2018

Annual U.S. Disclosure Document

for the fiscal year ended September 30, 2018

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

The date of this 2018 Annual U.S. Disclosure Document is November 9, 2018.

U.S. Disclosure Document
Fiscal year ended September 30, 2018

CONTENTS ***PAGE***

All references in this document to the “U.S. Disclosure Document” refer to the 2018 Annual U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal year ended September 30, 2018 (the “2018 fiscal year” or “2018”), including the Annexes attached hereto, and we refer to prior fiscal years in a similar fashion. References to the “March 2018 half” refer to the fiscal half year ended March 31, 2018 and references to the “September 2017 half” refer to the fiscal half year ended September 30, 2017. References in this document to the “2017 Annual U.S. Disclosure Document” refer to the 2017 Annual U.S. Disclosure Document for the fiscal year ended September 30, 2017.

This U.S. Disclosure Document is dated November 9, 2018. All references in this document to “the date of this U.S. Disclosure Document” are to November 9, 2018.

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, 2018, and the results of operations for the fiscal year then ended. All financial information disclosed in this U.S. Disclosure Document relates to the Group.

Attached to this U.S. Disclosure Document as Annex A are the following extracts of ANZ’s 2018 Annual Report, as prepared by the Company and filed with the Australian Securities Exchange (“ASX”) in accordance with its rules:

- The 2018 Remuneration Report of the Group;
- The 2018 Financial Report of the Group (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “2018 Financial Report”); and
- The Independent Auditor’s Report on the audit of the 2018 Financial Report.

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 2018 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 2018 Financial Report of the Company.

Attached to this U.S. Disclosure Document as Annex C are the following extracts of ANZ’s 2017 Annual Report, as prepared by the Company and filed with the ASX in accordance with its rules:

- The 2017 Remuneration Report of the Group;
- 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 Report”); and
- The Independent Auditor’s Report on the audit of the 2017 Financial Report.

Attached to this U.S. Disclosure Document as Annex D 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.

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 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 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 credit and capital markets;
- business and 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;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we or our customers operate;
- 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;
- 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;
- our ability to adjust to and compete in the various markets (domestic and offshore) in which we operate or are seeking to operate;
- the effects of competition in the geographic and business environments in which we or our customers operate;
- our ability to maintain or increase market share and control expenses;
- our timely development of new products and services, and the perceived overall value of these products and services by customers;
- 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, including the risk of fines or sanctions, arising out of our alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- commercial and residential mortgage lending and real estate market conditions in Australia, New Zealand and the APEA regions;
- losses associated with the Group’s counterparty exposures;
- the effectiveness of our risk management policies, including with respect to our internal processes, systems, organizational management and employees;
- the failure to meet the capital adequacy and liquidity requirements that the Group is subject to;
- changes to our credit ratings;
- operational factors, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- environmental factors, including natural disasters, such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;
- adverse impacts on our reputation;
- risks associated with the information systems we maintain;
- the reliability and security of our technology and our ability to protect our information from security risks, including potential cyber-attacks;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- any changes to ANZ Group’s accounting policies and their application;
- the impact of existing or potential litigation and regulatory actions applicable to the Group, its business or its customers;
- 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 condensed consolidated income statements and selected ratios for the fiscal years ended September 30, 2018, 2017, 2016, 2015, and 2014 and the summary of condensed consolidated balance sheets and selected ratios as of September 30, 2018, 2017, 2016, 2015 and 2014 have been derived from the Group's financial statements. The 2018 Financial Report is contained within ANZ's 2018 Annual Report (extracts of which, including the 2018 Financial Report, are attached to this U.S. Disclosure Document as Annex A). The 2017 Financial Report is contained within ANZ's 2017 Annual Report (extracts of which, including the 2017 Financial Report, 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 recognition and measurement requirements of Australian Accounting Standards ("AASs"), issued by 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 the recognition and measurement requirements of AASs ensures that the Group's financial statements and the financial information included herein comply with the recognition and measurement requirements of 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 28, 2018 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$0.7238= 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.

DISCONTINUED OPERATIONS

As a result of the sale transactions outlined below under "Sale of Wealth Australia Businesses", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. These businesses qualify as discontinued operations, a subset of assets held for sale, as they represent a major line of business.

The information presented in the summary of condensed consolidated income statements and selected ratios for the fiscal years ended September 30, 2017, September 30, 2016, September 30, 2015 and September 30, 2014 have been restated to show discontinued operations separately from continuing operations in a separate line item 'Profit/(Loss) after income tax from discontinued operations' and are derived from the Group's historical financial statements. Additionally, the discontinued operations presentation impacts the current and prior period financial information for the Wealth Australia and Technology, Services & Operations ("TSO") and Group Centre divisions.

Sale of Wealth Australia Businesses

- Sale to IOOF Holdings Limited ("IOOF")

  On October 17, 2017, the Group announced it had agreed to sell its OnePath pensions and investments ("OnePath P&I") and aligned dealer group ("ADG") businesses to IOOF. The ADG businesses consist of aligned advice businesses that operate under their own Australian Financial Services licenses. The sale of the ADG businesses completed effective from October 1, 2018. The completion of the sale of the remaining OnePath P&I business is planned to occur after the successful completion of a successor fund transfer, which is expected to occur in the first half of the 2019 fiscal year. A successor fund transfer is a transfer of the members and assets of one superannuation fund to another superannuation fund in Australia, where the consent of the individual members is not required to be obtained by the trustee of the transferring superannuation fund. Various conditions are required to be met by the trustee of each superannuation fund, including that the receiving superannuation fund is a 'successor fund' (as defined in relevant legislation), the trustees of each superannuation fund agree the receiving superannuation fund confers on transferring members equivalent rights to benefits that transferring members had in the transferring superannuation fund and the transferring trustee forms the view the transfer is in the best interests of the transferring members. In the context of the sale of the remaining OnePath P&I businesses, the relevant successor fund transfer refers to a transfer of the assets and members from the OnePath MasterFund to the Retirement Portfolio Service superannuation fund.

- Sale to Zurich Financial Services Australia Limited ("Zurich")

  On December 12, 2017, ANZ announced that it had agreed to sell its life insurance business to Zurich. Regulatory approval was obtained on October 10, 2018. The transaction is subject to other closing conditions and ANZ expects it to close in the first half of the 2019 fiscal year.

  Included in the 2018 'Profit/(Loss) after income tax from discontinued operations' is:

  - A $632 million loss (before and after income tax) recognized on the reclassification of Wealth Australia businesses to held for sale; and
  - Customer remediation charges of $181 million before income tax ($127 million after income tax) for refunds to customers and related remediation costs. These items primarily relate to compensation to customers for receiving inappropriate advice or services not provided within the Group's former ADG businesses.

The continuing operations retained in the Wealth Australia division include lenders mortgage insurance, share investing, financial planning and general insurance distribution.

SUMMARY OF CONDENSED CONSOLIDATED INCOME STATEMENTS AND SELECTED RATIOS

Condensed Consolidated Income Statement reflecting discontinued operations	Years ended September 30[1] 2018 USD M[2]	2018 $M	Restated 2017 $M	Restated 2016 $M	Restated 2015 $M	Restated 2014 $M
Interest income	**21,951**	**30,327**	29,120	29,950	30,525	29,525
Interest expense	**(11,445)**	**(15,813)**	(14,245)	(14,848)	(15,882)	(15,679)
Net interest income	**10,506**	**14,514**	14,875	15,102	14,643	13,846
Other operating income	**3,848**	**5,317**	4,523	4,400	5,320	5,254
Operating income	**14,354**	**19,831**	19,398	19,502	19,963	19,100
Operating expenses	**(6,694)**	**(9,248)**	(8,967)	(9,920)	(8,903)	(8,200)
Profit before credit impairment and income tax	**7,660**	**10,583**	10,431	9,582	11,060	10,900
Credit impairment charge[3]	**(498)**	**(688)**	(1,198)	(1,929)	(1,179)	(986)
Profit before income tax	**7,162**	**9,895**	9,233	7,653	9,881	9,914
Income tax expense[4]	**(2,015)**	**(2,784)**	(2,874)	(2,142)	(2,765)	(2,734)
Profit after income tax from continuing operations	**5,147**	**7,111**	6,359	5,511	7,116	7,180
Profit/(Loss) after income tax from discontinued operations[1]	**(503)**	**(695)**	62	209	391	103
Profit for the period	**4,644**	**6,416**	6,421	5,720	7,507	7,283
Profit attributable to non-controlling interests	**(12)**	**(16)**	(15)	(11)	(14)	(12)
Profit attributable to shareholders of the Company	**4,632**	**6,400**	6,406	5,709	7,493	7,271

Condensed Consolidated Income Statement as presented in the 2017 Annual U.S Disclosure Document	Years ended September 30 Originally Reported 2017 $M	Previously Reported 2016 $M[5]	Previously Reported 2015 $M[6]	Originally Reported 2014 $M
Interest income	29,120	29,951	30,526	29,524
Interest expense	(14,248)	(14,856)	(15,910)	(15,714)
Net interest income	14,872	15,095	14,616	13,810
Other operating income	5,401	5,451	6,474	6,244
Operating income	20,273	20,546	21,090	20,054
Operating expenses	(9,448)	(10,439)	(9,378)	(8,760)
Profit before credit impairment and income tax	10,825	10,107	11,712	11,294
Credit impairment charge[3]	(1,198)	(1,929)	(1,179)	(986)
Profit before income tax	9,627	8,178	10,533	10,308
Income tax expense[4]	(3,206)	(2,458)	(3,026)	(3,025)
Profit for the period	6,421	5,720	7,507	7,283
Profit attributable to non-controlling interests	(15)	(11)	(14)	(12)
Profit attributable to shareholders of the Company	6,406	5,709	7,493	7,271

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017, Restated 2016, Restated 2015 and Restated 2014 information have been restated from that presented in the 2017 Annual U.S. Disclosure Document as set out above. The restated information presents discontinued operations separately from continuing operations in a separate line item 'Profit/(Loss) after income tax from discontinued operations'.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 28, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
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. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document to reflect a change in the classification of certain fees payable between other operating income to operating expenses. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
6. *2015 financial information was originally reported in the 2015 Annual U.S Disclosure Document and subsequently restated in the 2016 Annual U.S Disclosure Document to reflect a reclassification between other operating income and operating expenses of certain cards related fees that are integral to the generation of income. Previously Reported 2015 reflects the restated financial information presented in the 2016 Annual U.S Disclosure Document.*

Selected Ratios	2018 USD M[2]	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
	Years ended September 30					
Other operating income as a % of operating income - including discontinued operations	**27.1%**	**27.1%**	26.6%	26.5%	30.7%	31.1%
Net interest margin - including discontinued operations	**1.87%**	**1.87%**	1.99%	2.07%	2.04%	2.13%
Cost to income ratio - including discontinued operations	**49.2%**	**49.2%**	46.6%	50.8%	44.5%	43.7%
Dividends on ordinary shares - including discontinued operations	**3,319**	**4,585**	4,609	5,001	4,906	4,694
Earnings per fully paid ordinary share (cents) including discontinued operations						
Basic	**160**	**222**	220	197	272	267
Diluted	**154**	**212**	211	189	257	257
Earnings per fully paid ordinary share (cents) from continuing operations[1]						
Basic	**178**	**246**	218	190	257	263
Diluted	**170**	**234**	209	183	244	253
Ordinary share dividend payout ratio including discontinued operations (%) [3]	**72.1%**	**72.1%**	73.4%	81.9%	68.6%	67.4%
Dividend per ordinary share (cents) including discontinued operations	**116**	**160**	160	160	181	178

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discountinued Opertations – Sale of Wealth Australia Businesses", earnings per fully paid ordinary share (cents) from continuting operations (basic and diluted) has been presented.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 28, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *The ordinary dividend payout ratio calculation is based on the following dividend payments:*

	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Interim	*2,317*	*2,349*	*2,334*	*2,379*	*2,278*
Final	*2,296**	*2,350*	*2,342*	*2,758*	*2,619*
Total	*4,613**	*4,699*	*4,676*	*5,137*	*4,897*

**Based on the proposed final dividend announced on October 31, 2018 and on the forecast number of ordinary shares expected to be on issue at the dividend record date.*

SUMMARY OF CONDENSED CONSOLIDATED BALANCE SHEETS AND SELECTED RATIOS - INCLUDING DISCONTINUED OPERATIONS[1]

	As of September 30					
	2018 USD M[2]	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Shareholders' equity excluding non-controlling interests	42,880	59,243	58,959	57,818	57,247	49,207
Subordinated debt[3]	11,514	15,908	17,710	21,964	17,009	13,607
Unsubordinated debt	76,195	105,271	90,263	91,080	93,747	80,096
Deposits and other borrowings	447,417	618,150	595,611	588,195	570,794	510,079
Gross loans and advances	440,345	608,380	584,091	580,035	574,255	525,685
Less: Individual provision for credit impairment	(666)	(920)	(1,136)	(1,307)	(1,061)	(1,176)
Less: Collective provision for credit impairment[4]	(1,826)	(2,523)	(2,662)	(2,876)	(2,956)	(2,757)
Less: Loans and advances held for sale	(723)	(999)	(5,962)	-	(8,065)	-
Net loans and advances (Excluding Held for Sale)	437,130	603,938	574,331	575,852	562,173	521,752
Total assets	682,271	942,624	897,326	914,869	889,900	772,092
Net assets	42,981	59,383	59,075	57,927	57,353	49,284
Risk weighted assets[5]	282,876	390,820	391,113	408,582	401,937	361,529
Capital adequacy ratios:[5]						
Common Equity Tier 1	11.4%	11.4%	10.6%	9.6%	9.6%	8.8%
Tier 1	13.4%	13.4%	12.6%	11.8%	11.3%	10.7%
Tier 2	1.9%	1.9%	2.2%	2.5%	2.0%	2.0%
Total capital ratio	15.2%	15.2%	14.8%	14.3%	13.3%	12.7%
Number of ordinary shares on issue (millions)	2,873.6	2,873.6	2,937.4	2,927.5	2,902.7	2,756.6

	Years ended September 30					
	2018 USD M[2]	2018 $M	2017 $M	2016 $M	2015 $M	2014 $M
Summary of consolidated ratios						
Profit attributable to the shareholders of the Company as a percentage of:						
Average total assets[6]	0.68%	0.68%	0.70%	0.63%	0.90%	1.00%
Average ordinary shareholders' equity excluding non-controlling interests[6]	10.9%	10.9%	11.0%	10.0%	14.5%	15.8%
Average ordinary shareholders' equity excluding non-controlling interests as a percentage of average total assets[6]	6.3%	6.3%	6.3%	6.3%	6.1%	6.1%

1. *Balance sheet amounts and metrics include assets and liabilities reclassified as held for sale unless otherwise stated.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 28, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *For the composition of subordinated debt refer to Note 15 of the 2018 Financial Report (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 $500 million as of September 30, 2018 (2017: $544 million; 2016: $631 million; 2015: $677 million; 2014: $613 million).*
5. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority ("APRA") Basel 3 methodology (refer to page 14).*
6. *Averages are calculated using predominantly daily averages.*

SUMMARY OF CREDIT RISK DATA - INCLUDING DISCONTINUED OPERATIONS[1]

	As of September 30			
	2018 USD M[2]	2018 $M	2017 $M	2016 $M
Gross impaired assets				
Impaired loans	1,213	1,676	2,118	2,646
Restructured items[3]	195	269	167	403
Non-performing commitments and contingencies	49	68	99	124
Total gross impaired assets	**1,457**	**2,013**	**2,384**	**3,173**
Provision for credit impairment				
Individual provision - impaired loans	647	894	1,118	1,278
Individual provision - non-performing commitments and contingencies	19	26	18	29
Collective provision[4]	1,826	2,523	2,662	2,876
Total provision for credit impairment	**2,492**	**3,443**	**3,798**	**4,183**
Total gross loans and advances[5]	**440,345**	**608,380**	**584,091**	**580,035**
Credit Risk Weighted Assets[6]	244,340	337,580	336,834	352,033
Collective provision as a percentage of credit risk weighted assets[6]	0.75%	0.75%	0.79%	0.82%
Gross impaired assets as a percentage of gross loans and advances	0.33%	0.33%	0.41%	0.55%
Individual provision for credit impairment as a percentage of gross impaired assets	45.7%	45.7%	47.7%	41.2%
Individual provision for impaired loans as a percentage of impaired loans	53.3%	53.3%	52.8%	48.3%
Total provision for credit impairment as a percentage of:				
Gross loans and advances[5]	0.6%	0.6%	0.7%	0.7%
Credit risk weighted assets[6]	1.0%	1.0%	1.1%	1.2%

1. *Balance sheet and credit risk data includes assets and liabilities reclassified as 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 28, 2018 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 $500 million as of September 30, 2018 (2017: $544 million; 2016: $631 million).*
5. *Consists of loans and advances and capitalized brokerage/mortgage origination fees less unearned income.*
6. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 14).*

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. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The Group 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, 2018, ANZBGL had total assets of $942.6 billion and shareholders' equity excluding non-controlling interests of $59.2 billion. In terms of total assets among banking groups, the Group ranked second in Australia[1] as of September 30, 2018 and first in New Zealand[2] as of June 30, 2018.

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 28, 2018, ANZBGL had a market capitalization of $81.0 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, 2018; National Australia Bank results announcement for the fiscal year ended September 30, 2018; Westpac Banking Corporation results announcement for the fiscal year ended September 30, 2018.*
2. *Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard (https://bankdashboard.rbnz.govt.nz/summary) for the quarter ending June 30, 2018.*
3. *Source: IRESS.*

BUSINESS MODEL

The Group'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 operates a Markets business which earns revenue from sales, trading and risk management activities. The Group also provides payments and clearing solutions. The Group currently earns revenue from its wealth activities through the provision of insurance, superannuation and funds management services, which are largely classified as discontinued operations.

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

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

- Net interest income – represents the difference between the interest income the Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;
- Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions;
- Share of associates' profits – represents the Group's share of the profit of an entity over which the Group has significant influence but not control; and
- Other income – includes revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

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 balanced 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 win. 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. 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

The Group operates on a divisional structure with six continuing divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific, and TSO and Group Centre. Key changes impacting the financial information disclosed in this U.S. Disclosure Document are as follows:

- As a result of the sale transactions outlined in "Section 1: Key Information – Discontinued Operations – Sale of Wealth Australia Businesses", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.
- As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year, which include:
  - the Corporate business, formerly part of the Corporate and Commercial Banking business within the Australia division, was transferred to the Institutional division;
  - the residual Asia Retail and Wealth businesses in the Philippines, Japan and Cambodia not sold as part of the Asia Retail and Wealth divestment as described under " – Asia Retail & Pacific" below have been transferred to the Institutional division; and
  - the Group made a further realignment by transferring Group Hubs' (Service Centers) divisional specific operations in TSO and Group Centre to their respective divisions. As these costs were previously recharged, there is no change to previously reported divisional profit. Divisional full time equivalents ("FTE"s) have been restated to reflect this change.

Other than as described above, there were no significant structural changes in the 2018 fiscal year. There have been a number of divestments impacting the divisions of the Group. These are detailed in "Section 3: Operating and Financial Review and Prospects - Large/notable items – Continuing Operations". The divisions reported below are consistent with operating segments as defined in IFRS 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2018, the principal activities of the six divisions were:

Australia

The Australia division comprises the Retail and Business & Private Banking ("B&PB") business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centers and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third-party brokers.
- B&PB provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services global institutional and corporate 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, commodity 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 and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the Group's interest rate exposure and liquidity position.

New Zealand

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

- Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.
- Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions 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 protect and grow their wealth.

- Discontinued operations of the Wealth Australia division comprise the businesses subject to the sales agreements with IOOF and Zurich as described in "Section 1: Key information – Basis of preparation – Sales of Wealth Australia Businesses".
- Continuing operations includes lenders mortgage insurance, share investing, financial planning and general insurance distribution.

Asia Retail & Pacific

During the 2018 fiscal year, the Asia Retail & Pacific division comprised the Asia Retail and Wealth, and the Pacific business units, connecting customers to specialists for their banking needs:

- Asia Retail and Wealth[1]: The Group announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank Ltd ("DBS Bank") on October 31, 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on April 21, 2017.

The Group successfully completed the sales in China, Singapore and Hong Kong in the September 2017 half, and the sales in Vietnam, Taiwan, and Indonesia in the March 2018 half.

  - Prior to the completion of these sales, the Asia Retail and Wealth business unit provided 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 included deposits, credit cards, loans, investments and insurance.
  - Post completion of these sales insignificant run-off activities remain within the Asia Retail and Wealth unit.

- 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.

Note.

1. *The Asia Retail and Wealth unit excludes the residual businesses in the Philippines, Japan and Cambodia which were transferred to the Institutional division in the 2018 fiscal year.*

Technology, Services & Operations and Group Centre

TSO and Group Centre 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 Centre includes Group Treasury, Shareholder Functions and minority investments in Asia.

RECENT DEVELOPMENTS

ANZ notes release of APRA's loss-absorbing capacity discussion paper

On November 8, 2018, ANZBGL noted the release of APRA's discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution". The paper is in response to recommendation three of the final report of the Financial System Inquiry (the "FSI").[1] The paper proposes an increase in total capital requirements of between 4% and 5% of risk-weighted assets ("RWA") for domestic systemically important banks ("D-SIBs"), such as ANZBGL. Based on the ANZ Group's RWA of $391 billion as at September 30, 2018, this represents an incremental increase in the total capital requirement of approximately $16 billion to $20 billion, with an equivalent decrease in other senior funding. APRA anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. D-SIBs will need to satisfy the new requirement by 2023.[2] ANZBGL intends to consult with APRA and provide a response. In addition to the proposals outlined in the paper, APRA noted that it is in the process of developing a formalised framework for resolution planning and will consult further on this in 2019.

Except as disclosed above, there have been no significant developments since September 30, 2018 to the date of this U.S. Disclosure Document.

