	21,964
	717,540	46,673	87,554	134,227	3,551	n/a	855,318

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value hedge adjustments mean that the carrying value differs from the amortised cost.
3 Includes life insurance contract liabilities of $190 million (2015: $372 million) measured in accordance with AASB 1038 Life Insurance Contracts and life investment contract liabilities of $35,955 million (2015: $35,029 million) which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

21: Fair value of financial assets and financial liabilities (continued)

Consolidated 30 September 2015	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	53,903	–	–	–	–	–	53,903
Settlement balances owed to ANZ	18,596	–	–	–	–	–	18,596
Collateral paid	9,967	–	–	–	–	–	9,967
Trading securities	–	–	49,000	49,000	–	–	49,000
Derivative financial instruments[1]	–	–	81,925	81,925	3,700	–	85,625
Available-for-sale assets	–	–	–	–	–	43,667	43,667
Net loans and advances[2,3]	569,539	683	16	699	–	–	570,238
Regulatory deposits	1,773	–	–	–	–	–	1,773
Investments backing policy liabilities	–	34,820	–	34,820	–	–	34,820
Other financial assets	4,993	–	–	–	–	–	4,993
	658,771	35,503	130,941	166,444	3,700	43,667	872,582
Financial liabilities							
Settlement balances owed by ANZ	11,250	–	–	–	–	n/a	11,250
Collateral received	7,829	–	–	–	–	n/a	7,829
Deposits and other borrowings	566,218	4,576	–	4,576	–	n/a	570,794
Derivative financial instruments[1]	–	–	78,497	78,497	2,773	n/a	81,270
Policy liabilities[4]	372	35,029	–	35,029	–	n/a	35,401
External unit holder liabilities (life insurance funds)	–	3,291	–	3,291	–	n/a	3,291
Payables and other liabilities	7,798	–	2,568	2,568	–	n/a	10,366
Debt issuances	90,582	3,165	–	3,165	–	n/a	93,747
Subordinated debt	17,009	–	–	–	–	n/a	17,009
	701,058	46,061	81,065	127,126	2,773	n/a	830,957

The Company 30 September 2016	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	46,072	–	–	–	–	–	46,072
Settlement balances owed to ANZ	19,905	–	–	–	–	–	19,905
Collateral paid	10,878	–	–	–	–	–	10,878
Trading securities	–	–	35,059	35,059	–	–	35,059
Derivative financial instruments[1]	–	–	72,446	72,446	3,426	–	75,872
Available-for-sale assets	–	–	–	–	–	55,721	55,721
Net loans and advances[2,3]	446,479	37	15	52	–	–	446,531
Regulatory deposits	671	–	–	–	–	–	671
Due from controlled entities	106,797	–	–	–	–	–	106,797
Other financial assets	1,606	–	–	–	–	–	1,606
	632,408	37	107,520	107,557	3,426	55,721	799,112
Financial liabilities							
Settlement balances owed by ANZ	9,079	–	–	–	–	n/a	9,079
Collateral received	5,882	–	–	–	–	n/a	5,882
Deposits and other borrowings	479,885	78	–	78	–	n/a	479,963
Derivative financial instruments[1]	–	–	73,139	73,139	3,104	n/a	76,243
Due to controlled entities	103,416	–	–	–	–	n/a	103,416
Payables and other liabilities	3,498	–	2,068	2,068	–	n/a	5,566
Debt issuances	69,683	2,192	–	2,192	–	n/a	71,875
Subordinated debt	20,707	–	–	–	–	n/a	20,707
	692,150	2,270	75,207	77,477	3,104	n/a	772,731

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value hedge adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.
4 Includes life insurance contract liabilities measured in accordance with AASB 1038 and life investment contract liabilities which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

21: Fair value of financial assets and financial liabilities (continued)

The Company 30 September 2015	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	$m	$m
Financial assets							
Cash	51,217	–	–	–	–	–	51,217
Settlement balances owed to ANZ	16,601	–	–	–	–	–	16,601
Collateral paid	8,234	–	–	–	–	–	8,234
Trading securities	–	–	37,373	37,373	–	–	37,373
Derivative financial instruments[1]	–	–	72,542	72,542	3,152	–	75,694
Available-for-sale assets	–	–	–	–	–	37,612	37,612
Net loans and advances[2,3]	448,288	144	16	160	–	–	448,448
Regulatory deposits	557	–	–	–	–	–	557
Due from controlled entities	109,920	–	–	–	–	–	109,920
Other financial assets	2,345	–	–	–	–	–	2,345
	637,162	144	109,931	110,075	3,152	37,612	788,001
Financial liabilities							
Settlement balances owed by ANZ	9,901	–	–	–	–	n/a	9,901
Collateral received	6,886	–	–	–	–	n/a	6,886
Deposits and other borrowings	471,966	65	–	65	–	n/a	472,031
Derivative financial instruments[1]	–	–	69,648	69,648	2,196	n/a	71,844
Due to controlled entities	105,079	–	–	–	–	n/a	105,079
Payables and other liabilities	4,316	–	1,978	1,978	–	n/a	6,294
Debt issuances	72,414	3,165	–	3,165	–	n/a	75,579
Subordinated debt	15,812	–	–	–	–	n/a	15,812
	686,374	3,230	71,626	74,856	2,196	n/a	763,426

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15 for further details.

(ii) MEASUREMENT OF FAIR VALUE

(a) Valuation methodologies

ANZ has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Group holds offsetting risk positions, the Group uses the portfolio exemption in AASB 13 to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

21: Fair value of financial assets and financial liabilities (continued)

(b) Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. Where applicable, the valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price for the instrument:

- For instruments classified as Trading security assets and Securities short sold, Derivative financial assets and liabilities, Available-for-sale financial assets, and Investments backing policy liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices/yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For Net loans and advances, Deposits and other borrowings and Debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.
- The fair value of external unit holder liabilities (life insurance funds) represents the external unit holder's share of the net assets of the consolidated investment funds, which are carried at fair value. The fair value of policy liabilities being liabilities of the insurance business is directly linked to the performance and value of the assets backing the liabilities. These liabilities are measured at fair value using observable inputs.

Further details of valuation techniques and significant unobservable inputs used in measuring fair values are described in (iv)(a) below.

Apart from derivative credit valuation adjustments, there have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year. With respect to derivative CVA, the methodology was revised in 2016 to reflect leading market practice in exposure modelling and greater use of current market data (refer note 1 E (ii)).

(iii) FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE IN THE BALANCE SHEET

The table below provides an analysis of financial instruments carried at fair value at reporting date categorised according to the lowest level input into a valuation model or a valuation component that is significant to the reported fair value. The significance of the input is assessed against the reported fair value of the financial instrument and considers various factors specific to the financial instrument. The fair value has been allocated in full to the category in the fair value hierarchy which most appropriately reflects the determination of the fair value.

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non–observable inputs (Level 3)		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets								
Trading securities[1]	44,856	45,227	2,332	3,769	–	4	47,188	49,000
Derivative financial instruments	453	388	86,934	85,155	109	82	87,496	85,625
Available-for-sale assets[1]	55,294	37,086	7,580	6,347	239	234	63,113	43,667
Net loans and advances (measured at fair value)	–	–	397	683	15	16	412	699
Investments backing policy liabilities[1]	24,270	17,983	10,879	16,298	507	539	35,656	34,820
	124,873	100,684	108,122	112,252	870	875	233,865	213,811
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	5,193	4,576	–	–	5,193	4,576
Derivative financial instruments	408	782	88,215	80,387	102	101	88,725	81,270
Policy liabilities[2]	–	–	35,955	35,029	–	–	35,955	35,029
External unit holder liabilities (life insurance funds)	–	–	3,333	3,291	–	–	3,333	3,291
Payables and other liabilities (measured at fair value)[3]	2,294	2,443	86	125	–	–	2,380	2,568
Debt issuances (designated at fair value)	–	–	2,192	3,165	–	–	2,192	3,165
Total	2,702	3,225	134,974	126,573	102	101	137,778	129,899

1 During the period there were transfers from Level 1 to Level 2 of $495 million (2015: $190 million) for the Group following a reassessment of reduced trading activity in the associated securities. During the period there were also transfers from Level 2 to Level 1 of $53 million (2015: $114 million) for the Group following increased trading activity to support the quoted prices. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Policy liabilities relate to life investment contract liabilities only as these are designated at fair value through profit or loss.

3 Relates to Securities short sold classified as 'at fair value through profit or loss'.

21: Fair value of financial assets and financial liabilities (continued)

The Company	Fair value measurements: Quoted market price (Level 1) 2016 $m	2015 $m	Using observable inputs (Level 2) 2016 $m	2015 $m	With significant non–observable inputs (Level 3) 2016 $m	2015 $m	Total 2016 $m	2015 $m
Financial assets								
Trading securities[1]	32,945	33,912	2,114	3,457	–	4	35,059	37,373
Derivative financial instruments	450	378	75,324	75,243	98	73	75,872	75,694
Available-for-sale assets[1]	51,094	33,452	4,590	4,110	37	50	55,721	37,612
Net loans and advances (measured at fair value)	–	–	37	144	15	16	52	160
	84,489	67,742	82,065	82,954	150	143	166,704	150,839
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	78	65	–	–	78	65
Derivative financial instruments	365	766	75,780	70,987	98	91	76,243	71,844
Payables and other liabilities (measured at fair value)[2]	1,982	1,854	86	124	–	–	2,068	1,978
Debt issuances (designated at fair value)	–	–	2,192	3,165	–	–	2,192	3,165
Total	2,347	2,620	78,136	74,341	98	91	80,581	77,052

1 During the period there were transfers from Level 1 to Level 2 of $415 million (2015: $136 million) for the Company following a reassessment of reduced trading activity in the associated securities. During the period there were no transfers from Level 2 to Level 1 (2015: $104 million) for the Company. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Relates to Securities short sold classified as 'at fair value through profit or loss'.

(iv) DETAILS OF FAIR VALUE MEASUREMENTS THAT INCORPORATE UNOBSERVABLE MARKET DATA

(a) Composition of Level 3 fair value measurements

The following table presents the composition of financial instruments measured at fair value with significant unobservable inputs (Level 3 fair value measurements).

Consolidated	Financial assets: Trading securities 2016 $m	2015 $m	Derivatives 2016 $m	2015 $m	Available-for-sale 2016 $m	2015 $m	Net loans and advances 2016 $m	2015 $m	Investments backing policy liabilities 2016 $m	2015 $m	Financial liabilities: Derivatives 2016 $m	2015 $m
Asset backed securities	–	–	–	–	–	2	–	–	150	188	–	–
Illiquid corporate bonds	–	4	–	–	198	198	15	16	12	–	–	–
Structured credit products	–	–	56	52	–	–	–	–	–	–	(66)	(67)
Alternative assets	–	–	–	–	41	34	–	–	345	351	–	–
Other derivatives	–	–	53	30	–	–	–	–	–	–	(36)	(34)
Total	–	4	109	82	239	234	15	16	507	539	(102)	(101)

The Company	Financial assets: Trading securities 2016 $m	2015 $m	Derivatives 2016 $m	2015 $m	Available–for–sale 2016 $m	2015 $m	Net loans and advances 2016 $m	2015 $m	Financial liabilities: Derivatives 2016 $m	2015 $m
Asset backed securities	–	–	–	–	–	–	–	–	–	–
Illiquid corporate bonds	–	4	–	–	–	20	15	16	–	–
Structured credit products	–	–	56	52	–	–	–	–	(66)	(67)
Alternative assets	–	–	–	–	37	30	–	–	–	–
Other derivatives	–	–	42	21	–	–	–	–	(32)	(24)
Total	–	4	98	73	37	50	15	16	(98)	(91)

The Level 3 balances include Structured credit products that the Group entered into from 2004 to 2007 whereby it sold protection using credit default swaps over certain structures, and mitigated risk by purchasing protection via credit default swaps from US financial guarantors over the same structures. These trades are valued using complex models with certain inputs relating to the reference assets and derivative counterparties not being observable in the market. Such unobservable inputs include credit spreads and default probabilities.

The remaining Level 3 balances include Asset backed securities and Illiquid corporate bonds where the effect on fair value of issuer credit cannot be directly or indirectly observed in the market; Alternative assets that largely comprise investments in funds which are illiquid and are not currently redeemable, as well as various investments in unlisted equity securities for which no active market exists; and Other derivatives which predominantly include reverse mortgage swaps where the mortality rate cannot be observed and options over emissions certificates where the volatility input cannot be observed.

21: Fair value of financial assets and financial liabilities (continued)

(b) Movements in Level 3 fair value measurements

The following table sets out movements in Level 3 fair value measurements. Derivatives are categorised on a portfolio basis and classified as either financial assets or financial liabilities based on whether the closing balance is an unrealised gain or loss. This could be different to the opening balance.

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available-for-sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	4	–	82	106	234	40	16	–	539	545	(101)	(105)
New purchases	1	–	1	–	7	8	–	21	130	161	(1)	–
Disposals (sales)	(5)	–	(3)	(8)	(26)	(20)	–	–	(133)	(266)	–	–
Cash settlements	–	–	–	–	–	–	–	–	–	–	8	7
Transfers:												
– Transfers into Level 3 category[1]	–	10	1	2	25	198	–	–	22	161	(1)	(2)
– Transfers out of Level 3 category[1]	–	–	–	(17)	–	–	–	–	(3)	(148)	9	9
Fair value gain/(loss) recorded in Other operating income in the Income statement[2]	–	(6)	28	(1)	(2)	5	(1)	(5)	(48)	86	(16)	(10)
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	1	3	–	–	–	–	–	–
Closing balance	–	4	109	82	239	234	15	16	507	539	(102)	(101)

	Financial assets								Financial liabilities	
	Trading securities		Derivatives		Available–for–sale		Net loans and advances		Derivatives	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	4	–	73	96	50	22	16	–	(91)	(103)
New purchases	1	–	1	–	7	8	–	21	(1)	–
Disposals (sales)	(5)	–	(2)	(8)	(19)	(14)	–	–	–	–
Cash settlements	–	–	–	–	–	–	–	–	7	7
Transfers:										
– Transfers into Level 3 category	–	10	1	–	–	30	–	–	(1)	–
– Transfers out of Level 3 category	–	–	–	(16)	–	–	–	–	–	8
Fair value gain/(loss) recorded in Other operating income in the Income statement[2]	–	(6)	25	1	–	4	(1)	(5)	(12)	(3)
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	(1)	–	–	–	–	–
Closing balance	–	4	98	73	37	50	15	16	(98)	(91)

1 Transfers into Level 3 for the Group in 2016 relate principally to illiquid corporate bonds and asset backed securities where market activity has reduced resulting in pricing to no longer be observable. Transfers out of Level 3 for the Group relate principally to derivative products where the trade characteristics are such that inputs significant to the valuation are now observable. Transfers into and out of Level 3 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Relating to assets and liabilities held at the end of the period.

(c) Sensitivity to Level 3 data inputs

Where valuation techniques are employed and assumptions are required due to significant data inputs not being directly observed in the market place (Level 3 inputs), changing these assumptions changes the resultant estimate of fair value. The majority of transactions in this category are 'back-to-back' in nature where ANZ either acts as a financial intermediary or hedges the market risks. Similarly, the valuation of Investments backing policy liabilities directly impacts the associated life investment contracts they relate to. In these circumstances, changes in the assumptions generally have minimal impact on the income statement and net assets of ANZ. An exception to this is the 'back-to-back' structured credit intermediation trades which create significant exposure to credit risk.

Principal inputs used in the determination of fair value of financial instruments included in the structured credit portfolio include counterparty credit spreads, market-quoted CDS prices, recovery rates, default probabilities, correlation curves and other inputs, some of which may not be directly observable in the market. The potential effect of changing prevailing unobservable inputs does not result in a significant impact on net profit.

21: Fair value of financial assets and financial liabilities (continued)

(d) Deferred fair value gains and losses

Where the fair value of a financial instrument at initial recognition is determined using unobservable data that is significant to the valuation of the instrument, the difference between the transaction price and the amount determined based on the valuation technique (day one gain or loss) is not immediately recognised in the income statement. Subsequently, the day one gain or loss is recognised in the income statement over the life of the transaction on a straight line basis or over the period until all inputs become observable.

The table below summarises the aggregate amount of day one gains not yet recognised in the income statement and amounts which have been subsequently recognised.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	2	3	1	2
Deferral on new transactions	–	–	–	–
Amounts recognised in income during the period	(1)	(1)	–	(1)
Closing balance	1	2	1	1

The closing balance of unrecognised gains is only related to derivative financial instruments.

(v) ADDITIONAL INFORMATION FOR FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets designated at fair value through profit or loss

The category Loans and advances includes certain loans designated at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the asset were otherwise carried at amortised cost. This mismatch arises as the derivative financial instruments which were acquired to mitigate interest rate risk of the loans and advances, are measured at fair value through profit or loss. By designating the economically hedged loans, the movements in the fair value attributable to changes in interest rate risk will be recognised in the income statement in the same periods.

At balance date, the credit exposure of the Group on these assets was $397 million (2015: $683 million) and for the Company was $37 million (2015: $144 million). In relation to these exposures, for the Group $237 million (2015: $509 million) and the Company $37 million (2015: $144 million) was mitigated by collateral held.

For the Group, the cumulative change in fair value attributable to change in credit risk was a reduction to the assets of $1 million (2015: reduction to the assets of $1 million). For the Company the cumulative change to the assets was nil (2015: nil). The amount recognised in the income statement attributable to changes in credit risk for the Group was $1 million (2015: $1 million) and for the Company nil (2015: nil).

The change in fair value of the designated financial assets attributable to changes in credit risk has been calculated by determining the change in credit rating and credit spread implicit in the loans and advances issued by entities with similar credit characteristics.

(b) Financial liabilities designated at fair value through profit or loss

Parts of Debt issuances and Deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the liabilities were otherwise carried at amortised cost. This mismatch arises since the derivatives acquired to mitigate interest rate risk of the financial liabilities are measured at fair value through profit or loss. In addition Policy liabilities are designated at fair value through profit or loss in accordance with AASB 1038. External unitholder liabilities which are not included in the table below, represent the external unitholder share of the 'Investments backing policy liabilities' which are designated at fair value through profit or loss.

The table below compares the carrying amount of financial liabilities carried at full fair value, to the contractual amount payable at maturity and fair value gains and losses recognised during the period on liabilities carried at full fair value that are attributable to changes in ANZ's own credit rating.

	Policy liabilities		Deposits and other borrowings		Debt issuances	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Carrying amount	35,955	35,029	5,193	4,576	2,192	3,165
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	–	–	(7)	6	(170)	(15)
Cumulative change in liability value attributable to own credit risk:						
– opening cumulative increase/(decrease)	–	–	–	–	(18)	34
– increase/(decrease) recognised during the year	–	–	–	–	10	(52)
– closing cumulative increase/(decrease)	–	–	–	–	(8)	(18)

21: Fair value of financial assets and financial liabilities (continued)

The Company	Deposits and other borrowings 2016 $m	Deposits and other borrowings 2015 $m	Debt issuances 2016 $m	Debt issuances 2015 $m
Carrying amount	78	65	2,192	3,165
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	(7)	6	(170)	(15)
Cumulative change in liability value attributable to own credit risk:				
– opening cumulative increase/(decrease)	–	–	(18)	34
– increase/(decrease) recognised during the year	–	–	10	(52)
– closing cumulative increase/(decrease)	–	–	(8)	(18)

For Debt issuances and Deposits and other borrowings, the change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rates and foreign exchange rates). This approach is deemed appropriate as the changes in fair value arising from factors other than changes in own credit risk or changes in benchmark interest rates and foreign exchange rates are considered to be insignificant.

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

The table below reflects the carrying amounts of financial instruments not measured at fair value on the Group's balance sheet and where the carrying amount is not considered a close approximation of fair value. The table also provides a comparison of the carrying amount of these financial instruments to the Group's estimate of their fair value. The categorisation of the fair value into the levels within the fair value hierarchy is determined in accordance with the methodology set out on page 130 (note 21(ii)).

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets										
Net loans and advances[1]	575,440	569,539	–	–	551,575	545,538	24,649	25,402	576,224	570,940
	575,440	569,539	–	–	551,575	545,538	24,649	25,402	576,224	570,940
Financial liabilities										
Deposits and other borrowings	583,002	566,218	–	–	583,420	566,636	–	–	583,420	566,636
Debt issuances	88,888	90,582	32,864	37,880	56,544	52,826	–	–	89,408	90,706
Subordinated debt	21,964	17,009	14,322	13,842	7,788	3,241	–	–	22,110	17,083
Total	693,854	673,809	47,186	51,722	647,752	622,703	–	–	694,938	674,425

1 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets										
Net loans and advances[1]	446,479	448,288	–	–	427,282	428,949	19,563	20,276	446,845	449,225
	446,479	448,288	–	–	427,282	428,949	19,563	20,276	446,845	449,225
Financial liabilities										
Deposits and other borrowings	479,885	471,966	–	–	480,219	472,235	–	–	480,219	472,235
Debt issuances	69,683	72,414	20,115	24,428	49,960	48,008	–	–	70,075	72,436
Subordinated debt	20,707	15,812	13,029	11,357	7,798	3,249	–	–	20,827	14,606
Total	570,275	560,192	33,144	35,785	537,977	523,492	–	–	571,121	559,277

1 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.

The following sets out the Group's basis of establishing fair values of financial instruments not measured at fair value on the balance sheet. The valuation techniques employed are consistent with those used to calculate fair values of financial instruments carried at fair value. Certain Net loans and advances, Deposits and other borrowings and Debt issuances have been designated at fair value and are therefore excluded from the tables above.

21: Fair value of financial assets and financial liabilities (continued)

Net loans and advances

The fair value has been determined through discounting future cash flows as follows:

- For Net loans and advances to banks, the fair value is derived by discounting cash flows using prevailing market rates for lending with similar credit quality.
- For Net loans and advances to customers, the fair value is the present value of future cash flows, discounted using a curve which incorporates changes in wholesale market rates, the Group's cost of wholesale funding and the customer margin, as appropriate.

Deposits and other borrowings

The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time. For interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.

Debt issuances and Subordinated debt

The aggregate fair value of Debt issuances and Subordinated debt is calculated based on quoted market prices or observable inputs where applicable. For those debt issuances where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument used. The fair value includes the effects of the appropriate credit spreads applicable to ANZ for that instrument.

22: Maturity Analysis of Assets and Liabilities

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.[1]

	2016			2015		
Consolidated	Within one year $m	After more than one year $m	Total $m	Within one year $m	After more than one year $m	Total $m
Available-for-sale assets	10,429	52,684	63,113	10,353	33,314	43,667
Net loans and advances[2]	116,135	459,717	575,852	128,771	441,467	570,238
Investments backing policy liabilities	28,798	6,858	35,656	27,966	6,854	34,820
Deposits and other borrowings	567,567	20,628	588,195	546,626	24,168	570,794
Policy liabilities[3]	36,101	44	36,145	35,340	61	35,401
Debt issuances	22,280	68,800	91,080	29,327	64,420	93,747
Subordinated debt[4]	1,068	20,896	21,964	–	17,009	17,009

1 Excludes asset and liability line items where the entire amount is considered as 'within one year', 'after more than one year' or having no specific maturities.
2 2015 comparative amounts include $8,065 million classified separately in the balance sheet as 'Esanda Dealer Finance assets held for sale'.
3 Includes $190 million (2015: $372 million) that relates to life insurance contract liabilities classified as 'within one year'.
4 Includes $2,519 million (2015: $1,188 million) that relates to perpetual notes classified as 'after more than one year'.

23: Assets Charged as Security for Liabilities and Collateral Accepted as Security for Assets

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

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Mandatory reserve deposits with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.
- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Debenture undertakings covering the assets of UDC Finance Limited (UDC). The debenture stock of UDC is secured by a trust deed and collateral debentures, giving floating charges over the undertakings and all the tangible assets of the entity. All controlled entities of UDC have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by UDC. The only loans pledged as collateral are those in UDC and their subsidiaries.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ's covered bond programs.
- Collateral provided to central banks.
- Collateral provided to clearing houses.

The carrying amounts of assets pledged as security are as follows:

	Consolidated				The Company			
	Carrying Amount		Related Liability		Carrying Amount		Related Liability	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Regulatory deposits	2,296	1,773	n/a	n/a	671	557	n/a	n/a
Securities sold under arrangements to repurchase[1]	26,637	13,975	25,049	13,731	26,234	13,476	24,646	13,255
Assets pledged as collateral under debenture undertakings	2,541	2,218	1,518	1,578	–	–	–	–
Covered bonds[2]	31,790	30,368	21,035	27,013	22,001	23,508	22,001	23,508
Other	2,948	2,135	774	222	1,390	794	713	178

1 The amounts disclosed as Securities sold under arrangements to repurchase include both assets pledged as security which continue to be recognised on the Group's balance sheet and assets repledged included in the disclosure below.
2 The consolidated related liability represents covered bonds issued to external investors and the related liability for the Company represents the liability to the covered bond structured entities.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

ANZ has received collateral associated with various financial instruments. Under certain transactions ANZ has the right to sell or repledge the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral received and that which has been sold or repledged is as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Fair value of assets which can be sold or repledged	31,646	17,506	31,130	16,738
Fair value of assets sold or repledged[1]	14,428	7,410	14,133	6,869

1 Comparative amounts have changed to include the fair value of assets repledged.

24: Offsetting

The following tables identify financial assets and liabilities which have been offset in the balance sheet (in accordance with AASB 132 – Financial Instruments: Presentation (AASB 132)) and those which have not been offset in the balance sheet but are subject to enforceable master netting agreements (or similar arrangements) with our trading counterparties. The effect of over collaterisation has not been taken into account. A description of the rights of set-off associated with financial assets and financial liabilities subject to master netting agreements or similar, including the nature of those rights, are described in note 20 – Financial Risk Management: Collateral Management.

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2016	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	87,496	(3,944)	83,552	(71,394)	(5,259)	6,899
Reverse repurchase, securities borrowing and similar agreements[2]	30,160	(11,320)	18,840	(707)	(18,133)	–
Total financial assets	117,656	(15,264)	102,392	(72,101)	(23,392)	6,899
Derivative liabilities	(88,725)	3,693	(85,032)	71,394	9,486	(4,152)
Repurchase, securities lending and similar agreements[3]	(25,049)	11,661	(13,388)	707	12,681	–
Total financial liabilities	(113,774)	15,354	(98,420)	72,101	22,167	(4,152)

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2015	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	85,625	(6,846)	78,779	(62,782)	(7,165)	8,832
Reverse repurchase, securities borrowing and similar agreements[2]	17,308	(7,470)	9,838	(265)	(9,573)	–
Total financial assets	102,933	(14,316)	88,617	(63,047)	(16,738)	8,832
Derivative liabilities	(81,270)	5,566	(75,704)	62,782	8,517	(4,405)
Repurchase, securities lending and similar agreements[3]	(13,731)	12,674	(1,057)	265	792	–
Total financial liabilities	(95,001)	18,240	(76,761)	63,047	9,309	(4,405)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

24: Offsetting (continued)

The Company 30 September 2016	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Amount subject to master netting agreement or similar: Total $m	Related amounts not offset in the statement of financial position: Financial instruments $m	Related amounts not offset in the statement of financial position: Financial collateral (received)/pledged $m	Net amount $m
Derivative assets	75,872	(2,376)	73,496	(62,296)	(5,143)	6,057
Reverse repurchase, securities borrowing and similar agreements[2]	29,713	(10,873)	18,840	(707)	(18,133)	–
Total financial assets	105,585	(13,249)	92,336	(63,003)	(23,276)	6,057
Derivative liabilities	(76,243)	2,010	(74,233)	62,296	8,244	(3,693)
Repurchase, securities lending and similar agreements[3]	(24,646)	11,258	(13,388)	707	12,681	–
Total financial liabilities	(100,889)	13,268	(87,621)	63,003	20,925	(3,693)

The Company 30 September 2015	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Amount subject to master netting agreement or similar: Total $m	Related amounts not offset in the statement of financial position: Financial instruments $m	Related amounts not offset in the statement of financial position: Financial collateral (received)/pledged $m	Net amount $m
Derivative assets	75,694	(5,140)	70,554	(55,881)	(6,435)	8,238
Reverse repurchase, securities borrowing and similar agreements[2]	16,604	(6,766)	9,838	(265)	(9,573)	–
Total financial assets	92,298	(11,906)	80,392	(56,146)	(16,008)	8,238
Derivative liabilities	(71,844)	4,247	(67,597)	55,881	7,681	(4,035)
Repurchase, securities lending and similar agreements[3]	(13,255)	12,198	(1,057)	265	792	–
Total financial liabilities	(85,099)	16,445	(68,654)	56,146	8,473	(4,035)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

25: Credit Related Commitments, Guarantees and Contingent Liabilities

Credit related commitments – facilities provided

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Contract amount of:				
Undrawn facilities	207,410	230,794	161,178	180,947
Australia	96,933	101,898	95,096	99,880
New Zealand	24,768	22,960	–	20
Overseas markets	85,709	105,936	66,082	80,947
Total	207,410	230,794	161,178	180,847

Guarantees and contingent liabilities

These guarantees and contingent liabilities relate to transactions that the Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Contract amount of:				
Guarantees and letters of credit	18,056	18,809	15,633	16,101
Performance related contingencies	19,723	21,526	17,710	18,592
Total	37,779	40,335	33,343	34,693
Australia	19,712	17,638	19,712	17,637
New Zealand	2,037	1,961	–	–
Overseas markets	16,030	20,736	13,631	17,056
Total	37,779	40,335	33,343	34,693

26: Goodwill and Other Intangible Assets

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Goodwill[1]				
Gross carrying amount				
Balances at start of the year	4,597	4,511	109	90
Impairment expense/write-offs	–	(1)	–	–
Foreign currency exchange differences	132	87	(7)	19
Balance at end of year	4,729	4,597	102	109
Software				
Balances at start of the year	2,893	2,533	2,711	2,336
Software capitalisation during the period	431	807	400	782
Amortisation expense[2]	(1,056)	(542)	(937)	(500)
Impairment expense/write-offs	(27)	(17)	(23)	(12)
Foreign currency exchange differences	(39)	112	(41)	105
Balance at end of year	2,202	2,893	2,110	2,711
Cost	6,022	5,860	5,806	5,620
Accumulated amortisation	(3,599)	(2,763)	(3,475)	(2,710)
Accumulated impairment	(221)	(204)	(221)	(199)
Carrying amount	2,202	2,893	2,110	2,711
Acquired Portfolio of Insurance and Investment Business				
Balances at start of the year	715	784	–	–
Amortisation expense	(69)	(70)	–	–
Foreign currency exchange differences	2	1	–	–
Balance at end of year	648	715	–	–
Cost	1,191	1,188	–	–
Accumulated amortisation	(543)	(473)	–	–
Carrying amount	648	715	–	–
Other intangible assets[3]				
Balances at start of the year	107	122	10	25
Other additions	1	(1)	–	–
Reclassification	–	–	–	(7)
Amortisation expense	(14)	(18)	(8)	(9)
Derecognised on disposal	(3)	–	–	–
Foreign currency exchange differences	2	4	–	1
Balance at end of year	93	107	2	10
Cost	205	207	66	68
Accumulated amortisation/impairment	(112)	(100)	(64)	(58)
Carrying amount	93	107	2	10
Goodwill and other intangible assets				
Net book value				
Balances at start of the year	8,312	7,950	2,830	2,451
Balance at end of year	7,672	8,312	2,214	2,830

1 Excludes notional goodwill in equity accounted entities.
2 In 2016 the Group recorded a $556 million charge for accelerated amortisation associated with software capitalisation changes. Refer to note 1 E (ix).
3 The Consolidated Other intangible assets comprises aligned advisor relationships, distribution agreements and management fee rights, credit card relationships and other intangibles. The Company Other intangible assets comprises distribution agreements and management fee rights, credit card relationships and other intangibles.