Notes

1. *Pages 67-75 of the final report of the FSI which recommended that the Australian Government "implement a framework for minimum loss absorbing and recapitalization capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of Australian authorized deposit-taking institutions and minimize taxpayer support"*
2. *D-SIBs have an implementation period of four years from the release of the final total capital requirements (expected in 2019).*

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of September 30, 2018, 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 78%[1] 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. The Australian Government Guarantee refers to temporary arrangements announced by the Australian Government to enable the provision of a guarantee for the deposits and wholesale funding of Australian deposit-taking institutions. 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 corporate and commercial banking businesses competition has intensified among the major and regional banks, particularly as business investment and resulting demand for business credit has continued to be subdued from higher levels in 2012. An increased focus on protecting and deepening customer relationships has continued to place increased pressure on lending margins.

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, 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 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.

Note

[1.] *Source: APRA monthly banking statistics September 2018 (released October 31, 2018).*

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. In December 2017, China Construction Bank obtained a banking registration in New Zealand, followed by Bank of China in March 2018. In recent months Chinese banks’ focus has grown to include home lending, with a focus on migrant banking.

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. In the last year the home lending market has seen increased competition from new entrants, particularly Chinese banks aiming to grow their market share.

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 June 30, 2018.

Asia

Banking in Asia is highly competitive. There are a large number of global banks (for example Citibank, HSBC and Standard Chartered) and regional banks (for example DBS Bank, 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 division, are global investment banks and large Chinese and Japanese banks.

The Group currently operates in multiple countries, 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.

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 include banks (including ANZBGL), credit unions, building societies, insurance companies 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 ("IRRBB"), exposures to related entities, outsourcing, funds management, governance, business continuity management, audit and related matters, 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 a Banking Act statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness. In addition, APRA has powers under the Financial Sector (Transfer and Restructure) Act 1999 to require the compulsory transfer of some or all of an ADI's assets and liabilities or its shares to another body specified by APRA (which need not in all cases be an ADI). Broadly, APRA may require such a transfer in circumstances including where the Minister requires the transfer, or APRA is satisfied that there has been a contravention of the Banking Act or regulations or instruments made under it or the ADI has informed APRA that it is likely to become unable to meet its obligations or is about to suspend payment, and certain other criteria are met, including that APRA is satisfied that the transfer is appropriate having regard to the interests of the financial sector as a whole. A counterparty to a contract with an ADI cannot rely solely on the fact that a Banking Act 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 – Including Discontinued Operations" 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 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 FSI 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, the Group 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. From January 1, 2018, ANZ's CLF is $46.9 billion (2017 calendar year end: $43.8 billion).

Additionally, the Group has implemented APRA's Net Stable Funding Ratio ("NSFR") requirement from January 1, 2018 following the release of the NSFR final standards in December 2016. The Group has been monitoring the NSFR in its internal reporting as part of managing future liquidity requirements and believes its current NSFR is well positioned relative to the minimum 100% requirement. The Group's level 2 NSFR was 115% as of September 30, 2018.

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 and its prudential and regulatory supervision, ANZBGL and its Australian subsidiaries are supervised and regulated in some respects by other regulators including the Australian Securities and Investments Commission ("ASIC"), the Australian Competition and Consumer Commission ("ACCC"), the Australian Transaction Reports and Analysis Centre ("AUSTRAC") and various securities exchanges.

ASIC is Australia's corporate, markets, financial services and consumer credit 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. As the consumer credit regulator, ASIC licenses and regulates people and businesses engaging in consumer credit activities (including banks, credit unions, finance companies, and mortgage and finance brokers). ASIC ensures that licensees meet the standards, including those related to responsibilities to consumers – that are set out in the *National Consumer Credit Protection Act 2009* of Australia. As the markets regulator, ASIC assesses how effectively authorized financial markets are complying with their legal obligations to operate fair, orderly and transparent markets. Since August 1, 2010, ASIC has had responsibility for the supervision of trading on Australia's domestic licensed equity, derivatives and futures markets. As the financial services regulator, ASIC licenses and monitors financial services businesses to ensure that they operate efficiently, honestly and fairly. These businesses typically deal in superannuation, managed funds, shares and company securities, derivatives and insurance. ANZBGL provides products and participates in markets regulated by ASIC.

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

Royal Commission

The Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry (the "Royal Commission") was established on December 14, 2017. The Royal Commission has been asked to submit its final report by February 1, 2019 (an interim report was released on September 28, 2018).

The Royal Commission's terms of reference require and authorize the Royal Commission to, among other things, inquire into misconduct and conduct falling below community standards and expectations by financial services entities (including the Group). The Royal Commission has sought and received public submissions and conducted six rounds of public hearings. A seventh round of hearings will take place in November 2018. The Group has provided the Royal Commission with submissions, documents and witness statements including in relation to each of the rounds of the Royal Commission to date.

The Royal Commission submitted an interim report on September 28, 2018 which sets out issues and questions arising out of the first four rounds of the Royal Commission's hearings which, together with issues and questions arising out of the fifth and sixth rounds, will be considered during the November hearings. The Royal Commission has been asked to submit its final report by February 1, 2019. The Royal Commission's recommendations may result in changes to legislation and regulation.

Recommendations made by the Royal Commission may lead to regulators commencing investigations into various financial services entities, including the Group, which could subsequently result in administrative or enforcement action being taken. It could also lead to the Group's regulators altering their existing policies and practices.

The Royal Commission has resulted in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. External legal costs associated with responding to the Royal Commission total A$55 million (pre-tax) for the year ended September 30, 2018. The outcomes and total costs associated with these possible exposures remain uncertain.

Self-assessment into frameworks and practices

On May 1, 2018, APRA indicated that all regulated financial institutions would benefit from conducting a self-assessment into their frameworks and practices in relation to governance, culture and accountability and that, for large financial institutions such as ANZ, APRA will be seeking written assessments that have been reviewed and endorsed by their boards. APRA made these indications in light of the issues that were identified in the final report relating to the prudential inquiry into another major ADI, which was established to examine the frameworks and practices in relation to the governance, culture and accountability within that ADI group.

Banking Executive Accountability Regime ("BEAR")

On February 20, 2018 the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* came into effect, establishing a new "Banking Executive Accountability Regime" ("BEAR"). ANZBGL's obligations under the BEAR commenced on July 1, 2018.

The BEAR aims to strengthen the responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Under the BEAR:

- ANZBGL is 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 provide APRA with accountability statements for each senior executive or director, detailing that individual's roles and responsibilities;
- Where ANZBGL and its senior executives and directors do not meet accountability obligations, APRA is empowered to disqualify individuals as senior executives or directors without a court order (but subject to a right of administrative review in accordance with Part VI of the Banking Act);
- ANZBGL is 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
- ANZBGL may be liable for substantial penalties for failing to comply with its BEAR obligations.

Crisis Management

On March 5, 2018, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* (the "Crisis Management Act") came into effect. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA's powers. Specifically, the Crisis Management Act enhances APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group include: greater oversight, management and directions powers in relation to ANZBGL and other Group entities which were previously 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 (the "Statutory Conversion and Write-Off Provisions").

The Statutory Conversion and Write-Off Provisions apply in relation to regulatory capital instruments issued by certain financial sector entities (including ADIs, of which ANZBGL is one) that contain provisions for conversion or write-off for the purposes of APRA's prudential standards. Where the Statutory Conversion and Write-Off Provisions apply to an instrument, that instrument may be converted in accordance with its terms. This is so despite any law (other than specified laws, currently those relating to the ability of a person to acquire interests in an Australian corporation or financial sector entity), the constitution of the issuer, any contract to which the issuer is a party, and any listing rules, operating rules or clearing and settlement rules applicable to the instrument. In addition, the Banking Act includes a moratorium on the taking of certain actions on grounds relating to the operation of the Statutory Conversion and Write-Off Provisions.

Financial System Inquiry ("FSI")

The Australian Government completed a comprehensive inquiry into Australia's financial system in 2014 which included a number of key recommendations that may have an impact on regulatory capital levels that the Group is required to maintain. Recent initiatives by APRA in support of the FSI include:

- 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" as originally outlined in the FSI final report in December 2014. APRA indicated that in the case of the four major Australian banks (including the Group), this equated 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 meet this benchmark by January 1, 2020 at the latest.
- In February 2018, APRA released two discussion papers that commenced APRA's consultation on:
  - Revisions to the capital framework that will produce "unquestionably strong" capital ratios. The discussion paper summarizes APRA's proposal regarding risk-based capital approach for credit, market and operational risk following finalization of these requirements by the BCBS in December 2017. While the final forms of these proposals will only be determined later in 2020, the Group expects the implementation of any revisions to the current requirements will result in further changes to the risk weighting framework for certain asset classes and other risk types (such as market and operational risks). APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements. The Group's current capital position is in excess of APRA's unquestionably strong CET1 benchmark of 10.5% and therefore the Group believes it will likely be in a strong position to meet future changes that will arise as a result of final revisions to the capital framework.
  - The design and application of a minimum leverage ratio requirement as a complement to the risk-based capital framework proposal. APRA has proposed, among other things, a minimum leverage ratio requirement of 4% (compared to the Basel minimum of 3%). The Group believes it is well placed to meet the proposed changes in its current form based on its leverage ratio position at September 30, 2018.

Further to the above, APRA released a discussion paper in August 2018 on adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility of the ADI capital framework. The focus of the proposals is on the presentation of the capital ratios to facilitate comparability whilst recognizing the relative capital strength of ADIs and measures to enhance supervisory flexibility in times of financial stress.

APRA's consultation for the above is currently taking place with final prudential standards planned to be made available by 2020. APRA has proposed an implementation date of 2021, which is one year earlier than the Basel equivalent, with no phase-in arrangements.

APRA's prudential standards may also be further supplemented by yet to be released proposals to implement other key FSI recommendations. In relation to total loss absorbing capacity, on November 8, 2018, APRA released a discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution". The paper is in response to recommendation three of the final report of the FSI. The paper proposes an increase in total capital requirements of between 4% and 5% of RWA for D-SIBs, such as ANZBGL. Based on the ANZ Group's RWA of $391 billion as at September 30, 2018, this represents an incremental increase in the total capital requirement of approximately $16 billion to $20 billion, with an equivalent decrease in other senior funding. APRA anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. D-SIBs will need to satisfy the new requirement by 2023. ANZBGL intends to consult with APRA and provide a response. In addition to the proposals outlined in the paper, APRA noted that it is in process of developing a formalised framework for resolution planning and will consult further on this in 2019.

Given the number of items that are currently open for consultation with APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains uncertain.

Level 3 conglomerates ("Level 3") framework

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 requirements have had no material impact on the Group's capital position. See "Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations" for further discussion on the impact of the Level 3 framework on ANZBGL's ability to support ANZ Bank New Zealand Limited ("ANZ New Zealand").

Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations

Effect of APRA's Prudential Standards

ANZBGL is subject to extensive prudential regulation by APRA.

Under APRA's Prudential Standards, specifically APS 222 "Associations with Related Parties", ANZBGL's ability to provide financial support to ANZ New Zealand is subject to certain requirements:

(a) ANZBGL should not undertake any third party dealings with the primary purpose of supporting ANZ New Zealand's business;

(b) ANZBGL should not hold unlimited exposures (i.e., should be limited to a specified time and amount) to ANZ New Zealand (e.g., not provide a general guarantee covering any of ANZ New Zealand's obligations);

(c) ANZBGL should not enter into cross-default clauses whereby a default by ANZ New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of ANZBGL on its obligations; and

(d) the level of exposure of ANZBGL's Level 1 total capital base to ANZ New Zealand should not exceed:

    (i) 50% on an individual exposure basis; or

    (ii) 150% in aggregate (being exposures to all similar regulated entities related to ANZBGL).

In July 2018, APRA released a consultation paper and draft prudential standards on proposed revisions to its existing related entities framework, which also incorporated changes to its large exposures framework finalized and published in December 2017. APRA's proposals include revisions to:

- the definition of related entities;
- the measurement of exposures to related entities by aligning with requirements in the revised large exposures framework;
- the prudential limits on exposures to related entities. APRA is proposing to align the capital base used in limit calculations to Level 1 Tier 1 Capital (capital base used in the revised large exposures framework) and to reduce the individual and aggregate limits of exposures to individual related ADIs; and
- the extended licensed entity ("ELE") framework by amending the criteria for a subsidiary to be consolidated in an ADI's ELE.

APRA is currently consulting on the proposed changes, taking into account submissions already received from the Group and the industry. The impact on the Group and our subsidiaries arising from the above consultation will not be known until APRA finalizes its review. APRA intends to have the revised related entities framework implemented by 1 January 2020.

In addition to the standard APS 222 rules, APRA has confirmed that, by January 1, 2021, no more than 5% of ANZBGL's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to ANZ New Zealand during times of financial stress.

APRA has also confirmed that contingent funding support by ANZBGL to ANZ New Zealand 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% of ANZBGL's Level 1 Tier 1 capital base. At present, only covered bonds meet APRA's criteria for contingent funding.

Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017 (see "Level 3 conglomerates ("Level 3") framework" above). One of those requirements is that the Group must limit its financial and operational exposures to subsidiaries (including ANZ New Zealand).

In determining the acceptable level of exposure to a subsidiary, the Board of ANZBGL should have regard to:

(a) the exposures that would be approved for third parties of broadly equivalent credit status;

(b) the impact on ANZBGL's capital and liquidity position; and

(c) ANZBGL's ability to continue operating in the event of a failure by the subsidiary.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to ANZ New Zealand.

Residential Mortgage Lending Practices

In recent years APRA has closely monitored residential mortgage lending practices and taken a number of steps aimed at strengthening residential mortgage lending standards across the banking industry. For example:

- on December 9, 2014, APRA outlined additional steps it may take to reinforce sound residential mortgage lending practices of ADIs, indicating that it will pay particular attention to certain areas of concern, including higher risk mortgage lending, growth in lending to property investors (particularly if the growth is materially above an annual benchmark of 10%) and loan affordability tests for new borrowers; and
- on March 31, 2017, APRA outlined that ADIs will be expected, among other things, to:
    - limit the flow of new interest-only lending to 30% 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%; and
    - manage lending to investors in such a manner so as to comfortably remain below the previously advised benchmark of 10% annual growth in lending to property investors.

The Group has applied a number of levers to meet the above expectations and manage portfolio risk, including adjustment of lending criteria and implementation of 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.

On April 26, 2018, APRA outlined that the 10% benchmark will no longer apply to an ADI from July 1, 2018 where the ADI's Board has provided APRA with certain confirmations (including that the ADI has been operating below the 10% benchmark for at least the past 6 months) and certain assurances in relation to the ADI's lending policies and practices. APRA has stated that despite the removal of the benchmark for individual ADIs, a return to more rapid rates of investor loan growth at an aggregate level would nevertheless raise systemic concerns and that such an environment could lead APRA to consider, for example, the need to apply the counter-cyclical capital buffer or some other industry-wide measure.

Changes in classifications for residential mortgage loans

The current classification of ANZBGL's residential mortgage loans, as reported to regulators and the market, is generally determined during the loan origination process (i.e., loan application, processing and funding), based on information provided by the customer or subsequently when a customer requests changes to the loan.

Classification of residential mortgage loans may change due to:

- Incorrect classification at origination: to the extent that customers inaccurately advise ANZBGL of their circumstances at origination, there is a risk that loans may be incorrectly classified, and such loans may be reclassified;
- Changes in customer circumstances: ongoing appropriateness of a given classification relies on the customer's obligation to advise ANZBGL of any changes in the customer's circumstances and on ANZBGL's ability to independently validate the information provided by its customers. To the extent that customers advise of any changes in their circumstances or when ANZBGL makes such a determination based on its verification processes, a loan may be reclassified; and
- Regulatory or other changes: the criteria for loan classifications, and their interpretation, may change in the future for one or more reporting purposes, which may affect the classification of certain loans. For example, APRA and the RBA have announced that they plan to implement changes in the reporting of data including the classification of loans to reflect guidelines specified in "Reporting Practice Guide RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection".

Incorrect classification or re-classification of loans may affect a customer's ability to meet required repayments, such as when owner-occupied property loans are later re-classified as investment property loans, which as at the date of this U.S. Disclosure Document attract a higher interest rate. The inability of customers to meet repayment obligations on re-classified loans may increase the risk of default on such loans, which may adversely affect the Group's business, operations and financial condition.

Other

For further information on regulatory developments, including the risks they pose to the Group, refer to "Risk factors - 4. Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation" in "Section 2: Information on the Group".

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 supervisory role of the RBNZ

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.

The RBNZ places considerable emphasis on a requirement that banks regularly disclose 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 exposures, 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 half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. 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.

New Zealand registered banks are required to issue half-yearly disclosure statements that contain comprehensive details, together with full financial statements at the full-year, and unaudited interim financial statements at the half-year. 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.

On May 29, 2018, the RBNZ began publishing a quarterly "dashboard" of key information on banks incorporated in New Zealand on the RBNZ's website. The quarterly dashboard replaced the requirement for banks registered in New Zealand to issue disclosure statements for 'off-quarters' of the financial year, with effect from the quarter ending March 31, 2018. The information is sourced from private reporting that such banks provide to the RBNZ. Information relating to ANZ New Zealand published in the RBNZ's quarterly dashboard on the RBNZ's website is not incorporated by reference herein and does not form part of this U.S. Disclosure Document. In some cases, information relating to ANZ New Zealand published in the RBNZ's quarterly dashboard on the RBNZ's website has not been prepared on a consistent basis with the information presented in the ANZ New Zealand financial statements.

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 banks incorporated in New Zealand, including 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 changes 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"). BS13 requires registered banks to meet a minimum core funding ratio of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. 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 previously stated that it will be reviewing its liquidity policy in light of the BCBS's new liquidity requirements.

The RBNZ currently also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the 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, among 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

RBNZ prudential credit controls

The RBNZ imposes restrictions on high LVR residential mortgage lending. Revised conditions of registration came into force on January 1, 2018, requiring New Zealand banks to restrict new non property-investment residential mortgage lending (i.e. a standard residential mortgage loan secured over only owner-occupied residential property) over 80% LVR to no more than 15% 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 (i.e. a standard residential mortgage loan that is not a non-property investment residential mortgage loan) over 65% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending.

RBNZ review of capital requirements

In May 2017, the RBNZ published an issues paper that outlined its comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. 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 review focuses 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.

In July 2017, the RBNZ released a consultation paper on what types of financial instruments should qualify as eligible regulatory capital. In December 2017, the RBNZ published its response to submissions on this paper, including its in-principle decisions to:

- remove contingent debt and contingent preference shares from the definition of eligible regulatory capital;
- accept non-redeemable, non-contingent, perpetual preference shares as Additional Tier 1 capital;
- accept redeemable, non-contingent preference shares and long term subordinated debt as Tier 2 capital; and
- retain the option of including in the regime a Tier 1 instrument able to be issued by mutual societies.

The RBNZ advised that further in-principle decisions on the definition of eligible regulatory capital will be announced in due course. A work program aimed at giving effect to these decisions will be released for public consultation.

The RBNZ also released a consultation paper on the calculation of RWA for credit risk, operational risk and market risk. Submissions on this paper closed in March 2018. On July 6, 2018, the RBNZ published its response to submissions on this paper including its in-principle decisions. These are:

- continuing to allow permitted qualifying banks (including ANZ New Zealand) to use internal models to estimate credit-risk related RWA (the 'IRB' approach) (although there will be more restrictions on modelling);
- the IRB approach will not be permitted for credit exposure with an external rating (such as sovereigns, banks and some large corporations);
- there will be a RWA floor imposed on IRB models;
- all banks will be required to calculate RWA arising from operational risk in the same way using the Basel Standardised Measurement Approach; and
- IRB banks will be required to report RWA (and resulting credit ratios) using both internal models and the standardised approach.

In September 2018, the RBNZ conducted a Quantitative Impact Study ("QIS") to assess the impact of its in-principle decisions on the framework for calculating RWA. The QIS covered the four New Zealand banks (including ANZ New Zealand) that use internal models to calculate RWA.

A further RBNZ consultation paper is targeted to be released in the final quarter of the 2018 calendar year with a focus on setting the ratios used by banks to calculate minimum capital requirements.

The RBNZ expects to finalise its capital review policy decisions by the end of March 2019, followed by public consultation on exposure drafts of the new policy later in the year.

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

In September 2017, the RBNZ released its updated outsourcing policy ("BS11"). BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. Existing outsourcing arrangements have until October 1, 2022, to transition to compliance with BS11. The BS11 requirements form part of ANZ New Zealand's conditions of registration.

The key features of BS11 as it applies to ANZ New Zealand are:

- all new outsourcing arrangements to or through a related party, including ANZBGL (in the case of ANZ New Zealand), require RBNZ non-objection, unless the service or function is on the "pre-approved services and functions list" or on the "white list" (each of which will be maintained by the RBNZ);
- defined risk mitigants must be in place for all outsourcing arrangements. This includes ensuring mandatory contractual terms are included in the outsourcing agreement, maintaining evidence that the provider has appropriate disaster recovery or business continuity arrangements in place 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 capability;
- where outsourcing arrangements relate to 'basic banking services', the back-up arrangements must be capable of operating indefinitely on a fully automated basis. Where this is not the case, 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 must be entered into the compendium within 20 working 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 final separation plan, fully compliant with BS11, must be in place by October 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 to assess progress and compliance of transitioned arrangements.

ANZ New Zealand is implementing a formal program to carry out its Path-to-Compliance Plan for BS11.

Non-compliance with the Conditions of Registration in relation to outsourcing may lead to enforcement action by the RBNZ, including imposition of fines or further restrictions on our use of outsourcing.

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 new offshore derivative margin requirements. Although New Zealand has no legislative margin requirements for OTC derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. In July 2017, MBIE and the RBNZ released a consultation paper which described 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 suggested several high level options for reform, including a preferred option 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 in August 2017.

The New Zealand Government has announced its intention to amend legislation to address aspects of New Zealand law that impede the ability of certain New Zealand entities (including registered banks) to comply with foreign margin requirements. The amendments will mean that derivative counterparties, which enter into derivatives with these New Zealand entities, will be able to enforce their security interest over margin without undue delay, and ahead of other creditors, in the event of the other party to the derivative defaulting. More specifically, the amendments will:

- allow these derivative counterparties to enforce against the margin notwithstanding the general moratoria on claims that ordinarily apply in statutory management and voluntary administration; and
- ensure that when these derivatives counterparties enforce their security interest over margin, their claim ranks ahead of other potential claims under the Companies Act 1993 and the Personal Property Securities Act 1999.