GOODWILL ALLOCATED TO CASH–GENERATING UNITS

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003 and ANZ Wealth Australia Limited (formerly OnePath Australia Limited) on 30 November 2009. Refer to note 9 for Divisional allocation.

The recoverable amount of the CGU to which each goodwill component is allocated is estimated using a market multiple approach as representative of the fair value less costs of disposal of each CGU. The price earnings multiples are based on observable multiples reflecting the businesses and markets in which each CGU operates. The earnings are based on the current forecast earnings of the divisions. The aggregate fair value less costs of disposal across the Group is compared to the Group's market capitalisation to validate the conclusion that goodwill is not impaired.

26: Goodwill and Other Intangible Assets (continued)

Key assumptions on which management has based its determination of fair value less costs of disposal include assumptions as to the costs of disposal estimates, the ability to achieve forecast earnings, and market multiples adopted being reflective of the segment's business. For each of ANZ's divisions with goodwill, the range of multiples observed were as follows:

Division	2016	2015
Australia	10.9 – 17.2	10.8 – 14.7
Institutional	4.2 – 13.8	Not comparable due to change in structure.
New Zealand	10.9 – 14.0	10.8 – 13.9
Wealth Australia	13.9 – 18.6	13.8 – 21.9
Asia Retail & Pacific	5.2 – 14.8	Not comparable due to change in structure.

Changes in assumptions upon which the valuation is based could materially impact the assessment of the recoverable amount of each CGU.

As at 30 September 2016, the impairment testing performed did not result in any material impairment being identified.

27: Premises and Equipment

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
At cost	4,913	4,769	2,806	2,694
Depreciation	(2,708)	(2,548)	(1,839)	(1,704)
Total premises and equipment	2,205	2,221	967	990
Carrying amount at beginning of year	2,221	2,181	990	1,001
Additions[1]	393	361	237	232
Disposals	(67)	(43)	(20)	(38)
Depreciation and Amortisation[2]	(336)	(325)	(232)	(227)
Foreign currency exchange difference	(6)	47	(8)	22
Carrying amount at end of year	2,205	2,221	967	990
Net book value				
Freehold and leasehold land and buildings	926	901	98	59
Integrals and equipment	1,170	1,183	816	856
Capital works in progress	109	137	53	75
	2,205	2,221	967	990

1 Includes Transfers.
2 Includes Freehold and leasehold land and buildings, Leasehold improvements, Furniture and equipment and Technology equipment.

COMMITMENTS

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Property capital expenditure				
Contracts for outstanding capital expenditure	111	109	103	92
Total capital expenditure commitments for property	111	109	103	92
Lease rentals				
Land and buildings	2,001	2,251	2,044	2,283
Furniture and equipment	218	276	144	190
Total lease rental commitments[1]	2,219	2,527	2,188	2,473
Due within one year	486	485	403	438
Due later than one year but not later than five years	1,114	1,273	982	1,083
Due later than five years	619	769	803	952
Total lease rental commitments[1]	2,219	2,527	2,188	2,473

1 Total future minimum sublease payments expected to be received under non-cancellable subleases at 30 September is $114 million (2015: $90 million) for the Group and $114 million (2015: $80 million) for the Company. During the year, sublease payments received amounted to $25 million (2015: $22 million) for the Group and $22 million (2015: $19 million) for the Company and were netted against rent expense.

28: Other Assets

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Accrued interest/prepaid discounts	1,371	1,405	922	944
Accrued commissions	101	137	58	76
Prepaid expenses	435	427	199	178
Insurance contract liabilities ceded	737	699	–	–
Outstanding premiums	98	228	–	–
Defined benefit superannuation plan surplus	109	144	109	144
Operating leases residual value	279	282	266	282
Other	1,891	2,524	627	1,325
Total other assets	5,021	5,846	2,181	2,949

29: Provisions

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Employee entitlements[1]	543	554	397	411
Restructuring costs and surplus leased space[2]	123	23	101	15
Non-lending losses, frauds and forgeries	193	169	150	141
Other[3]	350	328	184	164
Total provisions	1,209	1,074	832	731
Provisions, excluding employee entitlements				
Carrying amount at beginning of the year	520	574	320	291
Provisions made during the year	538	307	370	164
Payments made during the year	(309)	(206)	(193)	(72)
Transfer/release of provision	(83)	(155)	(62)	(63)
Carrying amount at the end of the year	666	520	435	320

1 The aggregate liability for employee entitlements largely comprises provisions for annual leave and long service leave.

2 Restructuring costs and surplus leased space provisions arise from activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and includes termination benefits. Costs relating to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated.

3 Other provisions comprise various other provisions including loyalty programs, workers' compensation, make-good provisions on leased premises and contingent liabilities recognised as part of a business combination.

30: Payables and Other Liabilities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Creditors	1,623	1,661	743	871
Accrued interest and unearned discounts	1,796	1,938	1,366	1,448
Defined benefits plan obligations	51	59	15	14
Accrued expenses	1,199	1,368	825	889
Securities sold short (classified as held for trading)	2,380	2,568	2,068	1,978
Liability for acceptances	569	1,371	321	649
Other liabilities	1,247	1,401	228	445
Total payables and other liabilities	8,865	10,366	5,566	6,294

31: Shareholders' Equity

ORDINARY SHARES

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

	The Company	
Numbers of issued shares	**2016**	**2015**
Balance at start of the year	2,902,714,361	2,756,627,771
Bonus option plan[1,2]	3,516,214	2,899,350
Dividend reinvestment plan[1,2]	15,916,983	35,105,134
Group share option scheme[3]	18,062	32,192
Group employee share acquisition scheme[3,4]	5,311,040	–
Share placement and Share purchase plan[5]	–	108,049,914
Balance at end of year	**2,927,476,660**	**2,902,714,361**

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Ordinary share capital				
Balance at start of the year	28,367	24,031	28,611	24,280
Dividend reinvestment plan[1,2]	413	1,122	413	1,122
Group share option scheme[3]	–	2	–	2
Group employee share acquisition scheme[4,5]	138	1	138	1
Share placement and Share purchase plan[5]	–	3,206	–	3,206
Treasury shares in Wealth Australia[6]	(153)	5	–	–
Balance at end of year	**28,765**	**28,367**	**29,162**	**28,611**

1 Refer to note 7 for details of plan.
2 The Company issued 9.7 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2016 interim dividend and 9.7 million shares for the 2015 final dividend (Sep15: 28.7 million shares for the interim dividend and 9.3 million shares final dividend).
3 Refer to note 39 for details of plan.
4 The Company issued 5.3 million shares to satisfy obligations under the Group's Employee share acquisition plans; it also includes on-market purchase of shares for settlement of amounts due under share-based compensation plans. As at 30 September 2016, there were 10,806,633 Treasury Shares outstanding (2015; 11,378,648).
5 The Company issued 80.8 million ordinary shares under the Institutional Share Placement and 27.3 million ordinary shares under the Retail Share Purchase Plan in the September 2015 full year.
6 Treasury shares in ANZ Wealth Australia (AWA) are shares held in statutory funds as assets backing policy holder liabilities. AWA Treasury shares outstanding as at 30 September 2016 were 17,705,880 (2015: 11,623,304).

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, ANZ issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ('Euro Trust Securities') at €1,000 each, raising $871 million net of issue costs. All 500,000 Euro Trust Securities on issue were bought back by ANZ for cash at face value (€1,000 per security) and cancelled on 15 December 2014.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Preference share balance at start of year	–	871	–	871
– Euro Trust Securities bought back	–	(871)	–	(871)
Preference share balance at end of the year	–	–	–	–

NON-CONTROLLING INTERESTS

	Consolidated	
	2016 $m	2015 $m
Share capital	51	55
Retained earnings	58	51
Total non-controlling interests	**109**	**106**

31: Shareholders' Equity (continued)

RESERVES AND RETAINED EARNINGS

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
a) Foreign currency translation reserve				
Balance at beginning of the year	1,119	(605)	584	(290)
Transferred to income statement	(126)	(4)	(126)	(4)
Currency translation adjustments net of hedges	(449)	1,728	(476)	878
Total foreign currency translation reserve	544	1,119	(18)	584
b) Share option reserve[1]				
Balance at beginning of the year	68	60	68	60
Share-based payments/(exercises)	19	16	19	16
Transfer of options/rights lapsed to retained earnings[2]	(8)	(8)	(8)	(8)
Total share option reserve	79	68	79	68
c) Available-for-sale revaluation reserve				
Balance at beginning of the year	138	160	10	50
Gain/(loss) recognised	43	27	4	(6)
Transferred to income statement	(32)	(49)	(1)	(34)
Total available-for-sale revaluation reserve	149	138	13	10
d) Cash flow hedge reserve				
Balance at beginning of the year	269	169	277	174
Gain/(loss) recognised	48	111	(14)	103
Transferred to income statement	12	(11)	7	–
Total cash flow hedging reserve	329	269	270	277
e) Transactions with non-controlling interests reserve				
Balance at beginning of the year	(23)	(23)	–	–
Total transactions with non-controlling interests reserve	(23)	(23)	–	–
Total reserves	1,078	1,571	344	939
Retained earnings				
Balance at beginning of the year	27,309	24,544	20,138	17,557
Profit attributable to shareholders of the Company	5,709	7,493	5,687	7,306
Transfer of options/rights lapsed from share option reserve[1,2]	8	8	8	8
Remeasurement gain/(loss) on defined benefit plans after tax	(67)	(4)	(72)	20
Fair value gain/loss attributable to changes in own credit risk of financial liabilities designated at fair value	(7)	37	(7)	37
Dividend income on Treasury shares	24	22	–	–
Ordinary share dividends paid	(5,001)	(4,906)	(5,001)	(4,906)
Preference share dividends paid	–	(1)	–	–
Foreign exchange gains on preference shares bought back[3]	–	116	–	116
Retained earnings at end of year	27,975	27,309	20,753	20,138
Total reserves and retained earnings	29,053	28,880	21,097	21,077

1 Further information about share-based payments to employees is disclosed in note 39.
2 The transfer of balances from the share option reserve to retained earnings represents items of a distributable nature.
3 The Euro Trust Securities were bought back by ANZ for cash at face value and cancelled on 15 December 2014. The foreign exchange gain between the issue date and 15 December 2014 was recognised directly in retained earnings.

32: Capital Management

ANZ pursues an active approach to capital management, which is designed to protect the interests of depositors, creditors and shareholders. This involves the on-going review and Board approval of the level and composition of ANZ's capital base, assessed against the following key policy objectives:

- regulatory compliance such that capital levels exceed APRA's, ANZ's primary prudential supervisor, minimum Prudential Capital Ratios (PCRs) both at Level 1 (the Company and specified subsidiaries) and Level 2 (ANZ consolidated under Australian prudential standards), along with US Federal Reserve's minimum Level 2 requirements under ANZ's Foreign Holding Company Licence in the United States of America;
- capital levels are aligned with the risks in the business and to meet strategic and business development plans through ensuring that available capital exceeds the level of Economic Capital. Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level; and
- an appropriate balance between maximising shareholder returns and prudent capital management principles.

ANZ achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a medium term time horizon.

Annually, ANZ conducts a detailed strategic planning process over a three year time horizon, the outcomes of which are embodied in the Strategic Plan. This process involves forecasting key economic variables which ANZ divisions use to determine key financial data for their existing business. New strategic initiatives to be undertaken over the planning period and their financial impact are then determined. These processes are used for the following:

- review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire to ensure that under specific stressed economic scenarios capital levels are sufficient to remain above both Economic Capital and PCR requirements;
- stress tests are performed under different economic scenarios to ensure a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and
- stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through modelling relationships and sensitivities between geographic, industry and divisional exposures under a range of macroeconomic scenarios. ANZ has a dedicated stress testing team within Risk Management that models and reports to management and the Board's Risk Committee on a range of scenarios and stress tests.

Results are subsequently used to:

- recalibrate ANZ's management targets for minimum and operating ranges for its respective classes of capital such that ANZ will have sufficient capital to remain above both economic and regulatory capital requirements; and
- identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

From these processes, a capital plan is developed and approved by the Board which identifies the capital issuance requirements, capital securities maturity profile, and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is maintained and updated through a monthly review of forecast financial performance, economic conditions and development of business initiatives and strategies. The Board and senior management are provided with monthly updates of ANZ's capital position. Any actions required to ensure ongoing prudent capital management are submitted to the Board for approval.

REGULATORY ENVIRONMENT

ANZ's regulatory capital calculation is governed by APRA's Prudential Standards which adopt a risk-based capital assessment framework based on the Basel 3 capital measurement standards. This risk based approach requires eligible capital to be divided by total risk weighted assets (RWAs), with the resultant ratio being used as a measure of an ADI's capital adequacy. APRA determines PCRs for Common Equity Tier 1 (CET1), Tier 1 and Total Capital, with capital as the numerator and RWAs as the denominator.

To ensure that ADIs are adequately capitalised on both a stand-alone and group basis, APRA adopts a tiered approach to the measurement of an ADI's capital adequacy by assessing the ADIs financial strength at three levels:

- Level 1 – the ADI on a stand-alone basis (that is, the Company and approved subsidiaries which are consolidated to form the ADI's Extended Licensed Entity);
- Level 2 – the consolidated banking group (that is the consolidated financial group less certain subsidiaries and associates excluded under prudential standards); and
- Level 3 – the conglomerate group at the widest level.

ANZ is a Level 1 and Level 2 reporter, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to report on a Level 3 basis.

Regulatory capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements, but still adds to the overall strength of the ADI.

Tier 1 capital is comprised of Common Equity Tier 1 capital less deductions and Additional Tier 1 capital instruments. Common Equity Tier 1 capital comprises shareholders' equity adjusted for items which APRA does not allow as regulatory capital or classifies as lower forms of regulatory capital. Common Equity Tier 1 capital includes the following significant adjustments:

- Reserves, excluding the hedging reserve and reserves of insurance and funds management subsidiaries excluded for Level 2 purposes;
- Retained earnings excludes retained earnings of insurance and funds management subsidiaries excluded for Level 2 purposes, but includes capitalised deferred fees forming part of loan yields that meet the criteria set out in the prudential standard;
- Inclusion of qualifying treasury shares; and
- Current year net of tax earnings less profits of insurance and funds management subsidiaries excluded for Level 2 purposes.

32: Capital Management (continued)

Additional Tier 1 capital instruments are high quality components of capital that provide a permanent and unrestricted commitment of funds, are available to absorb losses, are subordinated to the claims of depositors and senior creditors in the event of the winding up of the issuer and provide for fully discretionary capital distributions.

Deductions from the capital base comprise mainly deductions to the Common Equity Tier 1 component. These deductions are largely intangible assets, investments in insurance and funds management entities and associates, capitalised expenses (including loan and origination fees) and the amount of regulatory expected losses (EL) in excess of eligible provisions.

Tier 2 capital mainly comprises perpetual subordinated debt instruments and dated subordinated debt instruments which have a minimum term of five years at issue date.

Total Capital is the sum of Tier 1 capital and Tier 2 capital.

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company's branch operations and major banking subsidiary operations are overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve, the UK Prudential Regulation Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the China Banking Regulatory Commission who may impose minimum capitalisation rates on those operations.

Throughout the financial year, the Company and the Group maintained compliance with the minimum Common Equity Tier 1, Tier 1 and Total Capital ratios set by APRA and the US Federal Reserve (as applicable) as well as applicable capitalisation rates set by regulators in countries where the Company operates branches and subsidiaries.

OTHER REGULATORY DEVELOPMENTS

Financial System Inquiry (FSI)

The FSI final report into Australia's financial system was released in December 2014. Key recommendations included:

- Setting capital standards such that Australian Authorised Deposit-taking Institutions' (ADI) capital ratios are unquestionably strong;
- Raising the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk-weight for ADIs using IRB models and those using standardised risk weights;
- Implementing a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice;
- Developing a common reporting template that improves the transparency and comparability of capital ratios of Australian ADIs; and
- Introducing a leverage ratio that acts as a backstop to ADI's risk-based capital requirements, in line with the Basel framework.

APRA responded to parts of the FSI inquiry with the following announcements made in connection to the key recommendations:

- In July 2015, APRA released an information paper entitled 'International capital comparison study' (APRA Study) which supports the FSI's recommendation that the capital ratios of Australian ADIs should be unquestionably strong. In an update to the APRA study published in July 2016, APRA acknowledged that the relative capital positions of major Australian ADIs have improved since and are now broadly in line with the benchmark suggested by the FSI. The results of the APRA Study will only inform but will not determine APRA's approach for setting capital adequacy requirements.
- Effective 1 July 2016, APRA requires increased capital holdings for Australian residential mortgage exposures by ADIs accredited to use the internal ratings-based (IRB) approach to credit risk which increases the average credit risk weight to be applied to Australian mortgage portfolios to at least 25%. For ANZ, the impact of this requirement as at 30 September 2016 was -60 bps to the CET1 ratio. Additionally, APRA also requires refinements to ANZ's residential mortgages risk models which will take effect in the financial year 2017. The exact impact of the model refinements has not been confirmed, pending review and approval from APRA. However, any change is expected to increase the average credit risk weight applied to ANZ's residential mortgages exposures to be within the 25% to 30% range. Ahead of the increased capital requirements for Australian residential mortgages ANZ raised $3.2 billion of ordinary share capital during 2015.
- Reporting of the Leverage Ratio commenced from 1 July 2015 however APRA have not yet announced details of the minimum requirement which will apply to impacted Australian ADIs.

The Australian Government agreed with the FSI recommendations and endorsed APRA to implement the recommendations. However, apart from the above, APRA has not made any announcements on the other key recommendations to date. Therefore, the final outcomes from the FSI, including any impacts and the timing of these impacts on ANZ remain uncertain.

Level 3 Conglomerates (Level 3)

APRA is extending its prudential supervision framework to Conglomerate Groups via the Level 3 framework which will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional monitoring of risk exposure levels.

In August 2016, APRA confirmed the deferral of capital requirements for Conglomerate Groups until 2019 at the earliest, to allow for the final requirements arising from FSI recommendations and international initiatives that are already in progress to be determined.

The non-capital components of the Level 3 framework covering group governance, risk exposures, intragroup transactions and other risk management and compliance requirements will become effective on 1 July 2017. ANZ is not expecting any material impact on its operations based upon the current version of these standards.

Current Proposals from the Basel Committee on Banking Supervision (BCBS) on RWA

As part of the BCBS agenda to simplify RWA measurement and reduce their variability between banks, the BCBS has issued a number of consultation documents in relation to:

- Standardised approach to RWA for credit risk;
- Revisions to Standardised Measurement Approach to Operational Risk;
- Fundamental Review of the Trading Book;
- Interest Rate Risk in the Banking Book;
- Framework on imposition of capital floors based on standardised RWA approaches; and
- Additional constraints on the use of internal models for credit RWA.

32: Capital Management (continued)

Apart from the finalisation of standards on the review of the Trading Book, BCBS is still currently consulting with the industry on the other proposals. The impacts of these changes on ANZ are subject to the final form of these BCBS proposals that APRA will implement for Australian ADIs.

CAPITAL ADEQUACY

The table below provides the composition of capital used for regulatory purposes and capital adequacy ratios.

	2016 $m	2015 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	57,927	57,353
Prudential adjustments to shareholders equity	(481)	(387)
Gross Common Equity Tier 1 Capital	57,446	56,966
Deductions	(18,179)	(18,440)
Common Equity Tier 1 Capital	39,267	38,526
Additional Tier 1 capital	9,018	6,958
Tier 1 capital	48,285	45,484
Tier 2 capital	10,328	7,951
Total qualifying capital	58,613	53,435
Capital adequacy ratios		
Common Equity Tier 1	9.6%	9.6%
Tier 1	11.8%	11.3%
Tier 2	2.5%	2.0%
Total	14.3%	13.3%
Risk Weighted Assets	408,582	401,937

REGULATORY ENVIRONMENT – INSURANCE AND FUNDS MANAGEMENT BUSINESS

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework for the ANZ Level 2 Group.

ANZ's insurance companies in Australia are regulated by APRA on a stand-alone basis. Prudential Standards issued under the Life Insurance Act 1995 and Insurance Act 1973 determine the minimum capital requirements these companies are required to meet. Life insurance companies in New Zealand are required to meet minimum capital requirements as determined by the Insurance (Prudential Supervision) Act 2010.

Fund managers in Australia are subject to 'Responsible Entity' regulation by the Australian Securities and Investment Commission (ASIC). The regulatory capital requirements vary depending on the type of Australian Financial Services Licence or Authorised Representatives' Licence held.

APRA supervises approved trustees of superannuation funds and it introduced new financial requirements which became effective from 1 July 2013.

ANZ's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 September 2016.

33: Controlled Entities

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Total shares in controlled entities	–	–	18,117	17,823

ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

There were no material entities acquired or disposed of during the year ended 30 September 2016 or the year ended 30 September 2015.

	Incorporated in	Nature of business
Ultimate parent of the Group		
Australia and New Zealand Banking Group Limited	Australia	Banking
All controlled entities are 100% owned unless otherwise noted.		
The material controlled entities of the Group are:		
ANZ Bank (Lao) Limited[1]	Laos	Banking
ANZ Bank (Taiwan) Limited[1]	Taiwan	Banking
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZ Funds Pty Ltd	Australia	Holding Company
ANZ Bank (Europe) Limited[1]	United Kingdom	Banking
ANZ Bank (Kiribati) Limited[1,2]	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZNZ Covered Bond Trust[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Ltd[1]	New Zealand	Funds Management
OnePath Life (NZ) Limited[1]	New Zealand	Insurance
UDC Finance Limited[1]	New Zealand	Finance
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[3]	Vanuatu	Banking
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited[1,2]	Cambodia	Banking
Votraint No. 1103 Pty Ltd	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
OnePath General Insurance Pty Limited	Australia	Insurance
OnePath Life Australia Holdings Pty Limited	Australia	Holding Company
OnePath Life Limited	Australia	Insurance
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[4]	Guam	Holding Company
ANZ Guam Inc.[4]	Guam	Banking
ANZ Finance Guam, Inc.[4]	Guam	Finance
ACN 003 042 082 Limited	Australia	Holding Company
Share Investing Limited	Australia	Online Stockbroking
PT Bank ANZ Indonesia[1,2]	Indonesia	Banking

1 Audited by overseas KPMG firms (either for standalone financial statements if required or as part of the Group audit).

2 Non-controlling interests hold ordinary shares or units in the controlled entities listed above as follows: ANZ Bank (Kiribati) Limited – 150,000 $1 ordinary shares (25%) (2015: 150,000 $1 ordinary shares (25%)); PT Bank ANZ Indonesia – 16,500 IDR 1 million shares (1%) (2015: 16,500 IDR 1 million shares (1%)); ANZ Royal Bank (Cambodia) Limited – 319,500 USD100 ordinary shares (45%) (2015: 319,500 USD100 ordinary shares (45%)).

3 Audited by Law Partners.

4 Audited by Deloitte Guam.

34: Investments in Associates

Significant associates of the Group are as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
AMMB Holdings Berhad[1]	1,198	1,424	–	–
PT Bank Pan Indonesia[2]	997	904	–	–
Shanghai Rural Commercial Bank[3]	1,955	1,981	1,955	1,981
Bank of Tianjin[4]	–	1,021	–	1,021
Other individually immaterial associates (in aggregate)	122	110	19	16
Total carrying value of associates	4,272	5,440	1,974	3,018

1 AMMB Holdings Berhad (AmBank Group) provides a full suite of banking and insurance products and services in Malaysia and is listed on the Bursa Malaysia. This investment relates to the Group's Asia Pacific strategy.
2 PT Bank Pan Indonesia is a consumer and business bank in Indonesia and is listed on the Jakarta stock exchange. This investment relates to the Group's Asia Pacific strategy.
3 Shanghai Rural Commercial Bank is a rural commercial bank in China. This investment relates to the Group's Asia Pacific strategy.
4 On 30 March 2016, the Bank of Tianjin (BoT) completed a capital raising and initial public offering (IPO) on the Hong Kong Stock Exchange. As a result, the Group's equity interest reduced from 14% to 12% and the Group ceased equity accounting the investment due to losing the ability to appoint directors to the Board of BoT at this date. From 31 March 2016, the investment is classified as an available-for-sale asset.

a) Financial information on material associates

Set out below is the summarised financial information of each associate that is material to the Group. The summarised financial information is based on the associates' IFRS financial information.

	AMMB Holdings Berhad		PT Bank Pan Indonesia		Shanghai Rural Commercial Bank		Bank of Tianjin	
Principal place of business and country of incorporation	Malaysia		Indonesia		Peoples' Republic of China		Peoples' Republic of China	
Method of measurement in the Group's balance sheet	Equity method		Equity method		Equity method		Equity method	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Summarised results								
Revenue	2,698	2,840	960	822	3,390	3,058	–	2,168
Profit/(loss)	414	583	160	225	1,338	1,117	–	1,094
Other comprehensive income/(loss)	(8)	54	2	2	59	175	–	85
Total comprehensive income	406	637	162	227	1,397	1,292	–	1,179
Less: Total comprehensive income attributable to non–controlling interests	26	30	11	16	36	33	–	2
Total comprehensive income attributable to owners of associate	380	607	151	211	1,361	1,259	–	1,177
Summarised financial position								
Total assets[1]	41,442	43,668	19,692	17,244	129,081	128,511	–	117,073
Total liabilities[1]	36,092	37,374	16,873	14,684	119,027	118,324	–	109,803
Total Net assets[1]	5,350	6,294	2,819	2,560	10,054	10,187	–	7,270
Less: Non–controlling interests of associate	312	307	252	233	281	283	–	50
Net assets attributable to owners of associate	5,038	5,987	2,567	2,327	9,773	9,904	–	7,220
Reconciliation to carrying amount of Group's interest in associate[2]								
Proportion of ownership interest held by the Group	24%	24%	39%	39%	20%	20%	–	14%
Carrying amount at the beginning of the year	1,424	1,465	904	795	1,981	1,443	1,021	710
Group's share of total comprehensive income	90	152	59	82	273	251	86	167
Dividends received from associate	(35)	(66)	–	–	(41)	(38)	–	(21)
Group's share of other reserve movements of associate and FCTR adjustments	(21)	(127)	34	27	(258)	325	(106)	165
Impairment charge	(260)	–	–	–	–	–	–	–
Less: carrying value at loss of significant influence	–	–	–	–	–	–	(1,001)	–
Carrying amount at the end of the year	1,198	1,424	997	904	1,955	1,981	–	1,021
Market Value of Group's investment in associate[3]	929	1,048	779	805	n/a	n/a	n/a	n/a

1 Includes market value adjustments (including goodwill) made by the Group at the time of acquisition and adjustments for any differences in accounting policies.
2 For BoT this includes movements up to cessation of equity accounting.
3 Applicable to those investments in associates where there are published price quotations. Market Value is based on a price per share and does not include any adjustments for holding size.

During the year the impairment assessment of non-lending assets identified that two of the Group's associate investments (AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin)) had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use (VIU) calculations to assess if the carrying value of the investments were impaired.

34: Investments in Associates (continued)

The VIU calculation continued to support the carrying value of the investment in PT Panin, however the VIU did not support the carrying value of the Group's investment in Ambank. As a consequence the Group recorded an impairment charge of $260 million in 2016 to reduce the carrying value to its VIU. The associate investment in Ambank forms part of the TSO and Group Centre operating segment. Refer to note 9 for further details.

The value in use calculation is sensitive to a number of key assumptions, including future profitability levels, capital levels, long term growth rates and discount rates. The key assumptions used in the value in use calculation are outlined below:

	As at 30 Sep 2016	
	AMMB	PT Panin
Pre-tax discount rate	10.1%	12.8%
Terminal growth rate	5.0%	6.0%
Expected NPAT growth (compound annual growth rate - 5 years)	4.0%	8.5%
Core Equity tier 1 rate	10.0% –12.1%	11.3%

b) Other associates

The following table summarises, in aggregate, the Group's interest in associates that are considered individually immaterial for separate disclosure.