A bill implementing the amendments is expected to be introduced into New Zealand Parliament in late 2018. The New Zealand legislative impediments described above have resulted in a reduction of the number of counterparties with which ANZ New Zealand is able to enter into uncleared OTC derivative transactions.

New Zealand Financial Markets Authority (“FMA”) guidance on the Bank Bill Benchmark (“BKBM”)

In October 2017, the 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.

New Zealand's current regulatory regime for BKBM has been judged as not sufficient to meet the European Union's ("**EU**") equivalence standard. Without regulatory reform, the use of BKBM will be restricted in the EU from January 1, 2020. A working group, comprising of MBIE, the FMA and the RBNZ, has been established to facilitate changes to New Zealand legislation and/or enter info further negotiations with the EU, to ensure that BKBM remains an approved benchmark.

MBIE review of the Financial Advisers Act 2008

In 2015, MBIE conducted 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. Submissions on the draft Bill closed in March 2017 and the Bill had its first reading in New Zealand Parliament in December 2017. The Select Committee report was released on July 31, 2018. The key changes proposed to the regime include:

- requiring financial advice providers to be licensed;
- removing the requirement that only a natural person can give financial advice (enabling robo-advice);
- expanding the minimum standards of competence, knowledge, and skill to all categories of people giving financial advice to retail clients;
- requiring all people who give regulated financial advice to comply with standards of ethical behaviour, conduct, and client care;
- adding a requirement that anyone who gives financial advice must give priority to the interests of the client, ensure the client understands the nature and scope of advice and disclose prescribed information;
- limiting who can give regulated financial advice;
- simplifying the regime and its terminology for example by simplifying financial adviser types and services they can provide; and
- amending the requirements to be registered on the New Zealand Financial Service Providers Register to prevent its misuse.

The Financial Advisers Act 2008 is to be repealed and the provisions for the new financial advice regime will be placed in the Financial Markets Conducts Act 2013 ("FMCA"). The Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("FSP Act") will also be amended. It is anticipated that the new regime will come into force by the second quarter of 2020. At that time financial advice providers will be required to hold a transitional license and a full license will be required within a two year transitional period.

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

In August 2017, the NZ AML/CFT Act was amended to, among other things, include an obligation to report suspicious activity, enable a reporting entity to rely on customer due diligence carried out by other persons and create additional simplified customer due diligence categories.

In addition, reporting entities (including ANZ New Zealand) should report all international funds transfers exceeding NZD$1,000 along with all cash transactions exceeding NZD$10,000 to the Financial Intelligence Unit of the New Zealand Police within 10 working days (irrespective of any suspicion that may exist in relation to the underlying transaction). These regulations came into force on November 1, 2017, subject to a transitional compliance period that ended on July 1, 2018.

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

In June 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 stated that the purpose of the consultation was 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. Submissions closed in August 2017, and the feedback will be used by the RBNZ and New Zealand Treasury in discussing potential amendment of the MOU with the Minister of Finance.

On November 23, 2017, the RBNZ published the submissions it received as part of the consultation and a paper outlining its response. Given the RBNZ's perception of a slowdown in the housing market, it does not consider a serviceability restriction would be appropriate at the present time, but believes that it could still have a role to play in the future. The RBNZ considers that the potential future use of serviceability restrictions could be reconsidered as part of the wider review and reform of the Reserve Bank Act (see “Review of the Reserve Bank Act” below).

Review of the Reserve Bank Act

In November 2017, the New Zealand Government announced it would undertake a review of the Reserve Bank Act and the Terms of Reference for the review of the Reserve Bank Act were released. The goal of the review is to modernize New Zealand’s monetary and financial stability policy frameworks and the RBNZ’s governance and accountability settings.

The review will be undertaken in two phases:

- Phase one has commenced with the key policy decisions announced on March 26, 2018 to: include supporting maximum sustainable employment alongside inflation targeting as an objective of monetary policy; and to require that monetary policy decisions be made by a Monetary Policy Committee of 5-7 members. The majority of members of the Monetary Policy Committee will be RBNZ staff, and a minority will be outside experts not employed by the RBNZ. Members of the Monetary Policy Committee will be appointed by the Minister of Finance following a nomination by the RBNZ Board. However, the RBNZ will retain its operational independence which enables it to make monetary policy decisions to achieve its monetary policy objectives independent of direction from the New Zealand Government. On July 26, 2018, the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the "RBNZ Amendment Bill"), which implements these policy decisions, passed its first reading in Parliament. The RBNZ Amendment Bill has been referred to the Finance and Expenditure Committee with a report due on December 3, 2018.
- Phase two will primarily involve a comprehensive review of the financial policy provisions of the Reserve Bank Act. These provisions provide the legislative basis for the RBNZ’s prudential regulation and supervision functions. Phase two will include three rounds of public consultation. The RBNZ released the first consultation paper on November 1, 2018, which covers the following topics: the RBNZ's overarching objectives; the 'perimeter' for prudential regulation; the case for and against depositor protection; the case for and against separating prudential supervision from the RBNZ; and the RBNZ's institutional governance and decision-making framework. Consultation closes on the first consultation paper on January 25, 2019. The second consultation paper, which will be released in mid-2019, will cover the following topics: the legal basis for bank regulation; the approach to supervision and enforcement of bank regulation macro-prudential policy; crisis management; the RBNZ's resourcing and funding; and seek feedback on the preferred options from the first consultation. A third consultation paper will be released late in 2019 which will seek feedback on the preferred options from the second consultation. It is expected that final policy decisions on phase two will be made by the New Zealand Government in 2020.

RBNZ review of mortgage bond collateral standards

In November 2017, the RBNZ released a consultation paper on its review of mortgage bond collateral standards. The consultation focused on the terms under which the RBNZ would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for the RBNZ's lending operations, and proposed a new Residential Mortgage Obligations ("RMO") standard. The RBNZ proposes to gradually phase in RMO to replace internal residential mortgage backed securities over a transition period. The RBNZ has begun consulting on a revised proposal with the aim of finalizing the mortgage bond collateral policy review in the second half of the 2018 calendar year.

New Zealand banks’ response to the New Zealand regulators’ conduct and culture review

In May 2018, the FMA and the RBNZ asked New Zealand banks to provide them with specific information to give assurance that the type of misconduct highlighted in the Australian Royal Commission was not taking place in New Zealand. Each New Zealand bank was asked to provide a summary of work, both completed and ongoing, to identify and address conduct and culture issues. The FMA and the RBNZ also conducted onsite interviews. On November 5, 2018, the FMA and the RBNZ released the findings of their industry review. The industry report concludes that there were a small number of issues related to poor conduct by bank staff across the industry and that issues relating to system or process weaknesses were more commonplace. The industry review found that conduct and culture issues do not appear to be widespread in banks in New Zealand at this point in time. The report further noted that the FMA and the RBNZ were concerned about the identification and remediation of conduct issues and risks in their business, and potential weaknesses in the governance and management of conduct risks. Each of the banks that took part in the review, including ANZ New Zealand, will receive a tailored report in late November 2018/early December 2018 detailing a range of observations and recommendations. Each New Zealand bank will be required to submit plans to the FMA and the RBNZ detailing how they will respond to their specific reports and recommendations.

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 Office of the Comptroller of the Currency (“OCC”), ANZBGL's New York branch (“New York branch”) can engage in activities permissible for national banks, with the exception that the New York branch may not accept retail deposits. The New York branch does not accept retail deposits (only institutional and corporate 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 New York branch, are subject to reserve requirements on deposits pursuant to regulations of the FRB. The 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.

The “Volcker Rule” adopted under Dodd-Frank, among other things, 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 execution and 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. ANZBGL is a provisionally registered swap dealer under the U.S. Commodity Futures Trading Commission (“CFTC”) regulations, and therefore the Group is subject to these CFTC requirements as well as certain additional business conduct and recordkeeping and reporting 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, 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 implemented rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. As ANZBGL is supervised by the FRB and operates the New York branch that is regulated by the OCC, it needs to comply with the uncleared swap margin rules promulgated by the FRB, Farm Credit Administration, FDIC, Federal Housing Financial Agency and the OCC. Under these rules, the requirement to collect and post variation margin in respect of in-scope trading with in-scope counterparties arose on March 1, 2017.

The compliance date was effectively extended with respect to certain swap entities, and 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. Swap dealers will also be required to post and collect initial margin with financial counterparties. The compliance date for ANZBGL’s initial margin requirement was September 1, 2017.

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 is next scheduled to be submitted in December 2018. ANZBGL also is subject to “enhanced prudential regulations” under Reg. YY, Subpart N, which was adopted pursuant to Dodd-Frank Section 165, and 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, 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 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, the New York branch and ANZBGL's 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 have imposed heightened standards and U.S. law enforcement authorities have been taking a more active role, resulting in intensified enforcement of such matters. 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 OCC in the United States, 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 and Insurance Regulatory Commission (which replaced the China Banking Regulatory Commission in April 2018) and other financial regulatory bodies in those countries and in other relevant countries. In addition, the Group's presence 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 specified or unspecified risks actually occur, the Group's business, operations, financial condition, or reputation could be materially and adversely affected. In this section, where we refer to the impact on the Group's business, operations and financial condition and similar references, such references include the impact on the business prospects of the Group. These risk factors below should be considered together 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 namely Australia, New Zealand, the 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, among other things, 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 in an attempt 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, including the major countries and regions in which the Group operates. Consumers in recent years have reduced their savings rates in the face of weak income growth, 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), the commencement of Donald Trump's presidency in January 2017, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries have resulted in increased political and economic uncertainty and volatility in the global financial markets and may continue to do so. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets.

Furthermore, since the commencement of Donald Trump's presidency, President Donald Trump has outlined a political and economic agenda for the United States that, in certain ways, significantly differs from previous U.S. trade, tax, fiscal, regulatory and other policies. In particular, President Donald Trump has pursued a protectionist trade policy which includes a series of expansive tariffs, up to and potentially including the entirety of goods traded between the U.S. and China, which may result in adverse effects on the economy of China, one of Australia's major trading partners and a significant driver of commodity demand and prices in the markets in which the Group and its customers operate. Anything that adversely affects China's economic growth could adversely affect Australian economic activity and, as a result, the Group's business, operations and financial condition.

Australian political conditions have progressively shifted over recent years. Shorter tenures for Prime Ministers appears to have become more entrenched, and the focus on the societal impacts of the financial sector, and other business sectors as well, has sharpened. The banking tax and Royal Commission have been initiated in this environment. The Royal Commission process itself appears to have exacerbated this shift, suggesting a sustained period of focus on the financial sector in Australia.

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, operations and financial condition. 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, Nicaragua and elsewhere as well as the current high threat of terrorist activities, may also adversely affect global financial markets, general business and economic conditions and the Group's ability to continue operating or trading in an affected country or region, 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. 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 or regions 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 and Cyclone Marcus in March 2018), floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may negatively affect general business and economic conditions in the countries or regions in which the Group operates and in turn adversely affect the Group's business, operations and financial condition (see risk factor 16: "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, environmental 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 mergers and acquisitions, changes in customers' needs, preferences and behaviors, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors and changes in regulation such as 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. 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. Existing companies from outside of the traditional financial services sector may seek to directly compete with the Group by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers;
- banks organized in jurisdictions outside Australia and New Zealand are subject to different levels of regulation and some of these banks may have lower cost structures that may make them more competitive in the markets where the Group operates;
- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the Group may choose not to provide financial services; and
- Open Banking (as defined below) may lead to increased competition (see risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation").

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.

The Group relies on 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 may adversely affect the Group's business, operations, 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 the Group's market share, customers and margins, which would adversely affect the Group's business, operations and financial condition.

4. *Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation*

The Group's businesses and operations are highly regulated. The Group is therefore subject to a substantial number of laws, regulations and policies in the numerous jurisdictions in which it carries on business and obtains funding and is supervised by a number of different regulatory and supervisory authorities. These jurisdictions include, without limitation, Australia, New Zealand, the United States, Europe and countries in the Asia Pacific region.

In Australia, these regulatory and supervisory authorities include, among others, APRA, the RBA, the ASX, the ACCC, AUSTRAC, the Australian Taxation Office ("ATO") and the Office of the Australian Information Commissioner ("OAIC"). In New Zealand, the RBNZ and the FMA have supervisory oversight of the Group's New Zealand businesses. Prudential regulatory and supervisory authorities such as APRA and RBNZ have extensive administrative, practical and investigative powers over the Group's businesses. The Group is also subject to regulation and supervision by a number of bodies outside of Australia and New Zealand.

The regulation and supervision of financial services groups such as the Group is increasingly extensive and complex in Australia and the other jurisdictions where the Group conducts business and raises funds. This is particularly the case in the areas of consumer credit and consumer protection (including in the design and distribution of financial products), conduct, funding, liquidity, derivatives, capital adequacy, provisioning, competition, mortgage pricing, remuneration, privacy, data protection, data access, prudential regulation, anti-bribery and corruption, anti-money laundering and counter-terrorism financing, economic and trade sanctions and executive accountability. The resources allocated to the regulation and supervision of financial services groups, such as the Group also increased in recent years.

Changes to laws, regulations and policies in Australia and the other jurisdictions where the Group conducts business and raises funds may materially and adversely affect the Group's business, operations, financial condition and reputation. Such changes may impact the corporate structures, businesses, strategies, capital, liquidity, funding and profitability and the cost structures of the Group and the cost and access to credit for customers of the Group, and the wider economy. Examples of recent changes to laws, regulations and policies, or developments that may lead to future changes include, without limitation:

- *Prudential Developments*: Implementation of APRA's revisions to the capital and liquidity framework for ADIs, resulting from the BCBS Basel 3 capital and liquidity reforms and the recommendations of the FSI, will continue over the coming years.

  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 Internal Ratings Based ("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 (including the Group), it 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. 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.

  In February 2018, APRA released two discussion papers that commenced APRA's consultation on:

  - revisions to the capital framework that will produce "unquestionably strong" capital ratios. The discussion paper summarizes APRA's proposal regarding risk-based capital approach for credit, market and operational risk following finalization of these requirements by the BCBS in December 2017. While the final forms of these proposals will only be determined later in 2020, the Group expects the implementation of any revisions to the current requirements will result in further changes to the risk weighting framework for certain asset classes and other risk types (such as market and operational risks). APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements; and
  - the design and application of a minimum leverage ratio requirement as a complement to the risk-based capital framework proposal above. APRA has proposed a minimum leverage ratio requirement of 4% (Basel minimum is 3%).

  Further to the above, APRA released a discussion paper in August 2018 on adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility of the ADI capital framework. The focus of the proposals is on the presentation of the capital ratios to facilitate comparability whilst recognizing the relative capital strength of ADI and measures to enhance supervisory flexibility in times of financial stress. APRA's consultation for the above is currently taking place with final prudential standards planned to be made available by 2020. APRA has proposed an implementation date of 2021, which is one year earlier than the BCBS's equivalent, with no phase-in arrangements.

  APRA's prudential standards may also be further supplemented by yet to be released proposals to implement other key FSI recommendations. In relation to total loss absorbing capacity, on November 8, 2018, APRA released a discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution". The paper is in response to recommendation three of the final report of the FSI. The paper proposes an increase in total capital requirements of between 4% and 5% of RWA for domestic systemically important banks ("D-SIBs"), such as ANZBGL. Based on the ANZ Group's RWA of $391 billion as at September 30, 2018, this represents an incremental increase in the total capital requirement of approximately $16 billion to $20 billion, with an equivalent decrease in other senior funding. APRA anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. D-SIBs will need to satisfy the new requirement by 2023. ANZBGL intends to consult with APRA and provide a response. In addition to the proposals outlined in the paper, APRA noted that it is in process of developing a formalised framework for resolution planning and will consult further on this in 2019.

  Given the number of items that are currently open for consultation with APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains 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, operations, financial condition and reputation.

  Implementation of the BCBS Basel 3 capital and liquidity reforms will continue over the coming years. The BCBS has recently finalized its reform on the Basel 3 framework focussing on reducing excessive variability in the calculation of risk weighted assets which is now set for implementation from 2022. These reforms form the basis for APRA's proposals on revisions to capital framework as described above.

- *Banking Executive Accountability Regime* ("BEAR"): BEAR which became effective on July 1, 2018, is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Potential risks to the Group from the BEAR legislation include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.

- *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018:* The Australian Government has proposed new legislation intended to enhance the regulation of the design and distribution of financial products in Australia and to provide ASIC with product intervention powers.

- The *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* ("Crisis Management Act") passed into law in March 2018. The Crisis Management Act amended the Banking Act (among other statutes applicable to financial institutions in Australia) to further enhance APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group, include greater oversight, management and directions powers in relation to the Group entities which were previously 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.
- *Anti-Money Laundering and Counter Terror Financing Compliance:* Scrutiny of banks has increased following the commencement by the AUSTRAC of civil penalty proceedings in 2017 against another major Australian bank relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth) (see risk factor 5 "Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's business, operations, financial condition and reputation").
- *Bank Levies:* The Australian Government imposed a levy on liabilities for certain large banks, including the Group, with effect from July 1, 2017 ("Major Bank Levy"). There is a risk that the Australian Government could increase the Major Bank Levy or Australian State and Territory Governments may introduce similar levies which could adversely affect the Group's business operations and financial condition.
- *Responsible consumer lending:* Regulatory policy development and monitoring of responsible consumer lending has increased significantly in recent years, and continues to drive the review of, and changes to, business practices. If any additional changes in law, regulation or policy are implemented, as a result of the development and monitoring of responsible consumer lending, such reviews and changes could adversely affect the Group's business, reputation and financial condition.
- *Parliamentary Enquiries:* There are several on-going Australian Government inquiries into Australia's four major banks. The inquiries could lead to legislative or regulatory changes or other regulatory or other measures that may adversely affect the Group.
- *Financial System Inquiry Report:* 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 FSI that are aimed at strengthening the resilience of Australia's financial system including (among other things) setting capital standards to ensure that capital ratios of Australian ADIs are "unquestionably strong".
- *Australian Consumer Law:* The Australian Parliament passed amendments to the Australian Consumer Law on August 23, 2018. Amongst other things, the amendments increased penalties for breaches of consumer law from September 1, 2018. The increased penalties relate to unconscionable conduct, false or misleading representations about goods or services, unfair practices, the safety of consumer goods and product-related services and information standards.

  Increased ASIC Funding: On August 7, 2018, the Australian Government announced it would inject a further $70.1 million into the ASIC to ensure it has the resources and powers needed to combat misconduct in the financial services industry and across all corporations for the protection of Australian consumers.
- *ASIC Enforcement Bill:* On September 26, 2018, the Australian Treasury released the Treasury Laws Amendment (ASIC Enforcement) Bill 2018, which proposes to strengthen penalties for corporate and financial sector misconduct consistent with the ASIC Enforcement Review Taskforce recommendations.
- *ASX Governance Principles and Recommendations:* On May 2, 2018, the ASX published their Corporate Governance Council consultation draft of a proposed fourth edition of the *Principles and Recommendations*. The proposed amendments are extensive**,** and if implemented, would have a significant change to corporate governance of listed entities. Submissions to the ASX proposed changes have closed, however the debate on these proposals will likely be ongoing throughout the remainder of 2018. The Council plans to release the final version in early 2019, with the new *Principles and Recommendations* coming in from July 1, 2019.

  Treasury Laws Amendment (*Consumer Data Right*) *Bill 2018* (*to implement "Open Banking"*); Open Banking is part of a new consumer data right in Australia and a key recommendation of a Productivity Commission Inquiry into data availability and use that provides consumers with access and control over their data on all products recommended by the Open Banking Review. Under Open Banking, all major Australian banks (including the Group) will need to make data available on various products including credit and debit cards, deposit and transaction accounts by July 1, 2019 and mortgages by February 1, 2020. Data on all products recommended by the Open Banking Review will be available by July 1, 2020. On August 15, 2018, Treasury released draft legislation and explanatory materials for consultation. The ACCC will be releasing a framework paper on the rules for Open Banking in the second half of the 2018 calendar year. Open Banking may lead to increased competition, which could adversely affect the Group's business, operations and financial condition.
- *Offshore Developments:* In addition to the BCBS reforms described above, there have been a series of other regulatory releases from authorities in various jurisdictions outside of Australia where the Group operates and raises funds 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 potential legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule);
  - changes to senior executive accountability in Singapore and Hong Kong;
  - introduction of greater data protection regulations in Europe, including the General Data Protection Regulations which came into effect on May 25, 2018;
  - the Markets in Financial Instruments Directive 2 in the European Economic Area;
  - amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach); and
  - implementation of phases 4 and 5 of the initial margin requirements for uncleared OTC derivatives in various jurisdictions.

  In addition, United Kingdom and European authorities may also propose significant regulatory changes as a result of 'Brexit' that may impact the Group.

The Australian financial services industry is currently under heightened scrutiny and the Australian Government, other regulators and parliamentary bodies are increasingly initiating reviews and inquiries into the industry. For example:

- *Royal Commission:* The Royal Commission into Misconduct in the Banking Superannuation and Financial Services Industry was established on December 14, 2017. The Commission has been asked to submit its final report by February 1, 2019 (an interim report was released on September 28, 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain. For further discussion, refer to the section headed “Royal Commission” under “Supervision and Regulation - Australian Regulatory Developments” in this U.S. Disclosure Document.
- *Productivity Commission:* The Productivity Commission, an independent research and advisory body to the Australian Government, has undertaken an inquiry into competition in Australia’s financial system. The final report of the Productivity Commission was released on August 3, 2018. The Australian Government's response to the final report may lead to regulatory change, which could adversely affect the Group's business, operations and financial condition.
- *Mortgage Price Inquiry:* On May 9, 2017, the Federal Treasurer directed the ACCC to conduct an inquiry into prices charged or proposed to be charged by ADIs affected by the Major Bank Levy in relation to residential mortgage products. An interim report was published on March 15, 2018. On June 21, 2018, the Federal Treasurer announced, an extension to the reporting period for the ACCC’s inquiry and requested delivery of the final report by no later than November 19, 2018.
- *Foreign Exchange Inquiry:* On October 2, 2018, the ACCC commenced an inquiry into foreign currency conversion services. The ACCC will examine price competition amongst suppliers of foreign currency conversion services and consider whether there are impediments to effective competition. The ACCC is expected to provide its final report to the Federal Treasurer in May 2019.