	2016 $m	2015 $m
Group's share of profit/(loss)	38	36
Group's share of other comprehensive income	(11)	(4)
Group's share of total comprehensive income	27	32
Carrying amount	122	110

35: Structured Entities

A structured entity ('SE') is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and/or
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are consolidated when control exists in accordance with the accounting policy disclosed in note 1(A)(vi). In other cases the Group may have an interest in or sponsor a SE but not consolidate it. This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is mainly through securitisation, covered bond issuances, structured finance arrangements and funds management activities. SEs may be established either by the Group or by a third party.

Securitisation

The Group uses SEs to securitise customer loans and advances that it has originated in order to diversify its sources of funding for liquidity management. Such securitisation transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle created for the purpose of structuring assets that are eligible for repurchase under agreements with the applicable central bank (that is, Repo eligible). The internal securitisation SEs are consolidated. Refer to note 36 for further details.

The Group also establishes SEs on behalf of its customers to securitise their loans or receivables. The Group may manage these securitisation vehicles and/or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. While the majority are unconsolidated, in limited circumstances the Group consolidates SEs used in securitisation when control exists.

Covered bond issuances

Certain loans and advances have been assigned to bankruptcy remote SEs to provide security for issuances of debt securities by the Group. The Group retains control of the SEs and accordingly they are consolidated. Refer to note 36 for further details.

Structured finance arrangements

The Group is involved with SEs established in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral assets. The Group is also involved with SEs established to own assets that are leased to customers in structured leasing transactions. Sometimes, the Group may also manage the SE, hold minor amounts of capital or provide risk management products (derivatives). The ability of the Group to participate in decisions about the relevant activities of these SEs varies. In most instances the Group does not control these SEs. Further, the Group's involvement typically does not establish more than a passive interest in decisions about the relevant activities and accordingly is not considered disclosable as discussed in (b) below.

Funds management activities

The Group's Wealth Australia and New Zealand divisions conduct investment management and other fiduciary activities as a responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issue of puttable units to investors and are considered by the Group to be SEs. The Group's exposure to Investment Funds includes holding units and receiving fees for services. Where the Group invests in Investment Funds on behalf of policyholders they are consolidated when control is deemed to exist.

(a) Financial or other support provided to consolidated structured entities

Pursuant to contractual arrangements, the Group provides financial support to consolidated SEs as outlined below (these represent intra-group transactions which are eliminated on consolidation):

- Securitisation and covered bond issuances:
  The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued. Refer to note 36 for further details in relation to the Group's internal securitisation programmes and covered bond issuances.
- Structured finance arrangements:
  The assets held by these SEs are normally pledged as collateral for finance provided. Certain consolidated SEs are financed entirely by the Group while others are financed by syndicated loan facilities in which the Group is a participant. The financing provided by the Group includes lending facilities where the Group's exposure is limited to the amount of the loan and any undrawn amount. Additionally the Group has provided Letters of Support to these consolidated SEs confirming that the Group will not demand repayment of the financing provided for the ensuing 12 month period.

35: Structured Entities (continued)

The Group did not provide any non-contractual support to consolidated SEs during the year (2015: nil).

Other than as disclosed above the Group does not have any current intention of providing financial or other support to consolidated SEs.

(b) Group's interest in unconsolidated structured entities

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement which exposes the Group to variability of returns from the performance of that entity. Such interests include, but are not limited to, holdings of debt or equity securities, derivatives that pass-on risks specific to the performance of the structured entity, lending, loan commitments, financial guarantees and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure has been made where the Group's involvement does not establish more than a passive interest, for example, when the Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests unless the design of the structured entity allows the Group to participate in decisions about the relevant activities (being the activities that significantly affect returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives where the Group creates rather than absorbs variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The following table sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from such interests.

Interest in unconsolidated structured entities

	Securitisation		Structured finance		Investment funds		Total	
Consolidated at 30 September 2016	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Available-for-sale assets	3,591	3,849	–	–	–	–	3,591	3,849
Investment backing policy liabilities	–	–	–	–	156	165	156	165
Loans and advances	7,181	6,825	88	37	–	–	7,269	6,862
Total on-balance sheet	10,772	10,674	88	37	156	165	11,016	10,876
Off-balance sheet interests								
Commitments (facilities undrawn)	2,588	2,610	–	–	–	–	2,588	2,610
Total off-balance sheet	2,588	2,610	–	–	–	–	2,588	2,610
Maximum exposure to loss	13,360	13,284	88	37	156	165	13,604	13,486

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $524 million (2015: $542 million) during the year.

The Group's maximum exposure to loss represents the maximum amount of loss that the Group could incur as a result of its involvement with unconsolidated SEs, regardless of the probability of occurrence, if loss events were to take place. This does not in any way represent the actual losses expected to be incurred. Instead, the maximum exposure to loss is contingent in nature and may arise for instance upon the bankruptcy of an issuer of securities or debtor or if liquidity facilities or guarantees were to be called upon. Furthermore, the maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate ANZ's exposure to loss.

For each type of interest, maximum exposure to loss has been determined as follows:

- available-for-sale assets and investments backing policy liabilities – carrying amount; and
- loans and advances – carrying amount plus undrawn amount of any commitments.

Information about the size of the unconsolidated SEs that the Group is involved with is as follows:

- Securitisation and structured finance: Size is indicated by total assets which vary by SE with a maximum value of approximately $1.7 billion (2015: $1.7 billion); and
- Investment funds: Size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $35.0 billion (2015: $33.8 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2015: nil).

The Group does not have any current intention of providing financial or other support to unconsolidated SEs.

(c) Sponsored unconsolidated structured entities

The Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Group considers itself the 'sponsor' of an unconsolidated SE where it is the primary party involved in the design and establishment of that SE and:

- where the Group is the major user of that SE;
- the Group's name appears in the name of that SE or on its products; or
- the Group provides implicit or explicit guarantees of that SE's performance.

The Group has sponsored the ANZ PIE Fund in New Zealand which invests only in deposits with ANZ Bank New Zealand Limited. The Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from nor assets transferred to this entity during the year.

36: Transfers of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to SEs. These transfers may give rise to the full or partial derecognition of those financial assets depending on the Group's continuing involvement and exposure to risks and rewards.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Group's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. This includes mortgages that are held for potential repurchase agreements (Repos) with central banks. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

In some instances the Company is also the holder of the securitised notes. In addition, the Company is entitled to any residual income of the SEs and enters into derivatives with the SEs. The Company is therefore deemed to have retained the majority of the risks and rewards of the residential mortgages and as such continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Company.

The Group is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SE's activities. The SEs are therefore consolidated by the Group.

COVERED BONDS

The Group operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Company is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition the Company is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Company is therefore deemed to have retained the majority of the risks and rewards of the residential mortgages and as such continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Company.

The Group is exposed to variable returns from its involvement with the Covered Bond SEs and has the ability to affect those returns through its power over the SE's activities. The SEs are therefore consolidated by the Group. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements are considered to be transferred assets that do not qualify for derecognition when substantially all the risks and rewards of ownership remain with the Group. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Company arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the lease receivable or financing arrangement. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Circumstances may arise whereby the Company continues to be exposed to some of the risks of the transferred lease receivable or financing arrangement through a derivative or other continuing involvement. When this occurs, the lease receivable or loan is not derecognised and the Company will instead recognise an associated liability representing its obligations to the participating financial institutions.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Securitisations[1,2]				
Current carrying amount of assets transferred	–	–	73,546	73,559
Carrying amount of associated liabilities	–	–	73,546	73,559
Covered bonds[1,3]				
Current carrying amount of assets transferred	–	–	22,001	23,508
Carrying amount of associated liabilities[3]	–	–	22,001	23,508
Repurchase agreements				
Current carrying amount of assets transferred	26,637	13,975	26,234	13,476
Carrying amount of associated liabilities	25,049	13,731	24,646	13,255
Structured Finance Arrangements				
Current carrying amount of assets transferred	275	766	164	627
Carrying amount of associated liabilities	266	759	164	627

1 The consolidated balances are nil as the Company balances relate to transfers to internal structured entities.

2 The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

3 The total covered bonds issued by the Group to external investors at 30 September 2016 was $21,035 million (2015: $27,013 million), secured by $31,790 million (2015: $30,368 million) of specified residential mortgages. The associated liability represents the Company's liability to the covered bond SE. Covered bonds issued by the Company to external investors at 30 September 2016 were $15,105 million (2015: $22,164 million).

37: Life Insurance Business

The Group conducts its life insurance business through OnePath Life Limited and OnePath Life (NZ) Limited. This note is intended to provide disclosures in relation to the life insurance businesses conducted through these controlled entities.

CAPITAL ADEQUACY OF LIFE INSURER

Australian life insurers are required to hold reserves in excess of policy liabilities to support capital requirements under the Life Insurance Act (Life Act).

The life insurance business in New Zealand is not governed by the Life Act as this is a foreign domiciled life insurance company. The company is however required to meet similar capital requirements.

The summarised capital information below, in respect of capital requirements under the Life Act, has been extracted from the financial statements prepared by OnePath Life Limited. For detailed capital adequacy information on a statutory fund basis, users of this annual financial report should refer to the separate financial statements prepared by OnePath Life Limited.

	OnePath Life Limited	
	2016 $m	2015 $m
Capital Base	551	538
Prescribed Capital Amount (PCA)	315	316
Capital Adequacy Multiple (times)	1.75	1.70

LIFE INSURANCE BUSINESS PROFIT ANALYSIS

	Life insurance contracts		Life investment contracts		Consolidated	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Net shareholder profit after income tax	335	386	81	143	416	529
Net shareholder profit after income tax is represented by:						
Emergence of planned profit margins	208	198	65	93	273	291
Difference between actual and assumed experience	45	7	5	29	50	36
(Loss recognition)/reversal of previous losses on groups of related products	1	–	–	–	1	–
Investment earnings on retained profits and capital	81	181	11	21	92	202
Changes in assumptions	–	–	–	–	–	–
Net policyholder profit in statutory funds after income tax	14	18	–	–	14	18
Net policyholder profit in statutory funds after income tax is represented by:						
Emergence of planned profits	14	14	–	–	14	14
Investment earnings on retained profits and experience profits	–	4	–	–	–	4

INVESTMENTS RELATING TO LIFE INSURANCE BUSINESS

	Consolidated	
	2016 $m	2015 $m
Equity securities	14,780	10,898
Debt securities	9,376	6,460
Investments in managed investment schemes	10,614	16,781
Derivative financial assets/(liabilities)	82	(81)
Cash and cash equivalents	804	762
Total investments backing policy liabilities designated at fair value through profit or loss[1]	35,656	34,820

1 This includes $3,333 million (2015: $3,291 million) in respect of investments relating to external unit holders. In addition, the investment balance has been reduced by $4,670 million (2015: $4,636 million) in respect of the elimination of intercompany balances, treasury shares and the re-allocation of policyholder tax balances.

Investments held in statutory funds can only be used to meet the liabilities and expenses of that fund, or to make profit distributions when solvency and capital adequacy requirements of the Life Act and Insurance (Prudential Supervision) Act 2010 are met. Accordingly, with the exception of permitted profit distributions, the investments held in the statutory funds are not available for use by other parties of the Group.

37: Life Insurance Business (continued)

INSURANCE POLICY LIABILITIES

a) Policy liabilities

	Consolidated 2016 $m	Consolidated 2015 $m
Life insurance contract liabilities		
Best estimate liabilities		
Value of future policy benefits	10,811	9,290
Value of future expenses	2,483	2,204
Value of future premium	(16,544)	(14,086)
Value of declared bonuses	11	15
Value of future profits		
Policyholder bonus	17	23
Shareholder profit margin	2,631	2,232
Business valued by non-projection method	4	4
Total net insurance contract liabilities	(587)	(318)
Unvested policyholder benefits	40	41
Liabilities ceded under reinsurance contracts	737	649
Total life insurance contract liabilities	190	372
Life investment contract liabilities[1,2]	35,955	35,029
Total policy liabilities	36,145	35,401

1 Designated at fair value through profit or loss.
2 Life investment contract liabilities that relate to a capital guaranteed element is $1,230 million (2015: $1,354 million). Life investment contract liabilities subject to investment performance guarantees is $668 million (2015: $842 million).

b) Reconciliation of movements in policy liabilities

	Life investment contracts 2016 $m	Life investment contracts 2015 $m	Life insurance contracts 2016 $m	Life insurance contracts 2015 $m	Consolidated 2016 $m	Consolidated 2015 $m
Policy liabilities						
Gross liability brought forward	35,029	34,038	372	516	35,401	34,554
Movements in policy liabilities reflected in the income statement	1,937	1,520	(182)	(144)	1,755	1,376
Deposit premium recognised as a change in life investment contract liabilities	4,299	5,165	–	–	4,299	5,165
Fees recognised as a change in life investment contract liabilities	(423)	(463)	–	–	(423)	(463)
Withdrawal recognised as a change in other life investment contract liabilities	(4,887)	(5,231)	–	–	(4,887)	(5,231)
Gross policy liabilities closing balance	35,955	35,029	190	372	36,145	35,401
Liabilities ceded under reinsurance[1]						
Balance brought forward	–	–	649	591	649	591
Movements in reinsurance assets reflected in the income statement	–	–	88	58	88	58
Closing balance	–	–	737	649	737	649
Total policy liabilities net of reinsurance asset	35,955	35,029	(547)	(277)	35,408	34,752

1 Liabilities ceded under reinsurance contracts are shown as 'other assets'.

c) Sensitivity analysis – Life investment contract liabilities

Market risk arises on the Group's life insurance business in respect of life investment contracts where an element of the liability to the policyholder is guaranteed by the Group. The value of the guarantee is impacted by changes in underlying asset values and interest rates. As at 30 September 2016, a 10% decline in equity markets would have decreased profit by $10 million (2015: $12 million) and a 10% increase would have increased profit by $2 million (2015: $5 million). A 1% increase in interest rates at 30 September 2016 would have decreased profit by $13 million (2015: $4 million) and a 1% decrease would have increased profit by $2 million (2015: $6 million).

METHODS AND ASSUMPTIONS – LIFE INSURANCE CONTRACTS

Significant actuarial methods

The effective date of the actuarial report on policy liabilities (which includes insurance contract liabilities and life investment contract liabilities) and solvency requirements is 30 September 2016.

In Australia, the actuarial report was prepared by Mr Jaimie Sach FIAA Appointed Actuary, a fellow of the Institute of Actuaries of Australia. The actuarial reports indicate Mr Sach is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the Life Act, which includes applicable standards of APRA.

37: Life Insurance Business (continued)

In New Zealand, the actuarial report was prepared by Mr Michael Bartram FIAA FNZSA, a fellow of the Institute of Actuaries of Australia and a fellow of the New Zealand Society of Actuaries. The actuarial reports indicate that Mr Bartram is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA in accordance with the requirements of the Life Act. For life insurance contracts the Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders.