Any failure by the Group to comply with laws, regulations and policies in the jurisdictions in which it operates and obtains funds may adversely affect the Group’s business, operations, financial condition and reputation. This may include 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). Such failures also may result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For information in relation to the Group’s litigation and contingent liabilities, see risk factor 28 “Litigation and contingent liabilities may adversely affect the Group’s business, operations, financial condition and reputation” and Note 33 of the 2018 Financial Report.

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

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 regulatory compliance that may adversely affect the Group’s business, operations, financial condition and reputation.

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. For example, emerging technologies, such as cryptocurrencies, could limit the Group’s ability to track the movement of funds. A failure to operate a robust programme to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious financial, 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 may adversely affect the Group’s business, operations, financial condition and reputation. The Group’s foreign operations may place the Group under increased scrutiny by regulatory authorities, and subject the Group 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 of 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 until 2018 and began to fall in the recent months.

Should the Group’s regulators impose supervisory measures impacting the Group’s residential or commercial lending, or if Australian home and commercial property price growth subsides or valuations decline, the demand for the Group’s home and commercial property lending products may decrease which may adversely affect the Group’s business, operations and financial condition. 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, and in conjunction with higher cost of living, rising interest rates and/or rising unemployment, could adversely impact the Group’s home lending activities. In the case of residential loans, customers with high levels of leverage could show a higher propensity to default, and in the event of such defaults the decrease in security values, could cause the Group to incur higher credit losses, which could adversely affect the Group's financial performance. 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 loans may be particularly susceptible to asset price deflation, tenancy risk and delivery risk, which may result in higher credit losses, 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 new lending opportunities or lower recovery rates which may in turn materially and adversely impact the Group's business, operations and financial condition.

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, this may adversely affect 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 if these assets were being valued at historically high levels due to the value of the capital and profitability of these investments being vulnerable to changes in government regulatory policy, 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 economies in which the Group operates, a sustained high level of unemployment in the markets in which the Group operates, more expensive imports into Australia and New Zealand 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 Group's 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 adversely affect 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 United States, the United Kingdom and the countries in the Asia Pacific region. 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 regulatory capital requirements are likely to compound the impact of 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 U.S. 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 have had or 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), are described in risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations or financial condition and reputation".

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, financial condition and reputation*

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. Rating outlooks may also be revised at any time. The methodologies used by ratings agencies to determine credit ratings and rating outlooks may be revised in response to legal or regulatory changes, market developments or for any other reason.

The Group's credit ratings or rating outlooks could be revised at any time in response to a change in the credit rating of the Commonwealth of Australia or the occurrence of one or more of the other risks identified in this document or any other reason.

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 ratings or rating outlooks 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, financial condition and reputation.

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

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

Operational risk is the risk of loss and/or non-compliance with laws 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, systems, management of data and data integrity, 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: fraud involving employees, contractors or any internal party to the Group who acts by deception or with dishonesty to obtain property belonging to another or obtain financial advantage for themselves or cause any financial disadvantage to the Group or others. This includes financial planners and/or authorized representatives (and their employees) of dealer groups owned or controlled by ANZ;
- 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, and health and safety risks to the Group's employees;
- loss of key staff or inadequate management of human resources including the Chief Executive Officer ("CEO") and the management team of the CEO;
- clients, products and business practices: risk of market manipulation or anti-competitive behavior, failure to comply with disclosure obligations, 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.

Recent examples of operational risk events for the Group include product reviews in the Group's Australia Division, the provision of inappropriate advice and services not provided within the Group's former aligned dealer groups. For further information as to remediation costs for these events refer to the paragraph headed "Customer remediation" in "Section 3: Operating and Financial Review and Prospects – Operating and Financial Review" of this U.S. Disclosure Document.

Loss from operational risk events could adversely affect the Group's business, operations and financial condition. 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.

11. ***Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk which 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, which include operational and regulatory compliance failures, 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 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. Further, the Group's reputation may also be adversely affected by community perception of the broader financial services industry.

Additionally, certain operational and regulatory compliance failures may give rise to reputational risk. Such operational and regulatory compliance failures include, but are not limited to:

- failures related to fulfilment of identification obligations;
- new failures related to new product development;
- failures related to ongoing product monitoring activities;
- failures related to 'suitability requirements when products are sold outside of the target market;
- market manipulation or anti-competitive behavior;
- failure to comply with disclosure obligations;
- inappropriate crisis management/response to a crisis event;
- inappropriate handling of customer complaints;
- inappropriate third party arrangements;
- privacy breaches; and
- unexpected risks (e.g. credit, market, operational or compliance).

Damage to the Group's reputation may 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.

12. ***Conduct-related risk events or behaviors may adversely affect the Group's business, operations, financial condition and reputation***

The Group defines conduct-related risk as the risk of loss or damage arising from the failure of the Group, its employees or agents to appropriately consider the interests of consumers, the integrity of the financial markets, and the expectations of the community in conducting the Group's business activities.

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.

There has been an increasing regulatory and community focus on conduct-related risk globally. For example, in Australia the Royal Commission has been established to inquire into misconduct by financial services entities (see risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation" and risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's business, operations, financial condition and reputation").

Conduct-related risk events 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, financial condition and reputation.

13. ***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 technology systems. Therefore, there is a risk that these information technology systems, or the services the Group uses or is dependent upon, might fail, due to hardware or software failure, as well as unauthorized access or use.

Most of the Group's daily operations are computer-based and information technology systems are essential to maintaining effective communications with customers. The Group is also conscious that threats to information technology systems 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 affect the Group's business, operations and financial condition.

In addition, the Group has an ongoing need to update and implement new information technology systems, 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 has recently implemented voice biometrics for customer transactions on mobile devices, implemented the industry New Payments Platform and working towards implementing the new Open Banking regime. 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.

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

Information security means protecting information and information technology 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 multiple countries 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 technology 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 technology 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 business, operations, financial conditions and reputation.

15. ***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 and export demand for Queensland liquefied natural gas.

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 Consumer Price Index and influence upward adjustments to interest rate settings.

The Australian federal government and the South Australian state government have invested in energy storage schemes to assist in minimizing disruption. The Australian federal government has also enacted legislation to preserve gas supply to local markets. Potential disruption to the energy network may have a negative impact on the Group's credit exposure to in the energy supply chain.

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.

16. *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.

17. *Liquidity and funding risk events may adversely affect the Group's financial performance, liquidity, capital resources, 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, business, operations 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. The manner in which this process unfolds over the coming years will be a major determinant of market conditions and a 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.

18. *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, June and December 2017, and March, June and September 2018, 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.

19. *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 that the Group has announced from September 30, 2017 to the date of this U.S. Disclosure Document included:

- OnePath P&I and ADG businesses in Australia;
- ANZ's interest in Metrobank Card Corporation ("MCC");
- OnePath life insurance business in Australia;
- OnePath life insurance business in New Zealand;
- ANZ's 55% interest in Cambodian joint venture ANZ Royal Bank; and
- ANZ's retail, commercial, small-medium sized enterprise banking businesses in Papua New Guinea.

In relation to sale of OnePath P&I and ADG businesses to IOOF, on October 1, 2018 ANZ completed the divestment of the ADG businesses to IOOF and entered into a debt note to transfer a partial economic interest in the expected economics of its OnePath P&I business to IOOF from October 2, 2018. Legal completion of the OnePath P&I business is expected to occur during the 2019 calendar year. For further information, refer to "Section 1: Key Information – Discontinued Operations – Sale of Wealth Australia Businesses".

The transactions above remain subject to regulatory approvals and other completion conditions.

During the fiscal year ended September 30, 2018:

- the Group completed the divestment of its interest in MCC;
- the Group completed the divestment of a 20% interest in Shanghai Rural Commercial Bank ("SRCB");
- the Group finalized the sale of its retail and wealth businesses in Indonesia, Taiwan and Vietnam (in addition to China, Singapore and Hong Kong which completed during the preceding fiscal year); and
- the Group announced in March 2018 it was exploring a range of options for UDC Finance Limited's ("UDC") future, including a possible initial public offering ("IPO") of ordinary shares. The Group advised on October 31, 2018 that it will not be pursuing an IPO following the completion of a strategic review of the business. It may still consider a sale in the future, and has decided to put on hold sale discussions and focus on continuing to grow the business.

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.

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

21. *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 market risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations and non-traded equity risk.

22. *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 U.S. 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.

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*

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. The Group is exposed to insurance risk events, predominantly in the Group's life insurance business in Australia which is a Discontinued Operation, the sale of which is expected in early fiscal year 2019. 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, financial condition and reputation*

There have been important and substantial changes to, and increasing regulatory focus on, compliance by all global financial institutions, including the Group, with global tax reporting regimes, including the United States Foreign Account Tax Compliance Act ("FATCA"), the OECD's Common Reporting Standard ("CRS") and similar anti-tax avoidance regimes. Current regulatory focus also includes enforcement and the due implementation of detailed global tax reporting rules and frameworks to close down the circumvention of global tax reporting regimes and enforcement in the case of non-compliance.

As a global financial institution, the Group operates in a high volume and globally interlinked operating environment. The highly complex and rigid nature of the obligations under the various global tax reporting regimes in this context present heightened operational and compliance risks for the Group. This may be coupled with the current increased regulatory scrutiny of global financial institutions (including the Group) and the increasing trend in compliance breaches by global financial institutions and related fines for non-compliance in general. Accordingly, compliance with global tax reporting regimes will continue to be a key area of focus for the Group.

The scale and complexity of the Group, like other global financial institutions, means that the risk of inadvertent non-compliance with the FATCA, CRS and other tax reporting regimes is high. A failure to successfully operate the implemented processes could lead to legal, financial and reputational consequences for the Group and its employees. Consequences include fines, criminal and civil penalties, civil claims, reputational harm, competitive disadvantage, loss of business and constraints on doing business. These consequences, individually or collectively, could adversely affect the Group's business, operations, financial condition and reputation.

FATCA requires financial institutions globally to undertake ongoing and extensive customer based obligations, including collecting and providing information on account holders who are identified as U.S. citizens or tax residents to the U.S. Internal Revenue Service ("IRS"), either directly or via local tax authorities.

If the ongoing detailed obligations under FATCA are not adequately met, the Group and/or customers could be subject to a 30 percent withholding tax on certain amounts payable to them. Under a related but separate set of obligations under FATCA, the US could also require the Group to provide certain information to upstream US payers and the Group could face adverse consequences where it does not do so in line with the applicable rules and regulations.

The Group is also reliant upon Intergovernmental Agreements ("IGAs") between the U.S. and the applicable jurisdictions in which the Group's related entities and subsidiaries are organized continuing to be in effect. Otherwise the Group may also be subject to broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts.

The CRS provides for the Automatic Exchange of (financial account) Information in tax matters. Over 100 jurisdictions have committed to implement the CRS which now impacts the vast majority of the Group's business globally. Early implementation phases are progressing in many countries in which the Group has operations, for example, Australia, New Zealand, Cayman Islands, Hong Kong, Japan, Singapore and the United Kingdom.

Implementation is also required, but presents unique challenges in, developing countries where the Group has operations, such as in the Pacific region. The local regulators in these countries are generally assisted by a 'partner' country which may introduce standards which can be challenging to implement.

CRS requirements, though similar to FATCA in spirit, have considerable country by country variations and may have more significant and negative customer experience ramifications. For example, CRS requires a higher standard of compliance in many respects, such as collection of self-certification at the point of account opening, with significant penalties for non-collection or failed reporting in respect of prescribed customer information.

As one example of tightening regulatory focus, the OECD and certain countries the Group operates within are now moving to mandate blocking (and eventual closure) of accounts where any aspect of the detailed requirements for collection have not been met (e.g. failure to provide the requisite tax identification number(s)). Along with being a significant negative experience for the relevant customers, this could adversely affect the Group's business, operations, financial condition and reputation (and if not similarly implemented by financial institution counterparts, significant competitive disadvantage).

Ongoing OECD peer review and other regulatory review activities are also already resulting in further extension and expansion of existing obligations together with increased focus on compliance with the CRS pushing each country of adoption to ensure that its penalty regime is sufficiently adequate to deter financial institution, intermediary and customer non-compliance.

In line with other global financial institutions, the Group has made, and is expected to continue to make, significant investments in order to ensure ongoing compliance with the extensive and evolving requirements of FATCA, the CRS, avoidance and loophole model rules and the various other in-country tax reporting initiatives in each country within its global network.

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 derivative instruments, assets and liabilities classified as held for sale (where fair value is lower than the carrying values) and certain other assets and liabilities (as per Note 17 of the 2018 Financial Report) 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 and/or equity.

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 recognized 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 and results of operations*

The accounting policies 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 so that they not only comply with the applicable accounting standards or interpretations 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 accounting standards or interpretations could adversely affect the Group's financial position and results of operations. The impact of new accounting standards effective for the Group's 2019 fiscal year is outlined in Note 1 of the 2018 Financial Report.

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

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

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, 2018 in respect of the matters outlined in Note 33 of the 2018 Financial Report,

Note 33 includes, among other things, descriptions of:

- bank fees litigation;
- benchmark/rate actions;
- capital raising actions;
- franchisee litigation;
- regulatory and customer exposures;
- the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; and
- security recovery actions.

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. 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 Group also instigates engagement with its regulators. The nature of these interactions 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 and product disclosure documentation . The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. 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$0.7238 = 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 28, 2018. On November 2, 2018 the Noon Buying Rate was US$0.7199 = 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**
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
2018	0.8105	0.7107	0.7583	0.7238

[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		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
Chinese Yuan	**4.9679**	5.2297	5.0809	**4.9691**	5.1868	4.8064
Euro	**0.6205**	0.6655	0.6789	**0.6387**	0.6896	0.6626
Pound Sterling	**0.5520**	0.5848	0.5874	**0.5651**	0.6010	0.5159
Indian Rupee	**52.363**	51.289	50.764	**50.552**	50.074	49.179
Indonesian Rupiah	**10,743**	10,565	9,900	**10,577**	10,132	9,887
Japanese Yen	**81.863**	88.404	76.844	**83.949**	84.655	82.039
Malaysian Ringgit	**2.9858**	3.3155	3.1576	**3.0631**	3.3043	3.0430
New Taiwan Dollar	**22.013**	23.795	23.895	**22.773**	23.479	23.904
New Zealand Dollar	**1.0918**	1.0867	1.0487	**1.0882**	1.0661	1.0737
Papua New Guinean Kina	**2.4052**	2.5102	2.4143	**2.4744**	2.4193	2.2606
United States Dollar	**0.7216**	0.7845	0.7617	**0.7599**	0.7612	0.7361

For the 2018 fiscal year, 34% of ANZ’s operating income was derived from the New Zealand and Asia Pacific, Europe & America (“APEA”) geographic regions (2017 fiscal year: 33%; 2016 fiscal year: 35%; 2015 fiscal year: 37%; 2014 fiscal year: 36%). Refer to Note 7 of the 2018 Financial Report (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	2018	2017	2016	2015	2014
Chinese Yuan	-4%	8%	-2%	-14%	-8%
Euro	-7%	4%	-3%	1%	-10%
Pound Sterling	-6%	17%	2%	-9%	-13%
Indian Rupee	1%	2%	-1%	-12%	0%
Indonesian Rupiah	4%	2%	-3%	-5%	9%
Japanese Yen	-1%	3%	-12%	-1%	3%
Malaysian Ringgit	-7%	9%	6%	-3%	-4%
New Taiwan Dollar	-3%	-2%	-3%	-11%	-6%
New Zealand Dollar	2%	-1%	0%	-1%	-10%
Papua New Guinean Kina	2%	7%	8%	-6%	4%
United States Dollar	0%	3%	-6%	-15%	-7%

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.

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).

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the 2018 Financial Report (attached to this U.S. Disclosure Document as part of the 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.

As a result of the sale transactions outlined in “Section 1: Key Information – Discontinued Operations – Sale of Wealth Australia Businesses”, the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. The information presented in the group income statement for the fiscal years ended September 30, 2017 and September 30, 2016 have been restated to show discontinued operations separately from continuing operations in a separate line item, ‘Profit/(Loss) after income tax from discontinued operations’ and are derived from the Group’s historical financial statements. Additionally, the discontinued operations presentation impacts the current and prior period financial information for the Wealth Australia and TSO and Group Centre divisions.

As part of its broader simplification strategy, ANZ has undertaken several structural changes in the 2018 fiscal year, as described in “Section 2: Information on the Group – Principal Activities of the Group”. Comparative information for the 2017 fiscal year at the divisional level within this U.S. Disclosure Document has been restated to reflect the impact of these structural changes to allow comparison of the 2017 fiscal year information to the 2018 fiscal year information. Comparative information for the 2017 fiscal year is also provided as originally reported to allow comparison of the 2017 fiscal year information to the 2016 fiscal year information, which has not been restated to reflect the impact of these structural changes. The structural changes do not have an impact on comparative information in the income statement or balance sheet at the Group level.

Large/notable Items – Continuing Operations

The Group recognized a number of large/notable items which impacted the Group’s statutory profit after tax. These items are described below.

Divestment impacts (continuing operations)

The Group announced the following divestments in line with the Group’s strategy to create a simpler, better capitalized, better balanced and more agile bank. As these announced divestments do not qualify as discontinued operations under accounting standards they form part of continuing operations. The financial impacts from these announced divestments are summarized below including the business results for those divestments that have completed:

	Gain/(Loss) on sale from announced divestments				Completed divestment business results			
	Half Year		Full Year		Half Year		Full Year	
Profit before income tax impact	**Sep 18 $M**	**Mar 18 $M**	**Sep 18 $M**	**Sep 17 $M**	**Sep 18 $M**	**Mar 18 $M**	**Sep 18 $M**	**Sep 17 $M**
Asia Retail and Wealth businesses	**-**	99	**99**	(310)	**-**	30	**30**	325
SRCB	**-**	233	**233**	(231)	**-**	-	**-**	58
UDC	**(7)**	18	**11**	-	**-**	-	**-**	-
MCC	**121**	119	**240**	-	**10**	-	**10**	39
Cambodia JV	**(42)**	-	**(42)**	-	**-**	-	-	-
OPL NZ	**(3)**	-	**(3)**	-	**-**	-	-	-
PNG Retail, Commercial and SME	**(19)**	-	**(19)**	-	**-**	-	**-**	-
Total	**50**	469	**519**	(541)	**10**	30	**40**	422

	Gain/(Loss) on sale from announced divestments				Completed divestment business results			
	Half Year		Full Year		Half Year		Full Year	
Profit after income tax impact	**Sep 18 $M**	**Mar 18 $M**	**Sep 18 $M**	**Sep 17 $M**	**Sep 18 $M**	**Mar 18 $M**	**Sep 18 $M**	**Sep 17 $M**
Asia Retail and Wealth businesses	**-**	85	**85**	(270)	**-**	24	**24**	262
SRCB	**-**	247	**247**	(333)	**-**	-	**-**	58
UDC	**(7)**	18	**11**	-	**-**	-	**-**	-
MCC	**126**	121	**247**	-	**10**	-	**10**	39
Cambodia JV	**(42)**	-	**(42)**	-	**-**	-	-	-
OPL NZ	**(3)**	-	**(3)**	-	**-**	-	-	-
PNG Retail, Commercial and SME	**(21)**	-	**(21)**	-	**-**	-	**-**	-
Total	**53**	471	**524**	(603)	**10**	24	**34**	359

- **Asia Retail and Wealth businesses**

  The Group announced that it had agreed to sell its Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank on October 31, 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on April 21, 2017. The Group successfully completed the transition of businesses in China, Singapore and Hong Kong in the September 2017 half, and the transition of businesses in Vietnam, Taiwan, and Indonesia in the March 2018 half. These businesses were part of the Asia Retail & Pacific division. The Group recognized the following impacts:

- During the 2018 fiscal year, the Group recognized an $85 million gain after tax relating to the completed transition of the businesses in Vietnam, Taiwan, and Indonesia, net of costs associated with the sales and a $14 million tax expense. The Group recognized a $24 million profit after tax in respect of the divested business results.
- During the 2017 fiscal year, the Group recognized a $270 million loss after tax on the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising: $225 million of software, goodwill and other asset impairment charges, $99 million of costs associated with the sales, a $40 million tax benefit as a result of the loss on reclassification to held for sale, and a $14 million gain on the completed transition of the businesses in China, Singapore and Hong Kong. The Group recognized $262 million profit after tax in respect of the divested business results.

- **Shanghai Rural Commercial Bank ("SRCB")**

  On January 3, 2017, the Group announced that it had agreed to sell its 20% stake in SRCB to Shanghai Sino-Poland Enterprise Management Development Corporation Limited ("Shanghai Sino-Poland") and China COSCO Shipping Corporation Limited ("COSCO"). On September 18, 2017, the Group announced a revision to the January 3, 2017 arrangement in which Baoshan Iron & Steel Co. Ltd. ("Baoshan") replaced Shanghai Sino-Poland to join COSCO to collectively acquire ANZ's 20% stake in SRCB. Under the updated arrangement, COSCO and Baoshan each acquired a 10% stake in SRCB. The key financial terms of the revised sale agreement were unchanged from those described in the January 25, 2017 U.S. Investor Website update at: http://shareholder.anz.com/reviews/usdebtinvestors-files (U.S. Investor Website). The sale was completed in the March 2018 half. This asset was part of the TSO and Group Centre division. The Group recognized the following impacts:

  - During the 2018 fiscal year, the Group recognized a $247 million gain after tax on SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million tax benefit.
  - During the 2017 fiscal year, the Group recognized a $333 million loss after tax relating to the Group's investment in SRCB comprised of $219 million impairment to the investment, $12 million of foreign exchange losses, and $102 million of tax expenses.
  - Equity accounted earnings from SRCB prior to the cessation of equity accounting upon reclassification to held for sale were $58 million for the 2017 fiscal year.