The profit carriers used to achieve the systematic release of planned margins are based on the product groups.

Critical assumptions

The valuation of the policy liabilities is dependent on a number of variables including interest rates, equity prices, future expenses, mortality, morbidity and inflation. The critical estimates and judgements used in determining the policy liabilities is set out in note 2 (vi) on page 78.

Sensitivity analysis – life insurance contracts

The Group conducts sensitivity analysis to quantify the exposure of the life insurance contracts to risk of changes in the key underlying variables such as interest rates, equity prices, mortality, morbidity and inflation. The valuations included in the reported results and the Group's best estimate of future performance is calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk. The table below illustrates how changes in key assumptions would impact the reported profit, insurance contract policy liabilities and equity at 30 September 2016.

Variable	Impact of movement in underlying variable	Change in variable	Profit/(loss) net of reinsurance	Insurance contract liabilities net of reinsurance	Equity
		% change	$m	$m	$m
Market interest rates	A change in market interest rates affects the value placed on future cash flows. This changes profit and shareholder equity.	-1%	69	(96)	69
		+1%	(55)	77	(55)
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.	-10%	–	–	–
		+10%	–	–	–
Mortality risk	Greater mortality rates would lead to higher levels of claims occurring, increasing associated claims cost and therefore reducing profit and shareholder equity.	-10%	(10)	15	(10)
		+10%	–	–	–
Morbidity risk	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.	-10%	–	–	–
		+10%	(99)	141	(99)
Discontinuance risk	An increase in discontinuance rates at earlier durations has a negative effect as it affects the ability to recover acquisition expenses and commissions.	-10%	–	–	–
		+10%	(12)	18	(12)

LIFE INSURANCE RISK

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claims rates. Insurance risk exposure arises in the life insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than expected.

Insurance risks are controlled through the use of underwriting procedures and reinsurance arrangements. Controls are also maintained over claims management practices to assist in the correct and timely payment of insurance claims. Regular monitoring of experience is conducted at a sufficiently detailed level in order to identify any deviation from expected claim levels.

Financial risks relating to the Group's life insurance business are generally monitored and controlled by selecting appropriate assets to back insurance and life investment contract liabilities. Wherever possible within regulatory constraints, the Group segregates policyholders funds from shareholders funds and sets investment mandates that are appropriate for each. The assets are regularly monitored by the Wealth Asset Liability Committee and Wealth Product Committee to ensure that there are no material asset and liability mismatch issues and other risks, such as liquidity risk and credit risk, are maintained within acceptable limits.

All financial assets within the life insurance statutory funds directly support either the Group's life insurance contracts, life investment contracts or capital requirements. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed. The Group manages this risk by the monthly monitoring and rebalancing of assets to policy liabilities. However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

Market risk also arises from those life investment contracts where the asset management fees earned are directly impacted by the value of the underlying assets. The Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management and operational risk associated with the possible failure to administer life investment contracts in accordance with the product terms and conditions.

37: Life Insurance Business (continued)

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to monitor that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy are the processes and controls over underwriting, claims management and product pricing. Capital management is also a key aspect of the Group's risk management strategy.

Allocation of capital

The Group's life insurance businesses are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the contract liability.

Solvency margin requirements established by APRA are in place to reinforce safeguards for policyholders' interest, which are primarily the ability to meet future claims payments in respect of existing policies.

Methods to limit or transfer insurance risk exposures

Reinsurance – Reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Group's exposure to risk with the objective of achieving the desired choice of the type of reinsurance and retention levels.

Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.

Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

38: Superannuation and Post Employment Benefit Obligations

The Group participates in a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and/or provisions of the trust deeds. Set out below is a summary of amounts recognised in these financial statements in respect of the defined benefit sections of these schemes:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Amount recognised in the income statement				
Current service cost	6	7	2	3
Administration costs	1	1	1	1
Net interest cost	(4)	(2)	(5)	(2)
Adjustment for contributions tax	1	1	–	–
Total included in personnel expenses	4	7	(2)	2
Amounts recognised in other comprehensive income (pre-tax)[1]				
Actuarial (gains)/losses incurred during the year and recognised directly in retained earnings	57	6	73	(24)
Cumulative actuarial (gains)/losses recognised directly in retained earnings	275	218	262	193
Defined benefit obligation and scheme assets				
Present value of funded defined benefit obligation[2]	(1,509)	(1,538)	(1,297)	(1,322)
Fair value of scheme assets	1,567	1,623	1,391	1,452
Total	58	85	94	130
As represented in the balance sheet				
Net liabilities arising from defined benefit obligations included in Payables and other liabilities	(51)	(59)	(15)	(14)
Net assets arising from defined benefit obligations included in Other assets	109	144	109	144
Total	58	85	94	130

1 Excludes a foreign exchange loss on GBP denominated defined benefit plans of $15 million (2015: nil) for the Group and $15 million (2015: nil) for the Company.
2 The Group's defined benefit obligation relates solely to funded arrangements. The liability relates predominantly to pension payments to retired members or their dependants. The basis of calculation is set out in note 1F(vi).

38: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Movements in the present value of the defined benefit obligation				
Opening defined benefit obligation	1,538	1,327	1,322	1,151
Current service cost	6	7	2	3
Interest cost	49	54	43	48
Contributions from scheme participants	–	–	–	–
Remeasurements:				
Actuarial (gains)/losses – experience	(23)	(22)	(19)	(20)
Actuarial (gains)/losses – change in demographic assumptions	11	9	11	–
Actuarial (gains)/losses – change in financial assumptions	309	36	311	18
Actuarial (gains)/losses – change in ESCT	(5)	10	–	–
Curtailments	–	–	–	–
Settlements	–	–	–	–
Exchange difference on foreign schemes	(303)	187	(312)	182
Benefits paid	(73)	(70)	(61)	(60)
Closing defined benefit obligation	1,509	1,538	1,297	1,322
Movements in the fair value of the scheme assets				
Opening fair value of scheme assets	1,623	1,335	1,452	1,183
Interest income	53	56	48	50
Return on scheme assets excluding amounts included in interest income	235	27	230	22
Contributions from the employer	55	79	52	68
Contributions from scheme participants	–	–	–	–
Benefits paid	(73)	(70)	(61)	(60)
Administrative costs paid	(1)	(1)	(1)	(1)
Settlements	–	–	–	–
Exchange difference on foreign schemes	(325)	197	(329)	190
Closing fair value of scheme assets[1]	1,567	1,623	1,391	1,452

1 Scheme assets include the following financial instruments issued by the Group: cash and short-term instruments $2.4 million (September 2015: $1.7 million), fixed interest securities $0.6 million (September 2015: $0.5 million) and equities nil (September 2015: nil).

	Consolidated			The Company		
	Quoted $m	Unquoted $m	Total $m	Quoted $m	Unquoted $m	Total $m
Composition of scheme assets						
2016						
Equities	157	–	157	153	–	153
Debt securities	–	41	41	–	40	40
Pooled investment funds	383	1,018	1,401	283	946	1,229
Property	–	1	1	–	1	1
Cash and equivalents	16	(49)	(33)	16	(48)	(32)
Other	–	–	–	–	–	–
Total at the end of the year	556	1,011	1,567	452	939	1,391
2015						
Equities	198	–	198	193	–	193
Debt securities	–	35	35	–	34	34
Pooled investment funds	249	1,133	1,382	157	1,060	1,217
Property	–	1	1	–	1	1
Cash and equivalents	6	–	6	6	–	6
Other	1	–	1	1	–	1
Total at the end of the year	454	1,169	1,623	357	1,095	1,452

38: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated		The Company	
	2016	2015	2016	2015
Actuarial assumptions used to determine the present value of the defined benefit obligation for the main defined benefit schemes				
Discount rate (% p.a.)	2.2 - 3.0	3.2 – 3.7	2.2 - 3.0	3.7
Future salary increases (% p.a.)	1.5 - 3.6	2.5 – 3.5	3.6	3.5
Future pension indexation				
– In payment (% p.a.)	1.5 - 2.9	2.2 – 3.0	2.0 - 2.9	2.5 – 3.0
– In deferment (% p.a.)	2.1	2.0	2.1	2.0
Life expectancy at age 60 for current pensioners				
– Males (years)	22.6 - 28.8	22.6 – 28.4	22.6 - 28.8	22.6 – 28.4
– Females (years)	26.3 - 30.8	26.3 – 30.7	26.3 - 30.8	26.3 – 30.5

The weighted average duration of the benefit payments reflected in the defined benefit obligation is 16.8 years (2015: 16.5 years) for Consolidated and 16.8 years (2015: 16.3 years) for the Company.

	Consolidated				The Company			
	Impact on defined benefit obligation for 2016		Impact on defined benefit obligation for 2015		Impact on defined benefit obligation for 2016		Impact on defined benefit obligation for 2015	
	Increase/(decrease)		Increase/(decrease)		Increase/(decrease)		Increase/(decrease)	
Sensitivity analysis	%	$m	%	$m	%	$m	%	$m
Changes in actuarial assumptions								
0.5% increase in discount rate	(9.3)	(140)	(7.7)	(119)	(10.1)	(131)	(8.3)	(109)
0.5% increase in pension indexation	7.8	118	7.7	118	8.4	109	8.3	109
1 year increase to life expectancy	4.2	63	2.7	41	4.4	57	2.7	35

The sensitivity analysis shows the effect of reasonably possible changes in significant assumptions on the value of scheme liabilities. The sensitivities provided assume that all other assumptions remain unchanged and are not intended to represent changes that are the extremes of possibility. The figure shown is the difference between the recalculated liability figure and that stated in the balance sheet as detailed above.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main schemes in which the Group participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Group. The trustees are the legal owners of the assets which are held separately from the assets of the Group. The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial actuarial valuation process.

Employer contributions to the defined benefit schemes are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

As at the most recent reporting dates of the schemes, the aggregate deficit of net market value of assets over the value of accrued benefits on the funding bases was $52 million (2015: $129 million).

In 2016 the Group made contributions totalling $55 million (2015: $79 million) to the defined benefit sections of the schemes, and expects to make around $2 million of contributions in the next financial year.

The employer contributions to the defined contribution sections of the schemes are included as superannuation costs in personnel expenses.

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution.

Further details about the funding and contributions for the main defined benefit sections of the schemes are described below.

- **ANZ Australian Staff Superannuation Scheme**

  The Pension Section of the ANZ Australian Staff Superannuation Scheme provides pension benefits to retired members and their dependants. This section of the Scheme was closed to new members in 1987.

  An interim actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2015, showed a deficit of $0.6 million and the actuary recommended that the Group make no contribution to the Pension Section for the year to 31 December 2016 and the funding position be reviewed as part of the full actuarial valuation as at 31 December 2016.

  The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund any deficit.

- **ANZ UK Staff Pension Scheme**

  This Scheme provides pension benefits. From 1 October 2003, members contribute 5% of their salary. The Scheme was closed to new members on 1 October 2004.

  A full actuarial valuation, conducted by consulting actuaries Willis Towers Watson as at 31 December 2015, showed a deficit of GBP 21 million ($36 million at 30 September 2016 exchange rates) measured on a funding basis.

38: Superannuation and Post Employment Benefit Obligations (continued)

Following the full actuarial valuation as at 31 December 2015, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group agreed to continue to pay additional quarterly contributions of 7.5 million until September 2016. These contributions will be reviewed following the next actuarial valuation which is scheduled to be undertaken as at 31 December 2018.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

- **National Bank Staff Superannuation Fund**

The defined benefit section of the Fund provides pension benefits and was closed to new members on 1 October 1991. Members contribute 5% of salary.

An actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2015 showed a surplus of NZD 3 million ($3 million at 30 September 2016 exchange rates). The actuary recommended that the Group make contributions of 24.8% of salaries including employer superannuation contribution tax) in respect of members of the defined benefit section.

The Group has no present liability under the Fund's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Fund was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the defined benefit section of the Fund on an on-going basis.

Amounts were also recognised in the financial statements in respect of other defined benefit arrangements in Taiwan, Japan, Philippines and the UK.

39: Employee Share and Option Plans

ANZ operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2015 and 2016 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer

Most permanent employees who have had continuous service for three years are eligible to participate in the Employee Share Offer enabling the grant of up to AUD1,000 of ANZ shares in each financial year, subject to approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the one week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.

In Australia, ANZ ordinary shares were granted to eligible employees for nil consideration and vested on grant, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends received on the shares are automatically reinvested into the Dividend Reinvestment Plan.

In New Zealand shares were granted to eligible employees upon payment of NZD one cent per share.

Shares granted in New Zealand under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. Unvested shares are forfeited in the event of resignation or dismissal for serious misconduct. Dividends are either paid as cash or reinvested into the Dividend Reinvestment Plan.

During the 2016 year, 626,121 shares with an issue price of $27.60 were granted under the Employee Share Offer to employees on 3 December 2015 (2015 year: 643,568 shares with an issue price of $31.84 were granted on 4 December 2014).

Deferred Share Plan

Under ANZ's standard Short Term Incentive (STI)[1] arrangements equity deferral into shares applies to half of all incentive amounts above a specified threshold. Half the deferred portion is deferred for one year and half deferred for two years.

Under the Institutional Total Incentives Performance Plan (TIPP) mandatory deferral into shares also applies to 60% of incentive amounts above a specified threshold, deferred evenly over three years.

Selected employees may be granted Long Term Incentive (LTI)[2] deferred shares which vest to the employee three years from the date of grant.

In exceptional circumstances, deferred shares may be granted to certain employees upon commencement with ANZ to compensate for remuneration forgone from their previous employer. The vesting period generally aligns with the remaining vesting period of remuneration forgone, and therefore varies between grants. Retention deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ.

Unless the Board decides otherwise, unvested deferred shares are forfeited on resignation, termination on notice or dismissal for serious misconduct. Deferred shares remain at risk and can be adjusted downwards at any time prior to the vesting date. The deferred shares may be held in trust beyond the deferral period.

The employee receives dividends on deferred shares while those shares are held in trust (cash or Dividend Reinvestment Plan).

Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (refer to Deferred Share Rights section).

1 Also referred to as Annual Variable Remuneration (AVR).
2 Also referred to as Long Term Variable Remuneration (LTVR).

39: Employee Share and Option Plans (continued)

The issue price for deferred shares is based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant.

During the 2016 year, 5,797,450 deferred shares with a weighted average grant price of $26.15 were granted under the deferred share plan (2015 year: 5,129,479 shares with a weighted average grant price of $31.96 were granted).

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward 9,397 deferred shares in 2016 and 135,592 deferred shares in 2015.

Share Valuations

The fair value of shares granted in the 2016 year under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $171.3 million based on 6,423,571 shares at a volume weighted average price of $26.67 (2015 year: fair value of shares granted was $184.4 million based on 5,773,047 shares at a weighted average price of $31.93). The VWAP of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options/rights, which entitle them to acquire ordinary fully paid shares in ANZ at a price fixed at the time the options/rights are granted. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights.

Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. The exercise price of the options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.