- **UDC**

  On January 11, 2017, the Group announced that it had entered into a conditional agreement to sell UDC to HNA. On December 21, 2017, the Group announced that it had been informed that New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC, and the agreement with HNA was terminated in January 2018 and an $18 million (before and after tax) cost recovery was recognized in respect of the terminated transaction process. The Group incurred transaction costs of $7 million (before and after tax) in the September 2018 half. The assets and liabilities of UDC are no longer classified as held for sale as of September 30, 2018. The business was part of the New Zealand division.

- **Metrobank Card Corporation ("MCC")**

  On October 18, 2017, the Group announced it had entered into a sale agreement with its joint venture partner Metropolitan Bank & Trust Company ("Metrobank") in relation to its 40% stake in the Philippines-based MCC. The Group sold its 40% stake in two equal tranches in January and September 2018. This asset was part of the TSO and Group Centre division. During the 2018 fiscal year, the Group recognized a $247 million gain after tax and a dividend of $10 million. Equity accounted earnings from MCC prior to the cessation of equity accounting upon reclassification to held for sale were $39 million for the 2017 fiscal year.

- **ANZ Royal Bank (Cambodia) Ltd ("Cambodia JV")**

  On May 17, 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV to J Trust Co., Ltd., a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction is subject to closing conditions and regulatory approval. ANZ expects it to close in the 2019 fiscal year. This asset is part of the Institutional division. During the 2018 fiscal year, the Group recognized a $42 million loss after tax on the reclassification of assets to held for sale.

- **OnePath Life NZ Limited ("OPL NZ")**

  On May 30, 2018, the Group announced that it had agreed to sell OPL NZ to Cigna Corporation. Final regulatory approval of the transaction was obtained on October 29, 2018. The transaction is subject to other closing conditions and ANZ expects it to close in the 2019 fiscal year. This business is part of the New Zealand division. During the 2018 fiscal year, the Group incurred $3 million (before and after tax) relating to transaction costs.

- **Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses ("PNG Retail, Commercial and SME")**

  On June 25, 2018, the Group announced it had entered into an agreement to sell PNG Retail, Commercial and SME to Kina Bank. The transaction is subject to closing conditions and regulatory approval. ANZ expects it to close by late 2019 calendar year. This business is part of the Institutional division. During the 2018 fiscal year, the Group recognized a $21 million loss after tax ($19 million before tax) on the reclassification of assets to held for sale.

Other large/notable items (continuing operations)

- **Customer remediation**

  Customer remediation charges of $295 million after tax ($419 million before tax) have been recognized in the 2018 fiscal year (2017 fiscal year: $112 million after tax, $153 million before tax) for refunds to customers and related remediation costs. $228 million before tax relates to customer remediation impacting operating income (2017 fiscal year: $70 million before tax), and $191 million before tax relates to remediation costs impacting operating expenses (2017 fiscal year: $83 million before tax). These impacts were primarily identified from product reviews in the Australia division to date. These reviews remain ongoing. Key items of customer remediation include compensating customers for issues arising from product reviews in the Australia Division and for inappropriate advice or for services not provided within the Group's former aligned dealer groups.

- **Accelerated software amortization**

  The Group has accelerated the amortization of certain software assets, predominantly relating to the Institutional division. This follows a recent review of the International business in light of recent divestments. An accelerated amortization expense of $206 million after tax ($251 million before tax) was recognized in the 2018 fiscal year.

- **Royal Commission legal costs**

  External legal costs associated with responding to the Royal Commission were $38 million after tax ($55 million before tax) for the 2018 fiscal year. For further discussion regarding the Royal Commission, refer to the paragraph headed "Royal Commission" in "Section 2: Information on the Group - Supervision and Regulation - Australia" of this U.S. Disclosure Document.

- **Restructuring**

  The Group recognized restructuring expenses of $159 million after tax ($227 million before tax) in the 2018 fiscal year (2017 fiscal year: $43 million after tax), largely relating to the previously announced move of the Australia and Technology divisions to agile ways of working.

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

  The Group sold the 100 Queen Street office tower and former head office in Melbourne, Australia during the 2017 fiscal year. The transaction resulted in a net gain on sale after tax of $112 million ($114 million before tax).

GROUP INCOME STATEMENT

	Years ended September 30[1]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[2]
Net interest income	**14,514**	14,875	14,872	15,102	15,095
Other operating income	**5,317**	4,523	5,401	4,400	5,451
Operating income	**19,831**	19,398	20,273	19,502	20,546
Operating expenses	**(9,248)**	(8,967)	(9,448)	(9,920)	(10,439)
Profit before credit impairment and income tax	**10,583**	10,431	10,825	9,582	10,107
Credit impairment charge	**(688)**	(1,198)	(1,198)	(1,929)	(1,929)
Profit before income tax	**9,895**	9,233	9,627	7,653	8,178
Income tax expense	**(2,784)**	(2,874)	(3,206)	(2,142)	(2,458)
Non-controlling interests	**(16)**	(15)	(15)	(11)	(11)
Profit after income tax from continuing operations	**7,095**	6,344	6,406	5,500	5,709
Profit/(Loss) after income tax from discontinued operations[3]	**(695)**	62	-	209	-
Profit after income tax	**6,400**	6,406	6,406	5,709	5,709

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show discontinued operations separately from continuing operations in a separate line item 'Profit/(Loss) after income tax from discontinued operations'. The Originally Reported 2017 and Previously Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document to reflect a change in the classification of certain fees payable between other operating incomes to operating expenses. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Included in the 2018 fiscal year in 'Profit/(Loss) after income tax from discontinued operations' is a $632 million loss relating to the reclassification of Wealth Australia businesses to held for sale.*

Comparison of 2018 with Restated 2017

Profit after income tax from continuing operations increased $751 million (+12%) compared with 2017 fiscal year mainly due to:

- Net interest income decreased $361 million (-2%) largely due to a 12 basis point decrease in the net interest margin, partially offset by 4% growth in average interest earning assets. The lower net interest margin reflects growth in lower margin liquid assets, changes in product mix, the sale of the Asia Retail and Wealth businesses, the introduction of the Major Bank Levy from July 2017, and the impact of higher customer remediation charges ($69 million). This was partially offset by higher deposit margins and home loans re-pricing. The increase in average interest earning assets reflects growth in ANZ's home loans and Institutional banking portfolios, partially offset by the sale of Asia Retail and Wealth businesses.
- Other operating income increased $794 million (+18%) primarily due to a $517 million increase in economic and revenue and expense hedge gains and a $797 million net impact from divestments. This was partially offset by unfavorable items including: a $318 million decrease in Markets other operating income; an $89 million increase in customer remediation charges; a $30 million reduction in lending fee income; and the $114 million gain on the sale of 100 Queen Street recognized in the 2017 fiscal year.
- Operating expenses increased $281 million (3%) primarily due to an accelerated software amortization charge ($251 million), higher restructuring ($165 million) and customer remediation charges ($108 million), Royal Commission legal costs ($55 million), higher technology and consulting fees associated with investment in digital and data capabilities, and inflation. This was partially offset by lower personnel costs due to a reduction in incentives and a 9% reduction in average FTE.
- Credit impairment charges decreased $510 million (-43%). Individual credit impairment charge decreased by $567 million (-42%) primarily as a result of a decrease in new and increased individual credit impairment charges in the Institutional and New Zealand divisions. This was offset by a reduction in the collective credit impairment release of $57 million, primarily driven by reduced risk profile releases across all divisions.

Comparison of Restated 2017 with Restated 2016

Profit after income tax from continuing operations increased $844 million (+15%) compared with 2016 fiscal year mainly due to:

- Net interest income decreased $227 million (-2%) 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 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 re-pricing 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 increased $123 million (+3%) due to a significant improvement in Markets other operating income of $670 million mainly related to derivative valuation changes, a $233 million accounting gain on revenue and expense hedges, and a $50 million increase in net foreign exchange earnings. These were offset by: a $93 million reduction in net funds management and insurance income; a $75 million reduction in net fee and commission income; a $116 million accounting loss from economic hedges; a $244 million decrease in share of associates' profit primarily due to the reclassification of SRCB and Bank of Tianjin Co., Ltd. ("BoT") and a $302 million reduction in other operating income mainly due to a number of sales related charges in 2017.
- Operating expenses decreased $953 million (-10%) 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 $280 million reflecting a 5% reduction in average full time equivalent employees. Partly offsetting this are increases in underlying technology expenses of $30 million and increases in other expenses of $119 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.

ANALYSIS OF MAJOR INCOME AND EXPENSE ITEMS

Net interest income – continuing operations

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

Group	Years ended September 30[1]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[3]
Net interest income [4]	14,514	14,875	14,872	15,102	15,095
Average interest earning assets[5,7]	774,884	748,000	748,000	730,835	730,835
Average deposits and other borrowings[5,6,7]	617,008	604,543	600,186	586,453	586,453
Net interest margin (%)[5]	1.87	1.99	1.99	2.07	2.07

Net interest margin by major division	Years ended September 30[2]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[3]
Australia					
Net interest margin (%)[4]	**2.69**	2.73	2.68	2.75	2.75
Average interest earning assets[7]	**312,367**	301,096	312,412	298,764	298,764
Average deposits and other borrowings[7]	**202,884**	196,234	196,256	183,196	183,196
Institutional					
Net interest margin (%)	**0.90**	1.03	1.01	1.13	1.13
Average interest earning assets[7]	**341,525**	316,205	304,727	305,446	305,446
Average deposits and other borrowings[7]	**263,742**	246,931	244,772	232,959	232,959
New Zealand[4]					
Net interest margin (%)	**2.36**	2.31	2.31	2.37	2.37
Average interest earning assets[5,7]	**109,554**	109,212	109,212	103,166	103,166
Average deposits and other borrowings[5,7]	**80,444**	78,968	78,968	75,418	75,418

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show continuing operations. The Originally Reported 2017 and Previously Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.*
2. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group – Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
3. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
4. *Includes large/notable items of -$52 million for the September 2018 fiscal year (September 2017: $406 million). Also includes the Major Bank Levy of -$355 million for the September 2018 fiscal year (September 2017: -$86 million).*
5. *Average balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations.*
6. *In the March 2018 half, certain instruments were reclassified from average non-deposit interest bearing liabilities to average deposit and other borrowings to better reflect their nature. Comparatives have been restated accordingly (September 2017: $4,357 million).*
7. *Averages are calculated using predominantly daily averages.*

Comparison of 2018 with Restated 2017

The decrease in net interest income of $361 million (-2%) was driven by:

Net interest margin (-12 bps)

- Asset mix and funding mix (-4 bps): unfavorable asset mix from home loan customer switching from interest only to principal and interest loans and a lower proportion of business lending in Australia and Institutional divisions.
- Funding costs (-3 bps): mostly impact of the Major Bank Levy effective from July 2017.
- Deposits (+3 bps): improved deposit margins in Australia and Institutional divisions.
- Asset competition (+3 bps): impact of home loan re-pricing in Australia and New Zealand divisions, partially offset by higher discounting on home loans.
- Treasury and other (-2 bps): lower earnings on capital as a result of lower interest rates.
- Customer remediation (-1 bps): impact of customer remediation in Australia and New Zealand divisions.
- Markets Balance Sheet activities (-6 bps): growth in lower margin trading and liquid assets and lower earnings from markets activities.
- Asia Retail and Wealth (-2 bps): adverse impact from the sale of Asia Retail and Wealth businesses.

Average interest earning assets (+$26.9 billion or +4%)

- Average net loans and advances (+$9.9 billion or +2%): increase driven by growth in Australia and New Zealand home loans. This was partially offset by the sale of Asia Retail and Wealth businesses and the impact of foreign currency exchange rate movements.
- Average trading and available for sale assets (+$5.0 billion or +5%): increase driven by growth in government securities.
- Average cash and other liquids (+$12 billion or +14%): increase driven by higher central bank cash and repurchase agreements.

Average deposits and other borrowings (+$12.5 billion or +2%)

- Average deposits and other borrowings (+$12.5 billion or +2%): increase driven by growth in customer deposits in Australia, Institutional and New Zealand divisions, partially offset by the sale of Asia Retail and Wealth businesses.

Comparison of Restated 2017 with Restated 2016

The decrease in net interest income from continuing operations of $227 million (-2%) 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 re-pricing.
- 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%): 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%): driven by growth in the liquidity portfolio.
- Average cash and other liquids (+$5.4 billion or +7%): driven by liquidity management requirements, market volatility and volume of derivative transactions.

Average deposits and other borrowings (+$18.1 billion or +3%)

- Average deposits and other borrowings (+$18.1 billion or +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.

Other operating income – continuing operations

	Years ended September 30[1]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[2]
Net fee and commission income[3]	**2,175**	2,362	2,362	2,437	2,437
Net funds management and insurance income[3]	**576**	634	1,500	727	1,764
Markets other operating income	**1,127**	1,436	1,436	766	766
Share of associates profit[3]	**183**	300	300	544	544
Economic hedges[4]	**349**	(296)	(296)	(180)	(180)
Revenue and expense hedges[5]	**12**	140	140	(93)	(93)
Net foreign exchange earnings[3]	**311**	340	265	290	290
Other[3]	**584**	(393)	(306)	(91)	(77)
Total other operating income from continuing operations	**5,317**	4,523	5,401	4,400	5,451

	Years ended September 30[1]				
Markets operating income	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[2]
Net interest income	**683**	920	920	1,032	1,032
Other operating income	**1,127**	1,436	1,436	766	766
Markets operating income	**1,810**	2,356	2,356	1,798	1,798

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discountinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show continuing operations. The Originally Reported 2017 and Previously Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document to reflect a change in the classification of certain fees payable between other operating incomes to operating expenses. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Excluding the Markets business.*
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.*

Comparison of 2018 with Restated 2017

Other operating income increased by $794 million (+18%). Key factors affecting the result were:

Net fee and commission income (-$187 million or -8%)

- $85 million decrease in the Asia Retail & Pacific division as a result of the sale of Asia Retail and Wealth businesses.
- $81 million decrease in the Australia division primarily due to lower lending fee income, customer remediation ($27 million) and the removal of ATM fees during the March 2018 half. This was partially offset by higher annual and reward card fees.

Net funds management and insurance income (-$58 million or -9%)

- $66 million decrease in the Asia Retail & Pacific division as a result of the sale of the Asia Retail and Wealth businesses.
- $59 million decrease in the Wealth Australia division primarily due to lower financial planning income, customer remediation ($34 million) and a reinsurance benefit included in the 2017 fiscal year.
- $54 million increase due to the impact of changes in market discount rates on the re-measurement of insurance policy liabilities.
- $10 million increase in the New Zealand division due to higher funds under management.

Markets operating income (-$546 million or -23%)

- $444 million decrease in Franchise Trading primarily attributable to a $166 million reduction in the benefit of positive derivative credit and funding valuation adjustments (net of associated hedges) compared to the 2017 fiscal year following significant gains from narrowing credit spreads. In addition, a $287 million reduction due to challenging trading conditions when compared to the 2017 fiscal year which benefited from a strengthening USD and rising yield curves post the US election, partially offset by lower customer remediation ($9 million).
- $63 million decrease in Balance Sheet Trading driven by increased funding costs and lower mark-to-market on the liquidity portfolio compared to the 2017 fiscal year.
- $39 million decrease in Franchise Sales due to the impact of business transformation initiatives implemented during the 2017 fiscal year (client and product rationalization) and subdued client hedging activity resulting from the ongoing low interest rate environment and low foreign exchange volatility.

Share of associates' profit (-$117 million or -39%)

- $97 million decrease due to cessation of equity accounting of SRCB from January 2017 ($58 million) and MCC from October 2017 ($39 million).
- $20 million net decrease in profits from associates of which $6 million relates to Ambank and $12 million to P.T. Bank Pan Indonesia.

Economic hedges (+$645 million)

- For the 2018 fiscal year, the majority of the $349 million gain on economic hedges relates to funding related swaps, principally from widening basis spreads on AUD/USD and NZD[1]/USD currency pairs and from weakening of the AUD against the USD and EUR.
- For the 2017 fiscal year, the majority of the $296 million loss on economic hedges relates to funding related swaps, principally from tightening basis spreads on currency pairs most notably USD/EUR[1] and USD/JPY[1].

Note.

1. *NZD=New Zealand Dollar, EUR = Euro, JPY=Japanese Yen.*

Revenue and expense hedges (-$128 million)

- For the 2018 fiscal year, the gain of $12 million on revenue and expense hedges was due to the strengthening of the AUD against the NZD.
- For the 2017 fiscal year, the gain of $140 million on revenue and expense hedges was attributable to the strengthening of the AUD against the NZD.

Net foreign exchange earnings (-$29 million) and other (+$977 million)

- $464 million increase due to a $231 million loss recognized on reclassification of the investment in SRCB to held for sale in the 2017 fiscal year, in addition to a $233 million gain on sale of SRCB comprising $289 million release of reserve gains and $56 million of foreign exchange losses and other costs recognized in the 2018 fiscal year.
- $409 million increase due to a non-recurring $310 million net charge recognized on reclassification of Asia Retail and Wealth businesses to held for sale in the 2017 fiscal year, and a $99 million gain recognized in the 2018 fiscal year associated with sale completions.
- $240 million increase related to the sale of the Group's 40% stake in MCC in the 2018 fiscal year.
- $18 million increase relating to a cost recovery in respect of the UDC terminated transaction process in the 2018 fiscal year.
- $114 million decrease due to the gain on sale of 100 Queen Street, Melbourne recognized in the 2017 fiscal year.
- $61 million decrease as a result of the net charge recognized on reclassification of Cambodia JV and PNG Retail, Commercial & SME to held for sale in the 2018 fiscal year.
- $37 million decrease as a result of higher customer remediation in the 2018 fiscal year.

Comparison of Restated 2017 with Restated 2016

Other operating income from continuing operations increased by $123 million (+3%). 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 (-$93 million or -13%)

- $90 million decrease primarily due to the impact of changes in market discount rates on the re-measurement of insurance policy liabilities.

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)

- 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 and expense 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.

Net foreign exchange earnings (+$50 million) and other (-$302 million)

- $310 million decrease as a result of the reclassification to held for sale and partial completion of the Asia Retail and Wealth sale.
- $231 million decrease due to loss recognized on reclassification of the investment in SRCB to held for sale in the 2017 fiscal year.
- $66 million decrease due to the Esanda Dealer Finance gain on divestment taken in the 2016 fiscal year.
- $29 million decrease due to a valuation gain on cessation of equity accounting for BoT in the 2016 fiscal year.
- $260 million increase due to the impairment of the investment in AmBank in the 2016 fiscal year.
- $114 million increase due to the gain on sale of 100 Queen Street, Melbourne recognized in the 2017 fiscal year.

Operating expenses – continuing operations

	Years ended September 30[1]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M[2]
Personnel expenses	4,758	4,924	5,178	5,204	5,541
Premises expenses	811	862	911	912	928
Technology expenses	1,899	1,602	1,666	2,128	2,167
Restructuring expenses	227	62	62	278	278
Other expenses	1,553	1,517	1,631	1,398	1,525
Total operating expenses from continuing operations	**9,248**	8,967	9,448	9,920	10,439
Full time equivalent staff from continuing operations	**37,860**	43,011	44,896	44,455	46,544
Average full time equivalent staff from continuing operations	**40,016**	44,038	46,068	46,383	48,633

1. As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show continuing operations. The Originally Reported 2017 and Previously Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.

2. 2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document to reflect a change in the classification of certain fees payable between other operating incomes to operating expenses. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.

Comparison of 2018 with Restated 2017

Operating expenses increased by $281 million (+3%):

- Personnel expenses decreased $166 million (-3%) largely due to a reduction in incentives and a 9% reduction in average FTE, partially offset by higher customer remediation costs and wage inflation.
- Premises expenses decreased $51 million (-6%) primarily driven by the consolidation of our property portfolio in Asia.
- Technology expenses increased $297 million (+19%) largely due to an accelerated amortization of certain software assets ($251 million) and higher investment in digital and data capabilities.
- Restructuring expenses increased $165 million associated with the move to agile ways of working in the Australian and Technology divisions and other transformation activities.
- Other expenses increased $36 million (+2%) largely related to Royal Commission legal costs ($55 million) and higher customer remediation costs ($34 million), partially offset by reduction from the completion of the sale of Asia Retail and Wealth business.

Comparison of Restated 2017 with Restated 2016

Operating expenses from continuing operations decreased $953 million (-10%) reflecting a number of large/notable items taken in the 2016 fiscal year:

- Personnel expenses decreased $280 million (-5%) due to a 5% reduction in average FTE partially offset by wage inflation.
- Technology expenses decreased $526 million (-25%) primarily as the result of the software capitalization policy charge of $556 million recognized in 2016. In addition, technology expenses increased $30 million (+1%) 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 $119 million (+9%) due to non-lending losses and higher technology related consulting expenses.

Credit Risk – continuing operations

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					
	2018			Restated 2017[1]		
Division	Individual charge $M	Collective charge $M	Total charge $M	Individual charge $M	Collective charge $M	Total charge $M
Australia	712	(14)	698	864	21	885
Institutional	(24)	(20)	(44)	196	(104)	92
New Zealand	49	(43)	6	116	(38)	78
Asia Retail & Pacific	36	(8)	28	165	(21)	144
TSO & Group Centre	-	-	-	(1)	-	(1)
Total	**773**	**(85)**	**688**	**1,340**	**(142)**	**1,198**

	Years ended September 30					
	Originally Reported 2017			2016		
Division	Individual charge $M	Collective charge $M	Total charge $M	Individual charge $M	Collective charge $M	Total charge $M
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 Centre	(1)	-	(1)	(27)	1	(26)
Total	**1,340**	**(142)**	**1,198**	**1,912**	**17**	**1,929**

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group – Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

Comparison of 2018 with Restated 2017

- The individual credit impairment charge decreased by $567 million (-42%) due to a $626 million (-30%) decrease in new and increased individual credit impairment charges primarily in the Institutional and New Zealand divisions. The Australia division experienced lower provisions on new impairments in Business & Private Bank, combined with higher recoveries and write-backs in the unsecured Retail portfolios. Asia Retail & Pacific division decreased $129 million (-78%) due to the sale of the Asia Retail and Wealth businesses.
- The reduction in the collective credit impairment release of $57 million (-40%) was primarily driven by reduced risk profile releases across all divisions. The collective credit impairment releases for lending growth reduced reflecting growth in the Institutional and New Zealand divisions. The economic cycle adjustment charge was $25 million for the year, with increased economic cycle adjustments in the Australia division, partially offset by the partial release of economic cycle adjustments in the New Zealand and Institutional divisions.

Comparison of Originally Reported 2017 with 2016

- The individual credit impairment charge decreased by $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 by $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.

Provision for credit impairment

	As of September 30					
	2018			Restated 2017[1]		
Division	Individual provision $M	Collective provision $M[2]	Total provision $M	Individual provision $M	Collective provision $M[2]	Total provision $M
Australia	569	1,125	1,694	633	1,139	1,772
Institutional	251	1,073	1,324	353	1,069	1,422
New Zealand	81	279	360	131	323	454
Asia Retail & Pacific	19	43	62	19	128	147
TSO and Group Centre	-	3	3	-	3	3
Total	**920**	**2,523**	**3,443**	**1,136**	**2,662**	**3,798**

Provision for credit impairment

	As of September 30					
	Originally Reported 2017			2016		
Division	Individual provision $M	Collective provision $M[2]	Total provision $M	Individual provision $M	Collective provision $M[2]	Total provision $M
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 Centre	-	3	3	-	3	3
Total	**1,136**	**2,662**	**3,798**	**1,307**	**2,876**	**4,183**

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group – Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
2. *The collective provision includes amounts for off-balance sheet credit exposures of $500 million as of September 30, 2018 (September 30, 2017: $544 million). The impact on the Income Statement for the September 2018 fiscal year was a $51 million release (September 2017: $66 million release).*

Impaired assets[1]

	As of September 30		
	2018 $M	2017 $M	2016 $M
Gross impaired assets			
Impaired loans	**1,676**	2,118	2,646
Restructured items[2]	**269**	167	403
Non-performing commitments and contingencies	**68**	99	124
Gross impaired assets	**2,013**	2,384	3,173
Individual provisions			
Impaired loans	**(894)**	(1,118)	(1,278)
Non-performing commitments and contingencies	**(26)**	(18)	(29)
Net impaired assets	**1,093**	1,248	1,866

	As of September 30			
	2018 $M	Restated 2017 $M[3]	Originally Reported 2017 $M	2016 $M
Gross impaired assets by division				
Australia	**1,285**	1,180	1,310	1,170
Institutional	**442**	757	624	1,405
New Zealand	**236**	307	307	346
Asia Retail & Pacific	**50**	140	143	252
Gross impaired assets	**2,013**	2,384	2,384	3,173

	As of September 30		
	2018 $M	2017 $M	2016 $M
Gross impaired assets by size of exposure			
Less than $10 million	**1,489**	1,622	1,784
$10 million to $100 million	**335**	655	899
Greater than $100 million	**189**	107	490
Total gross impaired assets	**2,013**	**2,384**	**3,173**

1. *Balance sheet amounts include assets reclassified as held for sale from continuing and discontinued operations.*
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.*
3. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

Comparison of 2018 with Restated 2017

- Gross impaired assets decreased $371 million (-16%) primarily driven by repayments and upgrades in the Institutional division (-$315 million), repayments in the New Zealand division (-$71 million) and a reduction in the Asia Retail & Pacific division (-$90 million) following the sale of the Asia Retail and Wealth businesses. This was offset by an increase in the Australia division ($105 million) primarily driven by a single name restructured loan. The Group's individual provision coverage ratio on impaired assets was 45.7% at September 30, 2018 (September 30, 2017: 47.7%).

Comparison of Originally Reported 2017 with 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%).

New impaired assets[1]

	As of September 30		
	2018 $M	2017 $M	2016 $M
New impaired assets			
Impaired loans	**1,846**	2,952	3,267
Restructured items	**224**	109	274
Non-performing commitments and contingencies	**38**	151	87
Total new impaired assets	**2,108**	**3,212**	**3,628**

	As of September 30			
	2018 $M	Restated 2017 $M[2]	Originally Reported 2017 $M	2016 $M
New impaired assets by division				
Australia	**1,604**	1,535	1,660	1,704
Institutional	**169**	943	816	1,151
New Zealand	**292**	512	512	484
Asia Retail & Pacific	**43**	222	224	289
Total new impaired assets	**2,108**	**3,212**	**3,212**	**3,628**

1. *Balance sheet amounts include assets reclassified as held for sale from continuing and discontinued operations.*
2. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

Comparison of 2018 with Restated 2017

- New impaired assets decreased $1,104 million (-34%) primarily driven by the Institutional division as the result of an improved risk profile due to portfolio rebalancing, combined with a benign credit environment, along with improvements in portfolio credit quality in the Commercial and Agri business in New Zealand in the March 2018 half. In addition, new impaired assets decreased due to lending reductions associated with the sale of the Asia Retail and Wealth businesses.

Comparison of Originally Reported 2017 with 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.

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[1]

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			
	2018 $M	Restated 2017 $M[2]	Originally Reported 2017 $M	2016 $M
Australia	2,753	2,668	2,668	2,454
Institutional	12	42	41	30
New Zealand	203	188	188	145
Asia Retail & Pacific	25	52	53	70
TSO and Group Centre	5	3	3	4
Total accruing loans - past due 90 days or more	2,998	2,953	2,953	2,703

1. *Balance sheet amounts include assets and liabilities reclassified as held for sale from continuing and discontinued operations.*
2. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

Comparison of 2018 with Restated 2017

- The 90 days past due but not impaired increased by $45 million (+2%) primarily driven by growth in the Australia division home loan portfolio, combined with continued portfolio deterioration in Western Australia. This was partially offset by the impact of the sale of the Asia Retail and Wealth businesses and reduction in delinquencies in Institutional.

Comparison of Originally Reported 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.

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 customer.

For further information relating to the Group's credit risk exposures, refer to Note 16 of the 2018 Financial Report (attached to this U.S. Disclosure Document as part of Annex A).

Income tax expense – continuing operations

	Years ended September 30[1]				
	2018 $M	Restated 2017 $M	Originally Reported 2017 $M	Restated 2016 $M	Previously Reported 2016 $M
Income tax expense charged to the income statement	2,784	2,874	3,206	2,142	2,458
Effective tax rate	28.1%	31.1%	33.3%	28.0%	30.1%
Australian corporate tax rate	30.0%	30.0%	30.0%	30.0%	30.0%

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show continuing operations. The Originally Reported 2017 and Originally Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.*

Comparison of 2018 with Restated 2017

- The effective tax rate has decreased from 31.1% to 28.1%. The decrease of 300 bps is primarily due to the inclusion in 2018 of non-taxable income on completion of the sale of SRCB (-271 bps), non-taxable profit on the disposal of the Group's stake in MCC (-79 bps), a release of tax provisions (-41 bps) offset by a reduction in equity accounted earnings (+42 bps).

Comparison of Restated 2017 with Restated 2016

- The effective tax rate increased from 28% to 31.1%. The 310 bps increase is primarily due to non-deductible loss in respect of the sale of SRCB (+186 bps), reduced equity accounted earnings (+114 bps) and the non-recurrence of a tax provision release in 2016 (+93 bps). This was partially offset by the non-tax deductible impairment of AmBank recognized in 2016 (-102 bps).

CONDENSED BALANCE SHEET – INCLUDING DISCONTINUED OPERATIONS

	As of September 30		
	2018 $B	2017 $B	2016 $B
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid	**98.0**	82.5	83.3
Trading and available-for-sale assets	**112.0**	113.0	110.3
Derivative financial instruments	**68.4**	62.5	87.5
Net loans and advances	**603.9**	574.3	575.9
Investments backing policy liabilities[1]	**-**	38.0	35.7
Assets held for sale[1,2]	**45.2**	8.0	-
Other	**15.1**	19.0	22.2
Total assets	**942.6**	897.3	914.9
Liabilities			
Settlement balances owed by ANZ / Collateral received	**18.3**	15.8	17.0
Deposits and other borrowings	**618.2**	595.6	588.2
Derivative financial instruments	**69.7**	62.3	88.7
Debt issuances	**121.2**	108.0	91.1
Policy liabilities and external unit holder liabilities[1]	**-**	41.9	39.5
Liabilities held for sale[1,3]	**47.2**	4.7	-
Other	**8.6**	9.9	32.5
Total liabilities	**883.2**	838.2	857.0
Total equity	**59.4**	59.1	57.9

1. *Investments backing policy liabilities, policy liabilities and external unit holder liabilities balances as of September 2018 reflect the reclassification of assets and liabilities to held for sale. Refer to Note 29 of the 2018 Financial Report (attached to this U.S. Disclosure Document as part of Annex A) for further details of assets and liabilities held for sale.*
2. *The September 30, 2018 balance of assets held for sale comprises: $42.9 billion for discontinued operations; $1.4 billion for Cambodia JV; $0.8 billion for OPL NZ and $0.2 billion for PNG Retail, Commercial & SME. The September 30, 2017 balance of assets held for sale comprises: $3.3 billion for Asia Retail and Wealth businesses; $2.8 billion for UDC; $1.7 billion for SRCB and $0.1 billion for MCC.*
3. *The September 30, 2018 balance of liabilities held for sale comprises: $45.1 billion for discontinued operations; $1.2 billion for Cambodia JV; $0.3 billion for OPL NZ and $0.5 billion for PNG Retail, Commercial & SME. The September 30, 2017 balance of liabilities held for sale comprises: $3.7 billion for Asia Retail and Wealth businesses and $1.0 billion for UDC.*

Comparison of 2018 with 2017

- Cash / Settlement balances owed to/by ANZ / Collateral paid/received increased $13.0 billion (+19%) primarily driven by higher liquid asset holdings in Markets, increase in collateral paid, and the impact of foreign currency exchange rate movements.
- Derivative financial assets and liabilities increased $5.9 billion (+9%) and $7.4 billion (+12%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Net loans and advances increased $29.6 billion (+5%) primarily driven by growth in home loans across Australia and New Zealand divisions (+$10.9 billion), lending growth in the Institutional division (+$12.9 billion), UDC net loans and advances no longer being classified as held for sale (+$3.0 billion) and the impact of foreign currency exchange rate movements.
- Assets and liabilities held for sale increased $37.2 billion and $42.5 billion respectively, primarily driven by the reclassification of Wealth Australia businesses and other smaller divestments to held for sale, partially offset by the sale completion of the Asia Retail and Wealth businesses, and UDC no longer being classified as held for sale.
- Deposits and other borrowings increased $22.6 billion (+4%) primarily driven by growth in customer deposits across Institutional, New Zealand and Australia divisions (+$9.3 billion), and a $11.4 billion increase in deposits from banks and repurchase agreements, and the impact of foreign currency exchange rate movements. This was partially offset by a reduction of $12.7 billion in certificates of deposit.
- Debt issuances increased $13.2 billion (+12%) primarily driven by senior debt issuances and the impact of foreign currency exchange rate movements.

Comparison of 2017 with 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 primarily driven by a $7.4 billion reduction in the Asia Retail & Pacific division due to the partial completion of the Asia Retail and Wealth sales, a $4.4 billion decrease in the Institutional division as a result of portfolio rebalancing, a $6.0 billion decrease due to reclassification of assets to held for sale and the impact of foreign currency exchange rate movements. This is offset by growth in home loans across Australia and New Zealand divisions (+22.0 billion).
- Deposits and other borrowings increased $7.4 billion (+1%) primarily 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), a $4.6 billion decrease due to reclassification of liabilities to held for sale and the impact of foreign currency exchange rate movements.
- Debt issuances decreased $5.1 billion (-5%) primarily driven by a reduction in subordinated debt and the impact of foreign currency exchange rate movements.

RESULTS BY DIVISION – CONTINUING OPERATIONS

As a result of the sale transactions outlined in "Section 1: Key Information – Discontinued Operations – Sale of Wealth Australia Businesses", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. The information presented in the 2018 fiscal year is on a continuing operations basis. The information presented in the 2017 fiscal year and 2016 fiscal year have been restated to show continuing operations. Additionally, the presentation impacts the current and prior period financial information for the Wealth Australia and TSO and Group Centre divisions.

As part of its broader simplification strategy, ANZ has undertaken several structural changes in the 2018 fiscal year, as described in "Section 2: Information on the Group – Principal Activities of the Group". Comparative information for the 2017 fiscal year at the divisional level within this U.S. Disclosure Document has been restated to reflect the impact of these structural changes to allow comparison of the 2017 fiscal year information to the 2018 fiscal year information. Comparative information for the 2017 fiscal year is also provided as originally reported to allow comparison of the 2017 fiscal year information to the 2016 fiscal year information, which has not been restated to reflect the impact of these structural changes. The structural changes do not have an impact on comparative information in the income statement or balance sheet at the Group level.

The divisions reported are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

2018 Fiscal Year

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	8,409	3,068	2,587	49	186	215	**14,514**
Other operating income	1,086	2,062	663	282	246	978	**5,317**
Operating income	9,495	5,130	3,250	331	432	1,193	**19,831**
Operating expenses	(3,677)	(2,944)	(1,196)	(257)	(211)	(963)	**(9,248)**
Profit before credit impairment and income tax	5,818	2,186	2,054	74	221	230	**10,583**
Credit impairment (charge)/release	(698)	44	(6)	-	(28)	-	**(688)**
Profit before income tax	5,120	2,230	2,048	74	193	230	**9,895**
Income tax expense and non-controlling interests	(1,540)	(695)	(573)	(22)	(42)	72	**(2,800)**
Profit/(loss) after income tax from continuing operations	3,580	1,535	1,475	52	151	302	**7,095**

2017 Fiscal Year (Restated)[1,2]

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	8,218	3,264	2,519	49	576	249	**14,875**
Other operating income	1,217	2,366	653	344	18	(75)	**4,523**
Operating income	9,435	5,630	3,172	393	594	174	**19,398**
Operating expenses	(3,382)	(2,814)	(1,193)	(262)	(614)	(702)	**(8,967)**
Profit before credit impairment and income tax	6,053	2,816	1,979	131	(20)	(528)	**10,431**
Credit impairment (charge)/release	(885)	(92)	(78)	-	(144)	1	**(1,198)**
Profit before income tax	5,168	2,724	1,901	131	(164)	(527)	**9,233**
Income tax expense and non-controlling interests	(1,552)	(800)	(532)	(36)	7	24	**(2,889)**
Profit/(loss) after income tax from continuing operations	3,616	1,924	1,369	95	(157)	(503)	**6,344**

2017 Fiscal Year (Originally Reported)

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Centre $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]

	Australia $M	Institutional $m	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	8,202	3,447	2,448	58	698	249	15,102
Other operating income	1,206	1,733	644	314	478	25	4,400
Operating income	9,408	5,180	3,092	372	1,176	274	19,502
Operating expenses	(3,426)	(2,958)	(1,225)	(282)	(808)	(1,221)	(9,920)
Profit before credit impairment and income tax	5,982	2,222	1,867	90	368	(947)	9,582
Credit impairment (charge)/release	(920)	(743)	(120)	-	(172)	26	(1,929)
Profit before income tax	5,062	1,479	1,747	90	196	(921)	7,653
Income tax expense and non-controlling interests	(1,515)	(438)	(479)	(26)	(37)	342	(2,153)
Profit/(loss) after income tax from continuing operations	3,547	1,041	1,268	64	159	(579)	5,500

2016 Fiscal Year (Previously Reported)[3]

	Australia $M	Institutional $m	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO & Group Centre $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

1. *As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", 2017 Fiscal Year (Restated) and 2016 Fiscal Year (Restated) information have been restated to show continuing operations. The 2017 Fiscal Year (Originally Reported) and 2016 Fiscal Year (Previously Reported) information have not been restated to show discontinued operations separately from continuing operations.*
2. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". 2017 Fiscal Year (Restated) reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
3. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document to reflect a change in the classification of certain fees payable between other operating incomes to operating expenses. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*

Australia – continuing operations

Australia	2018 $M	Restated 2017 $M [1]	Originally Reported 2017 $M	Previously Reported 2016 $M [2]
	Years ended September 30			
Net interest income	**8,409**	8,218	8,384	8,202
Other operating income	**1,086**	1,217	1,218	1,206
Operating income	**9,495**	9,435	9,602	9,408
Operating expenses	**(3,677)**	(3,382)	(3,423)	(3,426)
Profit before credit impairment and income tax	**5,818**	6,053	6,179	5,982
Credit impairment (charge)/release	**(698)**	(885)	(897)	(920)
Profit before income tax	**5,120**	5,168	5,282	5,062
Income tax expense and non-controlling interests	**(1,540)**	(1,552)	(1,587)	(1,515)
Profit after income tax	**3,580**	3,616	3,695	3,547
Consisting of:				
Retail	**2,385**	2,497	2,555	2,407
Business & Private Bank	**1,195**	1,119	1,140	1,140
Profit after income tax	**3,580**	3,616	3,695	3,547
Balance Sheet				
Net loans and advances	**340,259**	333,560	345,344	327,109
Other external assets	**2,855**	3,058	3,084	2,921
External assets	**343,114**	336,618	348,428	330,030
Customer deposits	**202,732**	201,326	201,365	187,667
Other external liabilities	**9,577**	10,856	10,847	11,842
External liabilities	**212,309**	212,182	212,212	199,509
Risk weighted assets	**158,595**	160,915	170,632	157,410
Average gross loans and advances[3]	**340,271**	327,200	338,582	322,614
Average deposits and other borrowings[3]	**202,884**	196,234	196,256	183,196
Ratios				
Return on average assets	**1.05%**	1.10%	1.09%	1.10%
Net interest margin	**2.69%**	2.73%	2.68%	2.75%
Operating expenses to operating income	**38.7%**	35.8%	35.6%	36.4%
Operating expenses to average assets	**1.08%**	1.03%	1.01%	1.06%
Individual credit impairment charge/(release)	**712**	864	883	898
Individual credit impairment charge/(release) as a % of average GLA	**0.21%**	0.26%	0.26%	0.28%
Collective credit impairment charge/(release)	**(14)**	21	14	22
Collective credit impairment charge/(release) as a % of average GLA	**0.00%**	0.01%	0.00%	0.01%
Gross impaired assets	**1,285**	1,180	1,310	1,170
Gross impaired assets as a % of GLA	**0.38%**	0.36%	0.38%	0.36%
Total full time equivalent staff	**12,885**	13,885	11,387	11,563

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Averages are calculated using predominantly daily averages.*

Comparison of 2018 with Restated 2017

Profit after income tax decreased by $36 million (-1%).

Key factors affecting the result were:

- Lending volumes grew primarily in home loans in owner occupier and principal and interest loans. Customer deposits grew mainly in small business banking and home loans (offset accounts).
- Net interest margin decreased 4 basis points as the result of home loan mix changes, customer remediation, and the introduction of the Major Bank Levy from July 2017. This is offset against higher deposit margins due to re-pricing.
- Other operating income decreased $131 million (-11%) as the result of customer remediation and lower lending fee income.
- Operating expenses increased $295 million (+9%) due to customer remediation costs, an accelerated software amortization charge, restructuring and inflation. This is partially offset by a reduction in FTE related costs.
- Credit impairment charges decreased $187 million (-21%) as the result of lower delinquency and higher write-backs and recoveries in cards and personal loans, lower new provisions in business banking, partially offset by a net increase in economic cycle adjustments.

Comparison of Originally Reported 2017 with Previously Reported 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 from July 2017.
- 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 September 2017 half.
- 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.

Institutional – continuing operations

Institutional	2018 $M	Restated 2017 $M [1]	Originally Reported 2017 $M	Previously Reported 2016 $M [2]
	Years ended September 30			
Net interest income	**3,068**	3,264	3,068	3,447
Other operating income	**2,062**	2,366	2,346	1,733
Operating income	**5,130**	5,630	5,414	5,180
Operating expenses	**(2,944)**	(2,814)	(2,736)	(2,958)
Profit before credit impairment and income tax	**2,186**	2,816	2,678	2,222
Credit impairment (charge)/release	**44**	(92)	(80)	(743)
Profit before income tax	**2,230**	2,724	2,598	1,479
Income tax expense and non-controlling interests	**(695)**	(800)	(762)	(438)
Profit after income tax	**1,535**	1,924	1,836	1,041
Consisting of:				
Transaction Banking	**586**	506	465	382
Loans & Specialized Finance	**723**	623	610	382
Markets	**468**	778	749	379
Central Functions	**(242)**	17	12	(102)
Profit after income tax	**1,535**	1,924	1,836	1,041
Balance Sheet [3]				
Net loans and advances	**149,826**	131,582	119,636	125,955
Other external assets	**276,607**	254,769	254,653	281,705
External assets	**426,433**	386,351	374,289	407,660
Customer deposits	**205,809**	189,015	186,782	171,155
Other external liabilities	**171,926**	152,025	151,973	177,645
External liabilities	**377,735**	341,040	338,755	348,800
Risk weighted assets	**163,713**	158,783	148,881	168,428
Average gross loans and advances [4]	**141,184**	135,308	123,766	133,753
Average deposits and other borrowings [4]	**263,742**	246,931	244,772	232,959
Ratios [3]				
Return on average assets	**0.36%**	0.47%	0.46%	0.25%
Net interest margin	**0.90%**	1.03%	1.01%	1.13%
Net interest margin (excluding Markets)	**2.15%**	2.21%	2.10%	2.20%
Operating expenses to operating income	**57.4%**	50.0%	50.5%	57.1%
Operating expenses to average assets	**0.68%**	0.68%	0.68%	0.72%
Individual credit impairment charge/(release)	**(24)**	196	177	776
Individual credit impairment charge/(release) as a % of average GLA	**(0.02%)**	0.14%	0.14%	0.58%
Collective credit impairment charge/(release)	**(20)**	(104)	(97)	(33)
Collective credit impairment charge/(release) as a % of average GLA	**(0.01%)**	(0.08%)	(0.08%)	(0.02%)
Gross impaired assets	**442**	757	624	1,405
Gross impaired assets as a % of GLA	**0.29%**	0.57%	0.52%	1.10%
Total full time equivalent staff	**6,188**	6,783	4,754	5,112

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Balance Sheet amounts includes asset and liabilities reclassified as held for sale from continuing operations.*
4. *Averages are calculated using predominantly daily averages.*

Comparison of 2018 with Restated 2017

Profit after income tax decreased by $389 million (-20%).