The option plan rules set out the entitlements a holder of options/rights has prior to exercise in the event of a bonus issue, pro rata new issue or reorganisation of ANZ's share capital. In summary:

- if ANZ has issued bonus shares during the life of an option and prior to the exercise of the option, then when the option is exercised the option holder is also entitled to be issued such number of bonus shares as the holder would have been entitled to if the option holder had held the underlying shares at the time of the bonus issue;
- if ANZ makes a pro rata offer of securities during the life of an option and prior to the exercise of the option, the exercise price of the option will be adjusted in the manner set out in the ASX Listing Rules; and
- in respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, the number of rights or the number of underlying shares may be adjusted so that there is no advantage or disadvantage to the holder.

Holders otherwise have no other entitlements to participate in any new issue of ANZ securities prior to exercise of their options/rights. Holders also have no right to participate in a share issue of a body corporate other than ANZ (such as a subsidiary).

For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

ANZ Share Option Plan schemes expensed in the 2015 and 2016 years are as follows:

Option Plans that operated during 2015 and 2016

Performance Rights Plan (excluding CEO Performance Rights)

Performance rights are granted to selected employees as part of ANZ's incentive plans. Performance rights provide the right to acquire ANZ shares at nil cost, subject to a three year vesting period and Total Shareholder Return (TSR) performance hurdles.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3 of the 2016 Remuneration Report.

During the 2016 year, 1,411,054 performance rights (excluding CEO performance rights) were granted (2015: 1,389,890).

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward zero performance rights in 2016 and 1,552 performance rights in 2015.

CEO Performance Rights

At the 2015 Annual General Meeting shareholders approved a LTI grant of performance rights to the incoming CEO with a face value of $4.2 million (at 100% vesting), divided into three equal tranches. This equated to 53,191 performance rights being allocated for each tranche (a total of 159,573 performance rights). Each tranche will be subject to testing against a separate TSR hurdle after three years from the start of the performance period, 18 November 2018.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3 of the 2016 Remuneration Report.

Former CEO Performance Rights

At the 2012, 2013 and 2014 Annual General Meetings shareholders approved LTI grants to the Former CEO with a fair value of $3.15 million in 2012 and 2013, and with a fair a value of $3.4 million in 2014. This equated to a total of 328,810 (2012), 201,086 (2013) and 229,272 (2014) performance rights being allocated, which are subject to testing against a TSR hurdle after three years, being December 2015, 2016 and 2017 respectively. The 2012 grant of performance rights was tested in December 2015. ANZ achieved a TSR of 31.31% over the three year performance period. ANZ's TSR did not reach the median of the comparator group and accordingly, the performance rights did not vest and lapsed in full at this time. The Former CEO received no value. There is no retesting of this grant.

39: Employee Share and Option Plans (continued)

Deferred Share Rights (no performance hurdles)

Deferred share rights provide the right to acquire ANZ shares at nil cost after a specified vesting period. The fair value of rights is adjusted for the absence of dividends during the restriction period. Treatment of rights in respect of cessation relates to the purpose of the grant (refer to Deferred Share Plan section above).

All share rights were satisfied through a share allocation other than 5,297 deferred share rights (2015 year: 21,737 deferred share rights) where Board discretion was exercised.

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward 4,583 deferred share rights in 2016 and none in 2015.

During the 2016 year 1,211,021 deferred share rights (no performance hurdles) were granted (2015: 1,104,107).

Legacy Option Plans

There were no legacy option plans expensed in the 2015 and 2016 years.

Options, deferred share rights and performance rights on issue

As at 2 November 2016, there were 1,129 holders of 2,281,508 deferred share rights on issue and 175 holders of 4,044,599 performance rights on issue.

Options/Rights Movements

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2016 and movements during 2016 are as follows:

	Opening balance 1 Oct 2015	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2016
Number of options/rights	6,241,157	2,781,648	(1,440,051)	–	(1,158,637)	6,424,117
Weighted average exercise price	$0.07	$0.00	$0.00		$0.37	$0.00

The weighted average closing share price during the year ended 30 September 2016 was $25.31 (2015: $31.94).

The weighted average remaining contractual life of options/rights outstanding at 30 September 2016 was 3 years (2015: 3.1 years).

The weighted average exercise price of all exercisable options/rights outstanding at 30 September 2016 was $0.00 (2015: $1.51).

A total of 163,244 exercisable options/rights were outstanding at 30 September 2016 (2015: 283,283).

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2015 and movements during 2015 are set out below:

	Opening balance 1 Oct 2014	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2015
Number of options/rights	5,431,903	2,723,269	(961,871)	(4,871)	(947,273)	6,241,157
Weighted average exercise price	$0.24	$0.00	$0.00	$18.63	$0.81	$0.07

No options/rights over ordinary shares have been granted since the end of 2016 up to the signing of the Directors' Report on 2 November 2016.

39: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2016 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	89,959	–	0.00	156	–
0.00	33,660	–	0.00	838	–
0.00	6,272	–	0.00	2,587	–
0.00	3,812	–	0.00	884	–
0.00	2,585	–	0.00	1,353	–
0.00	9,213	–	0.00	7,585	–
0.00	11,018	–	0.00	73,579	–
0.00	31,940	–	0.00	8,777	–
0.00	240,506	–	0.00	1,227	–
0.00	27,570	–	0.00	5,069	–
0.00	39,015	–	0.00	3,486	–
0.00	27,997	–	0.00	28,547	–
0.00	672	–	0.00	7,073	–
0.00	713	–	0.00	6,372	–
0.00	4,925	–	0.00	7,807	–
0.00	1,830	–	0.00	3,496	–
0.00	194	–	0.00	983	–
0.00	1,966	–	0.00	827	–
0.00	470	–	0.00	217	–
0.00	32,095	–	0.00	4,317	–
0.00	2,117	–	0.00	1,121	–
0.00	7,095	–	0.00	43,252	–
0.00	885	–	0.00	3,654	–
0.00	14,154	–	0.00	4,092	–
0.00	1,169	–	0.00	5,544	–
0.00	3,019	–	0.00	41,137	–
0.00	1,646	–	0.00	396	–
0.00	2,759	–	0.00	987	–
0.00	2,910	–	0.00	330	–
0.00	202,398	–	0.00	862	–
0.00	92	–	23.71	9,032	214,149
0.00	97	–	23.71	9,030	214,101
0.00	530	–	0.00	57,161	–
0.00	825	–	0.00	7,720	–
0.00	514	–	0.00	477	–
0.00	757	–	0.00	1,283	–

Details of shares issued as a result of the exercise of options/rights since the end of 2016 up to the signing of the Directors' Report on 2 November 2016 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	440	–	0.00	126	–
0.00	723	–	0.00	128	–
0.00	905	–			

39: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2015 are as follows:

Exercise price $	No. of shares issued	Proceeds received $
0.00	2,892	–
0.00	19,694	–
0.00	4,859	–
23.71	16,096	381,636
23.71	16,096	381,636
0.00	1,712	–
0.00	1,030	–
0.00	39	–
0.00	1,098	–
0.00	4,597	–
0.00	340,479	–
0.00	55,604	–
0.00	15,055	–
0.00	21,968	–
0.00	6,371	–
0.00	2,650	–
0.00	2,882	–
0.00	10,587	–
0.00	5,928	–
0.00	4,885	–
0.00	123,317	–
0.00	38,297	–
0.00	1,404	–
0.00	2,167	–
0.00	21,774	–
0.00	26,414	–
0.00	2,295	–
0.00	804	–
0.00	600	–
0.00	1,713	–
0.00	2,139	–
0.00	9,658	–
0.00	2,223	–

Exercise price $	No. of shares issued	Proceeds received $
0.00	556	–
0.00	4,388	–
0.00	585	–
0.00	1,652	–
0.00	1,739	–
0.00	184	–
0.00	1,868	–
0.00	30,025	–
0.00	4,624	–
0.00	3,545	–
0.00	12,562	–
0.00	2,459	–
0.00	67,514	–
0.00	27,655	–
0.00	4,816	–
0.00	918	–
0.00	1,061	–
0.00	606	–
0.00	3,262	–
0.00	2,978	–
0.00	558	–
0.00	194	–
0.00	1,108	–
0.00	610	–
0.00	994	–
0.00	724	–
0.00	432	–
0.00	1,000	–
0.00	421	–
0.00	387	–
0.00	396	–
0.00	125	–

39: Employee Share and Option Plans (continued)

In determining the fair value below, the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models, were applied in accordance with the requirements of AASB 2 Share-based payments. The models take into account early exercise of vested equity, non-transferability and market based performance hurdles (if any). The significant assumptions used to measure the fair value of instruments granted during 2016 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Deferred share rights	18-Nov-15	63,403	0.00	25.95	26.75	20.0	2	0	0	6.25	1.98
	18-Nov-15	7,720	0.00	26.66	26.75	20.0	2	0	0	6.25	1.98
	18-Nov-15	331,088	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	14,963	0.00	24.43	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	1,794	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	351,788	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	15,896	0.00	22.99	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	1,906	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	366,687	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	16,892	0.00	21.64	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	2,024	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
	27-Feb-16	1,760	0.00	21.82	22.56	25.0	2.5	0.5	0.5	7.25	1.92
	27-Feb-16	9,526	0.00	21.03	22.56	25.0	3	1	1	7.25	1.92
	27-Feb-16	5,685	0.00	20.34	22.56	25.0	3.5	1.5	1.5	7.25	1.76
	27-Feb-16	10,216	0.00	19.61	22.56	25.0	4	2	2	7.25	1.76
	27-Feb-16	5,511	0.00	18.97	22.56	25.0	4.5	2.5	2.5	7.25	1.72
	27-Feb-16	4,162	0.00	18.28	22.56	25.0	5	3	3	7.25	1.72
Performance rights	18-Nov-15	609,242	0.00	9.94	26.75	20.0	5	3	3	6.25	2.02
	18-Nov-15	658,087	0.00	9.02	26.75	20.0	5	3	3	6.25	2.11
	18-Nov-15	130,422	0.00	4.80	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	6,317	0.00	9.74	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	6,986	0.00	8.81	26.75	20.0	5	3	3	6.25	2.20
	17-Dec-15	53,191	0.00	11.28	26.53	25.0	5	3	3	6.50	2.10
	17-Dec-15	53,191	0.00	11.16	26.53	25.0	5	3	3	6.50	2.10
	17-Dec-15	53,191	0.00	7.36	26.53	25.0	5	3	3	6.50	2.10

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

39: Employee Share and Option Plans (continued)

The significant assumptions used to measure the fair value of instruments granted during 2015 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Deferred share rights	21-Nov-14	9,777	0.00	30.58	31.82	17.5	2.7	0.7	0.7	5.50	2.53
	21-Nov-14	90,883	0.00	30.39	31.82	17.5	2.9	0.9	0.9	5.50	2.53
	21-Nov-14	238,059	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
	21-Nov-14	3,486	0.00	29.60	31.82	17.5	3.4	1.4	1.4	5.50	2.53
	21-Nov-14	34,768	0.00	29.37	31.82	17.5	3.5	1.5	1.5	5.50	2.53
	21-Nov-14	7,073	0.00	28.98	31.82	17.5	3.8	1.8	1.8	5.50	2.53
	21-Nov-14	251,071	0.00	28.58	31.82	17.5	4	2	2	5.50	2.53
	21-Nov-14	3,690	0.00	27.96	31.82	17.5	4.4	2.4	2.4	5.50	2.53
	21-Nov-14	36,681	0.00	27.84	31.82	17.5	4.5	2.5	2.5	5.50	2.53
	21-Nov-14	3,276	0.00	27.47	31.82	17.5	4.8	2.8	2.8	5.50	2.53
	21-Nov-14	339,888	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	3,894	0.00	26.50	31.82	17.5	5.4	3.4	3.4	5.50	2.66
	21-Nov-14	37,662	0.00	26.38	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	4-Dec-14	20,302	0.00	27.43	32.22	17.5	3	3	3	5.50	2.36
	27-Feb-15	1,185	0.00	33.58	35.34	17.5	3	1	1	5.25	1.91
	27-Feb-15	1,247	0.00	31.90	35.34	17.5	4	2	2	5.25	1.79
	1-Jun-15	4,021	0.00	31.50	32.72	17.5	2.7	0.7	0.7	5.25	1.89
	1-Jun-15	1,271	0.00	31.08	32.72	17.5	3	1	1	5.25	1.89
	1-Jun-15	7,664	0.00	29.92	32.72	17.5	3.7	1.7	1.7	5.25	1.94
	1-Jun-15	1,067	0.00	29.53	32.72	17.5	4	2	2	5.25	1.94
	1-Jun-15	2,334	0.00	28.43	32.72	17.5	4.7	2.7	2.7	5.25	1.94
	20-Aug-15	2,342	0.00	27.54	29.13	17.5	3	1	1	5.75	1.97
	20-Aug-15	2,477	0.00	26.04	29.13	17.5	4	2	2	5.75	1.89
Performance rights	21-Nov-14	695,358	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	640,076	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	21,382	0.00	13.97	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	21-Nov-14	19,588	0.00	15.25	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	18-Dec-14	119,382	0.00	13.67	30.98	17.5	5	3	3	5.50	2.20
	18-Dec-14	109,890	0.00	14.69	30.98	17.5	5	3	3	5.50	2.20
	25-Feb-15	7,022	0.00	15.24	35.31	17.5	5	3	3	5.25	1.86
	25-Feb-15	6,464	0.00	16.46	35.31	17.5	5	3	3	5.25	1.86

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, or be newly issued shares or a combination of both.

In relation to equity purchased on market during the 2016 financial year either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights, for all employees 1,344,200 shares were purchased at an average price of $26.14 per share (2015 year: 6,164,925 shares at an average price of $32.11).

40: Related Party Disclosures

A: KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as directors and those executives that report directly to the CEO with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses. KMP compensation included in the personnel expenses is as follows:

	Consolidated	
	2016[1] $000	2015[2] $000
Short-term benefits	21,362	27,099
Post-employment benefits	1,216	1,047
Other long-term benefits	314	291
Termination benefits	2,418	104
Share-based payments	19,382	17,805
	44,692	46,346

1 Current period includes the former Group CEO and former disclosed executives until cessation of employment.
2 Prior period includes former CEO Australia notice period from 3 April 2014 until cessation of employment.

B: KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP of the Group are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured by any entity in the Group to KMP, including their related parties, were as follows:

	Consolidated	
	2016 $000	2015 $000
Loans advanced[1]	50,892	50,400
Interest charged[2]	2,091	2,106

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).
2 Interest is for all KMP during the period.

C: KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Group directly, indirectly or beneficially as shown below:

	Consolidated	
	2016 Number[1]	2015 Number[1]
Shares, options and rights	4,174,363	4,137,367
Subordinated debt	15,850	17,227

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).