Key factors affecting the result were:

- Lending volumes grew across all portfolios. Customer deposits grew in Markets and Transaction Banking.
- Net interest margin (excluding the Markets business) decreased 6 basis points largely due to the introduction of the Major Bank Levy from July 2017 and growth in markets liquid assets.
- Other operating income decreased $304 million (-13%) due to lower Markets Franchise Trading income due to less favorable trading conditions in 2018, and large positive derivative valuation adjustments recognized in 2017.
- Operating expenses increased $130 million (+5%) due to an accelerated software amortization charge, restructuring and inflation. This is partially offset by a 9% reduction in FTE as the result of ongoing transformation activities and lower non-lending losses.
- Credit impairment charges decreased $136 million due to ongoing portfolio rebalancing and a benign credit environment.

Comparison of Originally Reported 2017 with Previously Reported 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 10 basis points due to asset pricing competition, the introduction of the Major Bank Levy from July 2017 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.

New Zealand – continuing operations

Table reflects NZD for New Zealand.

AUD results shown on page 65.

New Zealand	2018 NZD M	Restated 2017 NZD M[1]	Originally Reported 2017 NZD M	Previously Reported 2016 NZD M[2]
	Years ended September 30			
Net interest income	**2,816**	2,686	2,686	2,629
Other operating income	**337**	330	330	337
Net funds management and insurance income	**384**	365	365	354
Operating income	**3,537**	3,381	3,381	3,320
Operating expenses	**(1,303)**	(1,271)	(1,271)	(1,316)
Profit before credit impairment and income tax	**2,234**	2,110	2,110	2,004
Credit impairment (charge)/release	**(6)**	(83)	(83)	(129)
Profit before income tax	**2,228**	2,027	2,027	1,875
Income tax expense and non-controlling interests	**(623)**	(568)	(568)	(514)
Profit after income tax	**1,605**	1,459	1,459	1,361
Consisting of:				
Retail	**1,033**	1,019	1,019	941
Commercial	**557**	439	439	417
Central Functions	**15**	1	1	3
Profit after income tax	**1,605**	1,459	1,459	1,361
Balance Sheet[3]				
Net loans and advances	**121,498**	117,242	117,242	113,145
Other external assets	**4,515**	3,869	3,869	4,723
External assets	**126,013**	121,111	121,111	117,868
Customer deposits	**87,101**	81,855	81,855	76,362
Other external liabilities	**27,026**	26,018	26,015	26,852
External liabilities	**114,127**	107,873	107,870	103,214
Risk weighted assets	**62,463**	60,971	60,971	62,523
Average gross loans and advances[4]	**119,342**	115,383	115,383	110,559
Average deposits and other borrowings[4]	**87,541**	84,188	84,188	80,975
In-force premiums[5]	**198**	194	194	190
Funds under management ("FUM")	**30,665**	28,490	28,490	26,485
Average funds under management	**29,700**	27,096	27,096	24,775
Ratios[3]				
Return on average assets	**1.30%**	1.22%	1.22%	1.19%
Net interest margin	**2.36%**	2.31%	2.31%	2.37%
Operating expenses to operating income	**36.8%**	37.6%	37.6%	39.6%
Operating expenses to average assets	**1.06%**	1.06%	1.06%	1.15%
Individual credit impairment charge/(release)	**52**	123	123	112
Individual credit impairment charge/(release) as a % of average GLA	**0.04%**	0.11%	0.11%	0.10%
Collective credit impairment charge/(release)	**(46)**	(40)	(40)	17
Collective credit impairment charge/(release) as a % of average GLA	**(0.04%)**	(0.03%)	(0.03%)	0.02%
Gross impaired assets	**258**	334	334	363
Gross impaired assets as a % of GLA	**0.21%**	0.28%	0.28%	0.32%
Total full time equivalent staff	**6,165**	6,372	6,207	6,317

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations.*
4. *Averages are calculated using predominantly daily averages.*
5. *In-force premiums reflect the disposal of New Zealand medical business in the 2016 fiscal year.*

New Zealand results and commentary are reported in NZD. AUD results are shown on page *65*.

Comparison of 2018 with Restated 2017

Profit after income tax increased by NZD $146 million (+10%).

Key factors affecting the result were:

- Volumes grew in home loans and funds under management. Customer deposits grew across all portfolios.
- Net interest margin increased 5 basis points due to higher lending margins, partly offset by portfolio mix changes and lower deposit margins.
- Other operating income increased NZD $7 million (+2%) primarily due to a one-off insurance recovery in 2018, partially offset by customer fee reductions. Net funds management and insurance income increased due to higher funds under management.
- Operating expenses increased NZD $32 million (+3%) due to customer remediation, increased business investment in digital capability, and inflation. This was partially offset by a 3% reduction in FTE driven by customer migration to lower cost channels.
- Credit impairment charges decreased NZD $77 million (-93%) due to credit quality improvements across Retail and Commercial and Agriculture portfolios, and the release of the Agriculture economic cycle adjustment.

Comparison of Originally Reported 2017 with Previously Reported 2016

Profit after income tax increased by NZD $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

New Zealand – continuing operations

Table reflects AUD for New Zealand.

NZD results shown on page 63.

	Years ended September 30			
New Zealand	**2018 $M**	**Restated 2017 $M[1]**	**Originally Reported 2017 $M**	**Previously Reported 2016 $M[2]**
Net interest income	**2,587**	2,519	2,519	2,448
Other operating income	**310**	310	310	314
Net funds management and insurance income	**353**	343	343	330
Operating income	**3,250**	3,172	3,172	3,092
Operating expenses	**(1,196)**	(1,193)	(1,193)	(1,225)
Profit before credit impairment and income tax	**2,054**	1,979	1,979	1,867
Credit impairment (charge)/release	**(6)**	(78)	(78)	(120)
Profit before income tax	**2,048**	1,901	1,901	1,747
Income tax expense and non-controlling interests	**(573)**	(532)	(532)	(479)
Profit after income tax	**1,475**	1,369	1,369	1,268
Consisting of:				
Retail	**949**	956	956	877
Commercial	**512**	412	412	389
Central Functions	**14**	1	1	2
Profit after income tax	**1,475**	1,369	1,369	1,268
Balance Sheet[3]				
Net loans and advances	**111,286**	107,886	107,886	107,893
Other external assets	**4,135**	3,560	3,560	4,505
External assets	**115,421**	111,446	111,446	112,398
Customer deposits	**79,780**	75,323	75,323	72,818
Other external liabilities	**24,754**	23,942	23,939	25,605
External liabilities	**104,534**	99,265	99,262	98,423
Risk weighted assets	**57,213**	56,106	56,106	59,621
Average gross loans and advances[4]	**109,667**	108,229	108,229	102,972
Average deposits and other borrowings[4]	**80,444**	78,968	78,968	75,418
In-force premiums[5]	**181**	179	179	181
Funds under management	**28,087**	26,215	26,215	25,256
Average funds under management	**27,292**	25,416	24,934	23,075
Ratios[3]				
Return on average assets	**1.30%**	1.22%	1.22%	1.19%
Net interest margin	**2.36%**	2.31%	2.31%	2.37%
Operating expenses to operating income	**36.8%**	37.6%	37.6%	39.6%
Operating expenses to average assets	**1.06%**	1.06%	1.06%	1.15%
Individual credit impairment charge/(release)	**49**	116	116	104
Individual credit impairment charge/(release) as a % of average GLA	**0.04%**	0.11%	0.11%	0.10%
Collective credit impairment charge/(release)	**(43)**	(38)	(38)	16
Collective credit impairment charge/(release) as a % of average GLA	**(0.04%)**	(0.03%)	(0.03%)	0.02%
Gross impaired assets	**236**	307	307	346
Gross impaired assets as a % of GLA	**0.21%**	0.28%	0.28%	0.32%
Retail Insurance lapse rates	**13.3%**	14.2%	14.2%	15.4%
Total full time equivalent staff	**6,165**	6,372	6,207	6,317

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
2. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
3. *Balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations.*
4. *Averages are calculated using predominantly daily averages.*
5. *In-force premiums reflect the disposal of New Zealand medical business in the 2016 fiscal year.*

Wealth Australia – continuing operations

	Years ended September 30[1]				
Wealth Australia	**2018 $M**	**Restated 2017 $M**	**Originally Reported 2017 $M**	**Restated 2016 $M**	**Previously Reported 2016[2] $M**
Net interest income	**49**	49	9	58	11
Other operating income	**70**	73	84	74	88
Net funds management and insurance income	**212**	271	993	240	1,156
Operating income	**331**	393	1,086	372	1,255
Operating expenses	**(257)**	(262)	(743)	(282)	(801)
Profit before income tax	**74**	131	343	90	454
Income tax expense and non-controlling interests	**(22)**	(36)	(105)	(26)	(130)
Profit after income tax from continuing operations	**52**	95	238	64	324
Key metrics - Lenders Mortgage Insurance ("LMI")					
Gross written premium	**141**	173	173	196	n/a
Net claims paid	**18**	15	15	12	n/a
Loss rate (of exposure)[3]	**0.07%**	0.02%	0.02%	0.05%	n/a
Total full time equivalent staff[4]	**845**	997	2,110	996	2,174

1. As a result of the sale transactions the Group announced in the fiscal year ending September 30, 2018 described in "Section 1: Key information – Discontinued Operations – Sale of Wealth Australia Businesses", Restated 2017 and Restated 2016 information have been restated to show continuing operations. The Originally Reported 2017 and Previously Reported 2016 information have not been restated to show discontinued operations separately from continuing operations.

2. 2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.

3. Loss rate (of exposure) is calculated as net claims (paid and reserved) for each reporting period over total gross leading assets insured by LMI.

4. FTE are allocated between continuing and discontinued operations. Restated 2017 and Restated 2016 full year reflect an estimate of the FTEs that will transfer to IOOF or Zurich. The actual FTE that will transfer to IOOF or Zurich on sale completion or at a later date is currently being determined.

Comparison of 2018 with Restated 2017

Profit after income tax decreased by $43 million (-45%).

A key factor affecting the result was:

- Net funds management and insurance income decreased by $59 million (-22%) primarily due to lower financial planning volumes, customer remediation and a non-recurring lenders mortgage insurance benefit included in the 2017 fiscal year.

Comparison of Restated 2017 with Restated 2016

Profit after income tax from continuing operations increased by $31 million (+48%).

Key factors affecting the result were:

- Operating income increased $21 million (+6%) primarily due to reinsurance profit share benefit and favorable claims experienced in Lenders Mortgage Insurance.
- Operating expenses decreased $20 million (-7%) mainly due to disciplined expense management and larger restructuring spend during the 2016 fiscal year.

Asia Retail & Pacific – continuing operations[1]

	Years ended September 30			
Asia Retail & Pacific	**2018 $M**	**Restated 2017 $M[2]**	**Originally Reported 2017 $M**	**Previously Reported 2016 $M[3]**
Net interest income	**186**	576	606	698
Other operating income	**246**	18	37	478
Operating income	**432**	594	643	1,176
Operating expenses	**(211)**	(614)	(651)	(808)
Profit/(loss) before credit impairment and income tax	**221**	(20)	(8)	368
Credit impairment (charge)/release	**(28)**	(144)	(144)	(172)
Profit/(loss) before income tax	**193**	(164)	(152)	196
Income tax expense and non-controlling interests	**(42)**	7	4	(37)
Profit/(loss) after income tax	**151**	(157)	(148)	159
Balance Sheet[4]				
Net loans and advances	**2,117**	5,503	5,666	13,370
Customer deposits	**3,475**	6,964	9,157	22,782
Risk weighted assets	**4,093**	6,791	6,972	13,372
Ratios[4]				
Return on average assets	**3.02%**	(0.84%)	(0.71%)	0.65%
Net interest margin	**4.30%**	3.20%	3.03%	2.96%
Operating expenses to operating income	**48.8%**	103.4%	101.2%	68.7%
Operating expenses to average assets	**4.22%**	3.27%	3.11%	3.30%
Individual credit impairment charge/(release)	**36**	165	165	161
Individual credit impairment charge/(release) as a % of average GLA	**1.18%**	1.41%	1.40%	1.13%
Collective credit impairment charge/(release)	**(8)**	(21)	(21)	11
Collective credit impairment charge/(release) as a % of average GLA	**(0.26%)**	(0.18%)	(0.18%)	0.08%
Gross impaired assets	**50**	140	143	252
Gross impaired assets as a % of GLA	**2.29%**	2.47%	2.46%	1.86%
Total full time equivalent staff	**1,131**	3,664	3,981	4,894

1. *The table above includes Asia Retail and Wealth businesses results to the date of disposal. Refer to "Section 3: Operating and Financial Review – Large/notable items" for further details.*
2. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*
3. *2016 financial information was originally reported in the 2016 Annual U.S Disclosure Document and subsequently restated in the 2017 Annual U.S Disclosure Document. Previously Reported 2016 reflects the restated financial information presented in the 2017 Annual U.S Disclosure Document.*
4. *Balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations.*

The major drivers of the Profit/(loss) after income tax in the 2018 fiscal year and the 2017 fiscal year for the Asia Retail & Pacific division were the accounting impacts of:

- the sale of the Group's Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank which was announced on October 31, 2016; and
- the sale of the Group's Retail business in Vietnam to Shinhan Bank Vietnam which was announced on April 21, 2017.

The Group completed the transition of businesses in China, Singapore and Hong Kong in the September 2017 half, and the transition of businesses in Vietnam, Taiwan, and Indonesia in the March 2018 half. The Group recognized the following impacts:

- In the 2018 fiscal year, the Group recognized an $85 million gain after tax relating to the completion of the sale of the Asia Retail and Wealth businesses in Vietnam, Taiwan and Indonesia, net of costs associated with the sale and a $14 million tax expense. This gain is recognized in continuing operations.
- In the 2017 fiscal year, the Group recognized a $270 million loss after tax relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising $225 million of software, goodwill and other asset impairment charges, $99 million of costs associated with the sale, a $40 million tax benefit as a result of the loss on reclassification to held for sale, and a $14 million gain on the partial completion of the Asia Retail and Wealth sale (businesses in China, Singapore and Hong Kong).

LIQUIDITY AND CAPITAL RESOURCES – INCLUDING DISCONTINUED OPERATIONS

Liquidity Risk

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

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

- **Scenario modeling of funding sources**

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

  - Provide protection against short-term extreme market dislocation and stress.
  - Maintain structural strength in the balance sheet by ensuring that an appropriate amount of longer-term assets are funded with longer-term funding.
  - Ensure 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 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, 2018, ANZ's CLF was $46.9 billion (2017 calendar year end: $43.8 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 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.

Funding – including discontinued operations

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

$21.8 billion of term wholesale debt with a remaining term greater than one year as of September 30, 2018 was issued during the fiscal year ended September 30, 2018.

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

	As of September 30			
	2018 $B	Restated 2017 $B[6]	Originally Reported 2017 $B	2016 $B
Customer deposits and other liabilities[1]				
Australia	**202.7**	201.3	201.4	187.7
Institutional	**205.8**	189.0	186.8	171.2
New Zealand	**79.8**	75.3	75.3	72.8
Wealth Australia	**-**	-	-	0.3
Asia Retail & Pacific	**3.5**	7.0	9.2	22.8
TSO and Group Centre[1]	**(4.5)**	(5.0)	(5.0)	(5.1)
Customer deposits	**487.3**	467.6	467.6	449.6
Other funding liabilities[2,3]	**8.1**	8.5	12.8	14.0
Total customer liabilities (funding)	**495.4**	476.1	480.5	463.7
Wholesale funding[3,4]				
Debt issuances	**105.3**	90.3	90.3	91.1
Subordinated debt	**15.9**	17.7	17.7	22.0
Certificates of deposit	**42.7**	55.2	55.2	61.4
Commercial paper	**17.0**	18.0	18.0	19.3
Other wholesale borrowings[4,5]	**86.8**	69.2	65.4	65.9
Total wholesale funding	**267.7**	250.4	246.6	259.7
Shareholders' equity	**59.4**	59.1	59.1	57.9
Total funding	**822.5**	785.6	786.2	781.3

1. *Includes term deposits, other deposits and an adjustment recognized 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. *Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.*
5. *Includes RBA open repurchase arrangement netted down by the exchange settlement account cash balance.*
6. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

Term debt maturity profile

The amounts disclosed below represent the outstanding principal of term debt issued by the Group under its term funding programmes (for the avoidance of doubt, this excludes commercial paper) on or before September 30, 2018. The amounts do not include interest cash flows. Foreign currency denominated term debt has been translated using spot foreign exchange rates as of September 30, 2018.

Contractual maturity ($m)[1]	2019	2020	2021	2022	2023	After 2023	Total
Debt issuances[2]	22,074	23,993	26,301	13,587	11,777	14,307	112,038
Subordinated debt[3]	1,959	503	822	707	122	4,073	8,186
Total	**24,033**	**24,496**	**27,123**	**14,294**	**11,899**	**18,380**	**120,224**

1. *The maturity profile is presented as the total amount of term debt scheduled to mature in the relevant fiscal year ending September 30.*
2. *Debt issuances include transferable certificate of deposits included as "Deposits and other borrowings" in the balance sheet.*
3. *The maturity profile for all subordinated debt is presented based on the next callable date. Excludes additional Tier 1 capital.*

	As of September 30, 2018		
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

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

Capital management – including discontinued operations

	APRA Basel 3 As of September 30		
Qualifying Capital	**2018 $M**	**2017 $M**	**2016 $M**
Tier 1			
Shareholders' equity and non-controlling interests	**59,383**	59,075	57,927
Prudential adjustments to shareholders' equity	**(322)**	(481)	(481)
Gross Common Equity Tier 1 capital	**59,061**	58,594	57,446
Deductions	**(14,370)**	(17,258)	(18,179)
Common Equity Tier 1 capital	**44,691**	41,336	39,267
Additional Tier 1 capital	**7,527**	7,988	9,018
Tier 1 capital	**52,218**	49,324	48,285
Tier 2 capital	**7,291**	8,669	10,328
Total qualifying capital	**59,509**	57,993	58,613
Capital adequacy ratios			
Common Equity Tier 1	**11.4%**	10.6%	9.6%
Tier 1	**13.4%**	12.6%	11.8%
Tier 2	**1.9%**	2.2%	2.5%
Total capital ratio	**15.2%**	14.8%	14.3%
Risk weighted assets	**390,820**	391,113	408,582

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 (referred to below as "Internationally Comparable basis") include:

Deductions

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

RWA

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

Comparison of 2018 with 2017

ANZ's CET1 ratio increased 87 bps to 11.4% during the year. Key drivers of the movement in the CET1 ratio were:

- Net organic capital generation of 195 bps. This was primarily driven by statutory profit (excluding large/notable items), a net reduction in underlying RWA growth (excluding foreign exchange impacts, regulatory changes and other one-offs), partially offset by other business capital deductions.
- Payment of the March 2018 Interim and September 2017 Final Dividends (net of BOP issuance, neutralized DRP) which reduced the CET1 ratio by 117 bps.
- Capital benefits from asset disposals increased the CET1 ratio by 84 bps (SRCB, Asia Retail and Wealth businesses in Vietnam, Taiwan and Indonesia, 40% stake in MCC and reinsurance proceeds in relation to the Australian life insurance sale).
- The asset disposals benefits are partially offset by $1.9 billion (of the announced $3 billion) on-market share buy-back (-48 bps) during the year. The remaining $1.1 billion on-market share buy-back is expected to be completed during the March 2019 half.
- Other impacts reduced the CET1 ratio by 27bps, which include large/notable items affecting the September 2018 full year statutory earnings (except for the accelerated software amortization charge which is included in capital deductions), RWA modelling changes and net foreign currency translation.

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. 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 neutralization) 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.

Leverage Ratio – including discontinued operations

At September 30, 2018, the Group's APRA Leverage Ratio was 5.5% which is above the 3% minimum required by the BCBS. APRA has not finalized a minimum leverage ratio requirement for ADIs. The following table summarizes the Group's Leverage Ratio calculation:

	As of September 30		
	2018 $M	2017 $M	2016 $M
Tier 1 Capital (net of capital deductions)	**52,218**	49,324	48,285
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	**785,405**	752,347	744,359
Derivative exposures	**30,676**	31,469	30,600
Securities Financing Transaction ("SFT") exposures	**36,066**	28,598	31,417
Other off-balance sheet exposures	**102,810**	96,765	98,460
Total exposure measure	**954,957**	909,179	904,836
APRA Leverage Ratio[1]	**5.5%**	5.4%	5.3%

1. *Leverage ratio includes Additional Tier 1 securities subject to Basel 3 transitional relief, net of any transitional adjustments (applicable to September 2017 and September 2016).*

Comparison of 2018 with 2017

ANZ's leverage ratio increased 4 bps during the year. Key drivers of the movement in the leverage ratio were:

- Net organic capital generation of 32 bps driven by statutory profit (excluding large/notable items) less dividend payments.
- Benefits from asset disposals increased leverage ratio by 35 bps (SRCB, Asia Retail and Wealth businesses in Vietnam, Taiwan and Indonesia, 40% stake in MCC and reinsurance proceeds in relation to the Australian life insurance sale).
- The asset disposal benefits were partially offset by $1.9 billion (of the announced $3 billion) on-market share buy-back (-21 bps) and the redemption of the remaining CPS3 Additional Tier 1 capital instruments (-6 bps).
- Exposure growth primarily from growth in loans and securities financing transaction decreased leverage ratio by 22 bps.
- Other impacts (-14 bps) include large/notable items affecting the September 2018 full year statutory earnings (except for accelerated amortisation) (-7 bps), net FX impacts (-5 bps) and net other items of (-2 bps).

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 bps.

Guarantees and contingent liabilities

Details of the estimated maximum amount of guarantees, letters of credit and performance related contingencies that may become payable are disclosed in the following table.

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

Documentary letters of credit involve the Group issuing of letters of credit guaranteeing payment in favor 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 fulfill 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 for 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.