D: OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

E: ASSOCIATES

Significant associates are disclosed in note 34. During the course of the financial year the Company and its subsidiaries conducted transactions with all associates on terms equivalent to those on an arm's length basis as shown below:

	Consolidated		The Company	
	2016 $000	2015 $000	2016 $000	2015 $000
Amounts receivable from associates	59,111	7,436	57,903	5,283
Amounts payable to associates	8,409	6,614	6,133	5,703
Interest revenue from associates	1,677	322	1,564	244
Interest expense to associates	77	2,443	34	40
Other costs paid to associates	25,880	17,494	11,632	12,393
Dividend revenue from associates	94,400	232,289	40,609	59,220
Costs recovered from associates	3,105	2,394	3,105	1,279

There have been no material guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

40: Related Party Disclosures (continued)

F: SUBSIDIARIES

Significant controlled entities are disclosed in note 33. During the course of the financial year subsidiaries conducted transactions with each other and associates on terms equivalent to those on an arm's length basis. As of 30 September 2016, all outstanding amounts are considered fully collectible.

Transactions between the Company and its subsidiaries include the provision of a wide range of banking and other financial facilities. Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in note 3 and note 4.

Other intragroup transactions include the provision of management and administrative services, staff training, data processing facilities, transfer of tax losses, and the leasing of property plant and equipment.

41: Other Contingent Liabilities and Contingent Assets

In addition to the credit related contingent liabilities included at note 25, the Group also had contingent liabilities as at 30 September 2016 in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

i) Bank fees litigation

Litigation funder IMF Bentham Limited commenced a class action against ANZ in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and overlimit fees on credit cards) were unenforceable penalties (at law and in equity) and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. In August 2014, IMF Bentham Limited commenced a separate class action against ANZ challenging late payment fees charged to ANZ customers in respect of commercial credit cards and other ANZ products (at this stage not specified). This action is expressed to apply to all relevant customers, rather than being limited to those who have signed up with IMF Bentham Limited.

In the second class action, all the applicants' claims have failed. The claims in relation to all fees were dismissed by the Full Federal Court. That decision was appealed to the High Court only in relation to credit card late payment fees (the other claims were not appealed). On 27 July 2016 the High Court dismissed the appeal and upheld the judgment in favour of ANZ in respect of credit card late payment fees.

The applicants are presently considering the implications of the High Court's decision for the remaining class actions, which have been on hold pending the outcome of the second class action. ANZ believes that the remaining class actions are likely to be discontinued or dismissed.

ii) Proceedings in relation to Bank Bill Swap Rate (BBSW)

On 4 March 2016, ASIC commenced court proceedings against ANZ. ASIC is seeking declarations and civil penalties for alleged market manipulation, unconscionable conduct, misleading or deceptive conduct, and alleged breaches by ANZ of certain statutory obligations as a financial services licensee. ASIC has subsequently initiated similar proceedings against two other Australian banks. ASIC's case against ANZ concerns transactions in the Australian interbank BBSW market in the period from March 2010 to May 2012. ANZ is defending the proceedings. The potential civil penalty or other financial impact is uncertain.

In August 2016, a class action complaint was brought in the United States District Court against two international broking houses and 17 banks, including ANZ. The class action is brought by two US-based investment funds and an individual derivatives trader. The action is expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW, from 1 January 2003 onwards. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZ, violated US anti-trust laws, anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. ANZ is defending the proceedings. The action is at an early stage.

iii) Regulator investigations into foreign exchange trading

Since 2014, each of ASIC and the Australian Competition and Consumer Commission (ACCC) have been investigating foreign exchange trading conduct of various banks including ANZ. ASIC's and the ACCC's investigations are ongoing and the range of potential outcomes include civil penalties and other actions under the relevant legislation.

iv) Other regulatory reviews

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, wealth advice and product suitability, conduct in financial markets and capital market transactions. During the year, ANZ has received various notices and requests for information from its regulators as part of both industry-wide and ANZ-specific reviews. The outcomes and total costs associated with such reviews remain uncertain.

41: Other Contingent Liabilities and Contingent Assets (continued)

v) Security recovery actions

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets over recent years. ANZ will defend these claims.

vi) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Acquirers Community and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance; and
- in the Austraclear System Regulations (Austraclear) and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance.

For HVCS and Austraclear, the obligation arises only in limited circumstances.

vii) Parent entity guarantees

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

viii) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issue below has not impacted adversely the reported results. All settlements, penalties and costs to date have been covered within existing provisions.

Foreign Exchange Regulation Act (India)

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

ix) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to ASIC class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and lodgement of individual financial statements in Australia. The results of these companies are included in the consolidated Group results.

The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Commodity Trading Pty Ltd[4]
- ANZ Nominees Limited[5]

It is a condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee or subsequent Assumption Deeds under the class order were executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs in any other case, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.
4 Relief originally granted on 2 September 2008.
5 Relief originally granted on 11 February 2009.

41: Other Contingent Liabilities and Contingent Assets (continued)

The consolidated statement of comprehensive income and consolidated balance sheet of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee in the relevant financial years are:

	Consolidated	
	2016 $m	2015 $m
Profit before tax	6,755	9,263
Income tax expense	(1,425)	(1,925)
Profit after income tax	5,330	7,338
Foreign exchange differences taken to equity, net of tax	(502)	807
Change in fair value of available-for-sale financial assets, net of tax	–	(31)
Change in fair value of cash flow hedges, net of tax	(8)	103
Actuarial gains/(loss) on defined benefit plans, net of tax	(78)	19
Other comprehensive income, net of tax	(588)	898
Total comprehensive income	4,742	8,236
Retained profits at start of year	21,449	18,990
Profit after income tax	5,330	7,338
Ordinary share dividends provided for or paid	(5,001)	(4,905)
Actuarial gains/(loss) on defined benefit plans after tax	(78)	19
Other movements	1	7
Retained profits at end of year	21,701	21,449
Assets		
Cash	46,072	51,217
Settlement balances owed to ANZ	19,905	16,601
Collateral paid	10,878	8,234
Available-for-sale assets/investment securities	55,721	37,612
Net loans and advances	446,211	447,799
Other assets	262,067	267,579
Premises and equipment	1,044	1,047
Total assets	841,898	830,089
Liabilities		
Settlement balances owed by ANZ	9,079	9,901
Collateral received	5,882	6,886
Deposits and other borrowings	479,963	472,031
Income tax liability	201	249
Payables and other liabilities	310,644	307,390
Provisions	832	731
Total liabilities	806,601	797,188
Net assets	35,297	32,901
Shareholders' equity	35,297	32,901

CONTINGENT ASSETS

National Housing Bank

ANZ is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between ANZ and NHB.

42: Compensation of Auditors

	Consolidated		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
KPMG Australia[1]				
Audit or review of financial reports of the Company or Group entities	8,983	8,824	5,617	5,377
Audit-related services[2]	4,246	4,093	2,975	3,026
Non-audit services[3]	536	126	172	126
	13,765	13,043	8,764	8,529
Overseas related practices of KPMG Australia				
Audit or review of financial reports of the Company or Group entities	6,332	6,022	1,662	1,537
Audit-related services[2]	1,432	1,394	507	682
Non-audit services[3]	21	256	–	–
	7,785	7,672	2,169	2,219
Total compensation of auditors	21,550	20,715	10,933	10,748

1 Inclusive of goods and services tax.

2 For the Group, comprises prudential and regulatory services of $4.134 million (2015: $4 million), comfort letters $0.937 million (2015: $0.745 million) and other $0.607 million (2015: $0.742 million). For the Company, comprises prudential and regulatory services of $2.338 million (2015: $2.556 million), comfort letters of $0.797 million (2015: $0.565 million) and other $0.347 million (2015: $0.587 million).

3 The nature of the non-audit services includes reviews of compliance with legal and regulatory requirements, benchmarking reviews and a branch optimisation analysis performed during the year. Further details are provided in the Directors' Report.

Group Policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of external auditor. These include regulatory and prudential reviews requested by the Company's regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. Group Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

43: Changes to Comparatives

Certain amounts reported as comparative information have changed as a result of being reclassified to conform with current period financial statement presentation.

Organisational restructure

During 2016, the Group announced changes to the organisation's structure to better meet the needs of our retail, commercial and institutional customers. As a result of these organisational changes there are six reported divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth Australia and Technology, Services & Operations ('TSO') and Group Centre.

These divisions were created by removing the Asia Retail & Pacific business from the former International and Institutional Banking (IIB) division, and repositioning minority investments in Asia from IIB to the Group Centre with the residual IIB business re-named Institutional. The New Zealand funds management and insurance businesses were repositioned to the New Zealand division, and the Private Bank business was reorganised along geographic lines under the Australia, New Zealand and Asia Retail & Pacific divisions with the residual Global Wealth business re-named Wealth Australia. Comparative information has been restated.

Card related fees

Certain card related fees that are integral to the generation of income were reclassified within total income and from operating expenses to total income to better reflect the nature of the items. Comparatives in notes 4, 5 and 9 have changed.

Insurance and other wealth related income

Income from certain insurance and other wealth related products have been reclassified within total income to better reflect the nature of the items. Comparatives in note 4 have changed.

43: Changes to Comparatives (continued)

Consolidated	2015 Previously reported $m	2015 Card related fees $m	2015 Wealth related income $m	2015 Currently reported $m
Net interest income	14,616	–	–	14,616
Other operating income	4,094	19	(79)	4,034
Net funds management and insurance income	1,736	–	79	1,815
Share of associate's profit	625	–	–	625
Operating income	21,071	19	–	21,090
Operating expenses	(9,359)	(19)	–	(9,378)
Profit before credit impairment and income tax	11,712	–	–	11,712
Provision for credit impairment	(1,179)	–	–	(1,179)
Profit before income tax	10,533	–	–	10,533
Income tax expense/(benefit)	(3,026)	–	–	(3,026)
Profit attributable to shareholders of the Company	7,507	–	–	7,507
Other comprehensive income net of tax attributable to shareholders of the Company	(14)	–	–	(14)
Total comprehensive income attributable to shareholders of the Company	7,493	–	–	7,493

The Company	2015 Previously reported $m	2015 Card related fees $m	2015 Wealth related income $m	2015 Currently reported $m
Net interest income	10,416	–	–	10,416
Other operating income	6,575	19	(7)	6,587
Net funds management and insurance income	203	–	7	210
Share of associate's profit	376	–	–	376
Operating income	17,570	19	–	17,589
Operating expenses	(7,350)	(19)	–	(7,369)
Profit before credit impairment and income tax	10,220	–	–	10,220
Provision for credit impairment	(969)	–	–	(969)
Profit before income tax	9,251	–	–	9,251
Income tax expense/(benefit)	(1,945)	–	–	(1,945)
Profit attributable to shareholders of the Company	7,306	–	–	7,306
Other comprehensive income net of tax attributable to shareholders of the Company	–	–	–	–
Total comprehensive income attributable to shareholders of the Company	7,306	–	–	7,306

43: Changes to Comparatives (continued)

	Consolidated 2015				The Company 2015			
	Previously reported Inflows (Outflows) $m	Card related fees $m	Wealth related income $m	Restated Sep 15 Inflows (Outflows) $m	Previously reported Inflows (Outflows) $m	Card related fees $m	Wealth related income $m	Restated Sep 15 Inflows (Outflows) $m
Cash flows from operating activities								
Interest received	30,667	–	–	30,667	26,754	–	–	26,754
Interest paid	(15,458)	–	–	(15,458)	(15,809)	–	–	(15,809)
Dividends received	231	–	–	231	2,630	–	–	2,630
Other operating income received	18,297	19	(79)	18,237	15,818	19	(7)	15,830
Other operating expenses paid	(8,573)	(19)	–	(8,592)	(6,806)	(19)	–	(6,825)
Income taxes paid	(3,082)	–	–	(3,082)	(2,388)	–	–	(2,388)
Net cash flows from funds management and insurance business								
Premiums, other income and life investment deposits received	7,577	–	104	7,681	154	–	7	161
Investment income and policy deposits received	286	–	–	286	–	–	–	–
Claims and policyholder liability payments	(5,930)	–	(25)	(5,955)	–	–	–	–
Commission expense (paid)/received	(648)	–	–	(648)	49	–	–	49
Cash flows from operating activities before changes in operating assets and liabilities	23,367	–	–	23,367	20,402	–	–	20,402
Change in operating assets and liabilities arising from cash flow movements	(1,891)	–	–	(1,891)	(22)	–	–	(22)
Net cash provided by/(used in) operating activities	21,476	–	–	21,476	20,380	–	–	20,380
Net cash provided by/(used in) investing activities	(9,776)	–	–	(9,776)	(9,479)	–	–	(9,479)
Net cash provided by/(used in) financing activities	2,043	–	–	2,043	1,904	–	–	1,904
Net increase/(decrease) in cash and cash equivalents	13,743	–	–	13,743	12,805	–	–	12,805

44: Events Since the End of the Financial Year

On 31 October 2016 the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan, and Indonesia to DBS Bank Limited for a premium of approximately $110 million over the book value of net assets, which principally comprised approximately $11 billion of gross lending assets and $17 billion of deposits as at 30 September 2016. The final purchase price will be based on the net assets at completion.

The transaction is subject to regulatory approval in each country, with completion occurring on a rolling country by country basis from mid financial year 2017 with all countries expected to be completed with 18 months.

The Group anticipates the transaction will generate a net loss of approximately $265 million (post-tax) including write-downs of software, goodwill and fixed assets, as well as separation and transaction costs.

The assets associated with the Retail Asia and Wealth businesses were assessed for impairment as at 30 September 2016 on the basis of the businesses being a continuing operation and no impairment was identified. Additionally, the assets did not meet the conditions for 'held for sale' classification under AASB 5 – Non-Current Assets Held for Sale and Discontinued Operations.

Other than this matter, no other material events have occurred between the end of the reporting period (30 September 2016) and the date of this report.

DIRECTORS' DECLARATION AND RESPONSIBILITY STATEMENT

Directors' Declaration

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Company and the consolidated entity are in accordance with the Corporations Act 2001, including:
   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the Corporations Regulations 2001; and
   ii) section 297, that they give a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2016 and of their performance for the year ended on that date;

b) the notes to the financial statements of the Company and the consolidated entity include a statement that the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards;

c) the Directors have been given the declarations required by section 295A of the Corporations Act 2001;

d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

e) the Company and certain of its wholly owned controlled entities (listed in note 41) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee to each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

2 November 2016

Shayne C Elliott
Director

Responsibility statement of the Directors in accordance with Rule 4.1.12 (3)(b) of the Disclosure Rules and Transparency Rules of the United Kingdom Financial Conduct Authority.

The Directors of Australia and New Zealand Banking Group Limited confirm to the best of their knowledge that:

The Group's Annual Report includes:

i) a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole; together with

ii) a description of the principal risks and uncertainties faced by the Group.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

2 November 2016

Shayne C Elliott
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Australia and New Zealand Banking Group Limited (the Company), which comprises the balance sheets as at 30 September 2016, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow for the year ended on that date, notes 1 to 44 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(A)(i), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Australia and New Zealand Banking Group Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 September 2016 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A)(i).

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 32 to 59 of the directors' report for the year ended 30 September 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2016, complies with Section 300A of the Corporations Act 2001.

KPMG
Melbourne

2 November 2016

Andrew Yates
Partner