	As of September 30		
	2018 $M	**2017 $M**	**2016 $M**
Contract amount of:			
Guarantees and letters of credit	18,441	20,009	18,056
Performance related contingencies	24,136	20,830	19,723
Total	42,577	40,839	37,779

For further information on Group's other contingent liabilities, refer to Note 33 of the 2018 Financial Report (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	65
Mr. S C Elliott	Chief Executive Officer	2016	54
Ms. I R Atlas	Independent Non-Executive Director	2014	64
Ms. P J Dwyer	Independent Non-Executive Director	2012	58
Ms. S J Halton, AO PSM	Independent Non-Executive Director	2016	58
Sir J Key, GNZM AC	Independent Non-Executive Director	2018	57
Mr. Lee Hsien Yang	Independent Non-Executive Director	2009	61
Mr. G R Liebelt	Independent Non-Executive Director	2013	64
Mr. J T Macfarlane	Independent Non-Executive Director	2014	58

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

Directors' Profiles

MR D M GONSKI, AC, Chairman, Independent Non-Executive Director and Chair of the Ethics, Environment, Social 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 Ethics, Environment, Social 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: Sydney Airport Corporation Limited (from 2018), Lowy Institute for International Policy (from 2012) and Australian Philanthropic Services Limited (from 2012).
Member: 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).

Relevant Directorships held in last three years, include

Former Chairman: Review to Achieve Education Excellence in Australian Schools for the Commonwealth of Australia (2017-2018), Coca-Cola Amatil Limited (2001-2017, Director from 1997) and Sydney Theatre Company Ltd (2010-2016).

Age: 65. **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 Banking Association (which he also Chairs) and the Business Council of Australia.

Relevant other Directorships

Chairman: Australian Banking Association (from 2017, Member from 2016).
Director: ANZ Bank New Zealand Limited (from 2009) and the Financial Markets Foundation for Children (from 2016).
Member: Business Council of Australia (from 2016).

Age: 54. **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 Ethics, Environment, Social 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: OneMarket Limited (from 2018) and Paul Ramsay Foundation (from 2017).
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: Westfield Corporation Limited (2014-2018), Human Rights Law Centre Ltd (2012-2017) and Treasury Corporation of New South Wales (2013-2017).

Age: 64. **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 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) and Australian Government Takeovers Panel (from 2017).

Relevant Former Directorships held in last three years, include

Former Member: ASIC External Advisory Panel (2012-2015).

Age: 58. **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, Ethics, Environment, Social 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 of 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 the National Aboriginal and Torres Strait Islander Health Council.

Relevant other Directorships

Chairman: Vault Systems (from 2017), Coalition for Epidemic Preparedness (Norway) (from 2018, Member from 2016) and Council on the Ageing Australia (from 2017).

Director: Clayton Utz (from 2017) and Crown Resorts Limited (from 2018).
Member: Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington (from 2007).
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).
Former Public Policy Fellow: ANU Crawford School of Public Policy (2012-2016).

Age: 58. **Residence:** Canberra, Australia.

RT HON SIR JOHN KEY GNZM AC Independent Non-Executive Director
BCOM, DCOM (HONORIS CAUSA)

Non-Executive Director since February 2018. Sir John is a member of the Risk Committee and Ethics, Environment, Social and Governance Committee.

Career

Sir John was Prime Minister of New Zealand from 2008 to 2016, having commenced his political career in 2002. Sir John had a long career in international finance, primarily for Bankers Trust in New Zealand and Merrill Lynch in Singapore, London and Sydney. He was previously a member of the Foreign Exchange Committee of the Federal Reserve Bank of New York (from 1999-2001).

Sir John was made a Knight Grand Companion of the New Zealand Order of Merit in the 2017 Queen's Birthday Honours. In 2017 Sir John became a Companion of the Order of Australia for advancing the Australia-New Zealand bilateral relationship.

Relevant Other Directorships

Chairman: ANZ Bank New Zealand Limited (from 2018, Director from 2017).
Director: Air New Zealand Limited (from 2017).

Relevant Former Directorships held in last three years, include

Former Chairman: The International Democratic Union (2014-2018).

Age: 57 **Residence**: Auckland, New Zealand

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 former 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).
Director: Rolls-Royce Holdings plc (from 2014), Cluny Lodge Pte Ltd (from 1979) and Caldecott Inc. (from 2013).
Special Adviser: General Atlantic (from 2013).
President: INSEAD South East Asia Council (from 2013).

Relevant Former Directorships held in last three years, include

Former Chairman: Civil Aviation Authority of Singapore (2009-2018) and General Atlantic Singapore Fund Pte Ltd (2013-2018).
Former Director: Singapore Exchange Limited (2004-2016) and General Atlantic Singapore Fund FII Pte Ltd (2014-2018).
Former Consultant: Capital International Inc. Advisory Board (2007-2016).
Former Member: Governing Board of Lee Kuan Yew School of Public Policy (2005-2017).

Age: 61. **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) and DuluxGroup Limited (from 2018, Director from 2016).

Director: Australian Foundation Investment Company Limited (from 2012) and Carey Baptist Grammar School (from 2012).

Age: 64. **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), AGInvest Holdings Limited (MyFarm Limited) (from 2014, Chairman 2014-2016), Balmoral Pastoral Investments (from 2017) and L1 Long Short Fund (from 2018).

Age: 58. **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 – 54	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
K Corbally Age - 48	Chief Risk Officer Previous roles within ANZ include: Group General Manager Internal Audit; Managing Director, Head of Credit and Capital Management; Head of Institutional Relationship Banking Australia; Head of Diversified Industrials. Roles prior to ANZ include: Managing Director and Head of Corporate and Commercial Banking Australia and New Zealand, Citigroup.	March 2018	July 2009
F Faruqui Age – 54	Group Executive, International Over 26 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 Pacific – Citi; Head of Global Loans & Leveraged Finance, Asia Pacific and Head of Fixed Income, Capital Markets – Citi.	February 2016	August 2014
G Florian Age – 53	Group Executive, Technology Over 31 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 – 54	Deputy Chief Executive Officer and 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.	May 2018	December 2013
M Hand Age – 52	Group Executive, Australian Business and Private Banking Previous roles within ANZ include: Managing Director, Business & Private Banking; Managing Director, Corporate and Commercial Banking; Managing Director, Retail Distribution, Australia; General Manager, Regional Commercial Banking; General Manager, Business Banking Manager segment; State Manager, Business Banking Victoria & Tasmania; District Manager, Business Banking, Melbourne CBD; Head of Credit and Operating Risk, SME Banking; Head of Audit, Middle East & South Asia (based in Mumbai, India).	May 2018	August 1988
D Hisco Age – 55	Group Executive and Chief Executive Officer, New Zealand Over 36 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
M Jablko Age – 46	Chief Financial Officer Over 17 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 – 47	Group Executive, Australia Over 16 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 – 44	Group Executive, Talent and Culture Over 15 years' experience focused on leading business transformations. Roles prior to ANZ include: Vice President, Bain & Company	May 2017	May 2017
M Whelan Age – 58	Group Executive, Institutional Over 33 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

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 2018 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 – including discontinued operations

As of September 30, 2018, ANZ employed 39,924 people worldwide (September 30, 2017: 44,896) on a full-time equivalent ("FTEs") basis.

	As of September 30			
		Restated[1]	Originally Reported	
Division	**2018**	**2017**	**2017**	**2016**
Australia	12,885	13,885	11,387	11,563
Institutional	6,188	6,783	4,754	5,112
New Zealand	6,165	6,372	6,207	6,317
Wealth Australia	2,314	2,512	2,110	2,174
Asia Retail & Pacific	1,131	3,664	3,981	4,894
TSO & Group Center	11,241	11,680	16,457	16,494
Totals	39,924	44,896	44,896	46,554

1. *As part of the broader simplification strategy for ANZ, there have been several structural changes in the 2018 fiscal year described in "Section 2: Information on the Group - Principal Activities of the Group". Restated 2017 reflect the impact of these structural changes at divisional level. These changes do not have an impact on comparative information at the Group level.*

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 set 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 governed 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. As of the date of this U.S Disclosure Document, the agreement continues to apply and will do so indefinitely – although in 2018 the pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) were managed outside of the agreement given that the agreement's pay increase provisions have now expired.

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 August 2018 and is effective from August 1, 2018 expiring on July 31, 2020. Management is not involved in any significant disputes with labor unions in New Zealand.

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 2018 Financial Report (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 2018 Financial Report (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 November 4, 2018, we have been made aware of two entities which are the beneficial owners 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 and on July 3, 2018, The Vanguard Group, Inc. became a substantial shareholder, with an interest in 144,730,016 ordinary shares (5.001%) in the Company.

Refer to the 2018 Remuneration Report (attached to this U.S. Disclosure Document as part of 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 "Section 6: Additional Information - Limitations affecting security holders" 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 our website at: *http://shareholder.anz.com/reviews/usdebtinvestors-files*. 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 in "Section 6: Additional Information - Limitations affecting security holders" 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.

A Banking Act 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

Key management personnel loan 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.

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.

Associates

Transactions conducted with all associates were on terms equivalent to those made on an arm's length basis.

For further information on related party transactions, refer to Note 32 of the 2018 Financial Report (attached as the Annex A to this US 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. ASX is currently consulting on a replacement CHESS, with the new system expected to take effect from early 2021.

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

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.

Note 33 of the 2018 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) contains a description of contingent liabilities and contingent assets as at September 30, 2018.

A summary of some of those contingent liabilities 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 (honor, dishonor 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. In 2017, a new claim was 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 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.

- **Capital raising actions**

  In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

  In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

- **Franchisee litigation**

  In February 2018, two related class actions were brought against the Company. The primary action alleges that the Company breached contractual obligations and acted unconscionably when it lent to the applicant, and other 7-Eleven franchisees. The action seeks to set aside the loans to those franchisees and claims unspecified damages. The second action seeks to set aside related mortgages and guarantees given to the Company. The matters are at an early stage.

- **Regulatory and customer exposures**

  In recent years there has been an increase in the number of matters on which ANZ engages with its regulators. 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. ANZ also instigates engagement with its regulators. The nature of these interactions 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 and product disclosure documentation. ANZ has received various notices and requests for information from its regulators as part of both industry-wide and ANZ-specific reviews and has also made disclosures to its regulators at its own instigation. 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.

- **Royal Commission**

  The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on December 14, 2017. The Commission has been asked to submit its final report by February 1, 2019 (an interim report was released on September 28, 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain. For further discussion, refer to the section headed “Royal Commission” under “Supervision and Regulation - Australian Regulatory Developments” in this U.S. Disclosure Document.

- **Security recovery actions**

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

- **Warranties and Indemnities**

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

SUBSEQUENT EVENTS SINCE THE END OF THE FINANCIAL PERIOD

ANZ notes release of APRA's loss-absorbing capacity discussion paper

On November 8, 2018, ANZBGL noted the release of APRA's discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution". The paper is in response to recommendation three of the final report of the FSI.[1] The paper proposes an increase in total capital requirements of between 4% and 5% of RWA for "D-SIBs, such as ANZBGL. Based on the ANZ Group's RWA of $391 billion as at September 30, 2018, this represents an incremental increase in the total capital requirement of approximately $16 billion to $20 billion, with an equivalent decrease in other senior funding. APRA anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. D-SIBs will need to satisfy the new requirement by 2023.[2] ANZBGL intends to consult with APRA and provide a response. In addition to the proposals outlined in the paper, APRA noted that it is in the process of developing a formalised framework for resolution planning and will consult further on this in 2019.

Except as disclosed above, there have been no significant events from September 30, 2018 to the date of this U.S. Disclosure Document.

Notes

1. Pages 67-75 of the Final Report of the FSI which recommended that the Australian Government "implement a framework for minimum loss absorbing and recapitalization capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of Australian authorized deposit-taking institutions and minimize taxpayer support"

2. D-SIBs have an implementation period of four years from the release of the final total capital requirements (expected in 2019).

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 2018 final dividend. For the 2018 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 and Chi-X during the ten trading days commencing on November 16, 2018, 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 apply 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" vessels, persons or entities by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit, including:
   (a) persons who have been indicted for an offence by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia ("ICTY") or who are subject to an Interpol arrest warrant related to such an offence within the jurisdiction of the ICTY, persons who are suspected of assisting persons who have been indicted by the ICTY and are not currently detained by the ICTY, as well as certain supporters of the former Milosevic regime;
   (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
   (c) certain persons or entities associated with the weapons of mass destruction or missiles program of the Democratic People's Republic of Korea ("North Korea"), or have assisted or are assisting North Korea to violate or evade certain United Nations Resolutions;
   (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, and immediate family members of such persons;
   (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;
   (f) certain close associates of the former Qadhafi regime, entities under the control of the Qadhafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya;
   (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and
   (h) persons or entities responsible for, or complicit in, the threat to the sovereignty and territorial integrity of Ukraine.
2. Under Part 4 of the Charter of the United Nations Act 1945 of Australia, the Charter of the United Nations ("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) Regulation 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) Regulation 2015 of Australia); and

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

3. Under the AML Act (or, where applicable, the Financial Transaction Reports Act 1988 of Australia), transfer of physical currency or digital currency of $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.

  The Australian Government has introduced the Treasury Laws Amendment (Financial Sector Regulation) Bill 2018, which is intended to change the financial sector company ownership limit from 15% to 20%. As at the date of this U.S. Disclosure Document, the Bill is before the Senate for approval.

- 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.

WITHOLDING 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 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.

Economic hedges are used by the Group to manage its interest rate and foreign exchange risk which, in accordance with accounting standards result in fair value gains and losses being recognized in the income statement, whereas items being hedged are recognized on an accrual basis in the income statement.

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

IFRS – International Financial Reporting Standards.

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

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

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

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

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

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

Level 1 in the context of APRA supervision, Australia and New Zealand Banking Group Limited consolidated with certain approved subsidiaries.

Level 2 in the context of APRA supervision, the consolidated ANZ Group excluding associates, insurance and funds management entities, commercial non-financial entities and certain securitization vehicles.

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 divided by average total assets.

Return on average ordinary shareholders' equity is the profit attributable to shareholders of the Company divided by average ordinary shareholders' equity.

Revenue hedges are used by the Group to hedge future revenue streams which, in accordance with accounting standards, result in fair value gains and losses being recognized in the income statement.

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, vostro accounts and securities settlement accounts.

ANNEX A: THE 2018 REMUNERATION REPORT, THE 2018 FINANCIAL REPORT OF THE GROUP, AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2018 FINANCIAL REPORT OF THE GROUP (EXTRACTS FROM ANZ's 2018 ANNUAL REPORT)

ANNEX B: THE 2018 FINANCIAL REPORT OF THE COMPANY AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2018 FINANCIAL REPORT OF THE COMPANY

ANNEX C: 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 ANZ's 2017 ANNUAL REPORT)

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

2018
ANNUAL REPORT

REMUNERATION REPORT

Dear Shareholder,

2018 Remuneration Report – audited

This has been a difficult year for ANZ and our industry.

While we recorded a solid financial result, particularly in our Institutional and New Zealand businesses, the Board acknowledges the significant community concern as a result of our failures highlighted in the Royal Commission.

Given this has impacted our corporate reputation and economic profit, variable remuneration at all levels of ANZ has been materially reduced from the prior year.

It is important that accountability for these failures is reflected in the remuneration of our most senior team even though most are new to their roles and many are new to ANZ:

- All Disclosed Executives (including our Chief Executive Officer (CEO)) achieved outcomes below their target.
- Variable remuneration outcomes for our CEO and current Disclosed Executives averaged 78% of target overall (53% of maximum opportunity), with substantial differentiation at an individual level ranging from 60% to 91%.
- We have re-set the salaries with each new appointment to the Executive team. The total statutory remuneration of the CEO and Disclosed Executives in 2018 is down almost 40% when compared to 2015.

The ANZ Incentive Plan (ANZIP), which is the variable remuneration plan for the majority of our people, including the CEO and all Disclosed Executives, has been reduced by $124 million from last year.

The performance rights awarded in November 2014 were tested in November 2017, but as the relative Total Shareholder Return performance hurdles were not met these performance rights lapsed and executives received no value from this award.

While the Non-Executive Directors do not receive variable remuneration, the Board accepts that it is appropriate that they too share some accountability for these failures. As a consequence, the Non-Executive Directors, who have served on the Board in financial year (FY) 18, have agreed to a 20% reduction of their fee for FY19 (20% reduction to the Chairman fee from $825,000 to $660,000, and 20% reduction to the NED member fee from $240,000 to $192,000).

Given that many of the issues, that led to the large/notable items that have impacted performance this year, pre-date many of the members of the existing management team, the Board has exercised its discretion to apply downwards adjustment to the unvested deferred remuneration held by previous members of the management team.

Moving forward

Commissioner Hayne has rightly raised questions about how the industry rewards its people and we await his final recommendations.

Remuneration at ANZ has evolved significantly over recent years in accordance with our reward principles as set out in this report. However we also know we have more to do. We are currently undertaking a company-wide review of how we reward our workforce with the objective to reward people in a way that supports our strategy, purpose and culture, improves the services we provide our customers, supports employee engagement and delivers value to shareholders.

On behalf of the Board, I invite you to consider our Remuneration Report which will be presented to shareholders for adoption at the 2018 Annual General Meeting in Perth.

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
J Key	Director – appointed 28 February 2018
H Lee	Director
G Liebelt	Director
J Macfarlane	Director

Chief Executive Officer (CEO) and Disclosed Executives – Current

S Elliott	Chief Executive Officer and Executive Director
M Carnegie	Group Executive, Digital Banking
K Corbally	Chief Risk Officer (CRO) – appointed 19 March 2018
A George	Deputy Chief Executive Officer and Group Executive, Wealth Australia – appointed Deputy Chief Executive Officer 14 May 2018
D Hisco	Group Executive and Chief Executive Officer, New Zealand
M Jablko	Chief Financial Officer (CFO)
F Ohlsson	Group Executive, Australia
M Whelan	Group Executive, Institutional

Disclosed Executives – Former

G Hodges	Former Deputy Chief Executive Officer – concluded in role 13 May 2018, ceased employment 30 September 2018
N Williams	Former Chief Risk Officer – concluded in role 30 March 2018, ceasing employment 2 November 2018

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.

2. REMUNERATION AT A GLANCE

ANZ'S PURPOSE AND STRATEGY[1]

IS UNDERPINNED BY:

OUR REMUNERATION POLICY/REWARD PRINCIPLES:	Attract, motivate and keep great people	Reward our people for doing the right thing having regard to our customers and shareholders	Focus on how things are achieved as much as what is achieved	Are fair and simple to understand

WITH REMUNERATION 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 including as a multiplier in determining the ANZIP variable remuneration pool	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 variable remuneration pool

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

GROUP PERFORMANCE CATEGORIES:	**Risk**	**Financial and Discipline** (50% weighting)	**Customer** (25% weighting)	**People and Reputation** (25% weighting)
	(overall adjustment)	Combined weighting 100% including both annual and longer term strategic measures		

ANZ'S 2018 PERFORMANCE OVERALL: (see sections 5.1 and 5.2)	Despite solid performance against the majority of metrics in the 2018 Group Performance Framework, the ANZIP variable remuneration pool for 2018 is significantly down on prior year, in recognition of the failures highlighted in the Royal Commission and their reputational impact.

2018 FIXED REMUNERATION CHANGES:	No change to the CEO's fixed remuneration for 2018. Fixed remuneration for new appointments has been set lower than prior incumbent. No change to NED fees for 2018 (reduction of 20% to the Chairman fee and NED member fee (for current NEDs) in 2019).

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

2018 VARIABLE REMUNERATION OUTCOMES[3]: (see sections 5.4 and 5.5)

CEO Variable Remuneration 75% of target which comprises:
Annual Variable Remuneration: 83% of target (56% of max); and
Long Term Variable Remuneration: 67% of target (subject to shareholder approval).

Current Disclosed Executives Variable Remuneration outcomes:

	% of target	% of max
Average:	78	53
Range:	60 – 91	40 – 60

Nov 2014 performance rights fully lapsed.
Executives received no value from this award.

1. See the 'About our Business' and 'Our Strategy' sections of the Annual Report.
2. The structure of our remuneration framework is aligned with our reward 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.

3. OUR REWARD PRINCIPLES

Our remuneration policy and reward principles are a key consideration when making decisions pertaining to our remuneration frameworks and were updated in 2018 to better reflect ANZ's strategic direction and culture.

ANZ Reward Principles		This means we focus on...
Attract, motivate and keep great people	✓	Providing a market competitive reward offering, and supporting the movement/mobility of talent internally
	✓	Using financial and non-financial rewards to support being a 'great place to work and grow', and to motivate discretionary effort
Reward our people for doing the right thing having regard to our customers and shareholders	✓	Ensuring our financial services are provided efficiently, ethically and fairly
	✓	Rewarding for performance against both short and longer term objectives in line with ANZ's strategy, and aligning executive and shareholder interests
Focus on how things are achieved (values, culture and risk) as much as what is achieved (performance)	✓	Assessing performance and differentiating rewards based on a balanced scorecard of measures
	✓	Providing flexibility to recognise team and individual performance to support collaboration and innovation, and ensuring the reward framework provides employees with confidence to pursue multi-year initiatives
Are fair and simple to understand	✓	Simplicity in design, process, communication and the employee experience, whilst being flexible enough to meet business needs
	✓	Fairness in both the internal and external market context, and supporting gender pay equity
	✓	Providing greater transparency around remuneration to improve employee understanding

4. COMPOSITION OF EXECUTIVE REMUNERATION

4.1 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 the right balance between:

- fixed remuneration and at risk variable remuneration;
- cash and deferred equity; and
- short, medium, and long-term rewards.

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

- **CEO** We reward the CEO Variable Remuneration (VR) comprising Annual Variable Remuneration (AVR) and Long Term Variable Remuneration (LTVR). This is in accordance with his employment contract (as disclosed to the market at the time of his appointment) and is 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 Human Resources (HR) Committee and the Board determine the CEO's VR outcome (AVR and LTVR) and the LTVR outcome is also subject to shareholder approval at the Annual General Meeting.

  - AVR outcome: half of this is delivered as ANZ shares (deferred evenly over one to four years); and
  - LTVR outcome: all of this is delivered as performance rights and the 2018 award will be effectively deferred for four years (three year deferral plus a further one year restriction period).

- **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 evenly 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.

4. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

CEO

Fixed Remuneration 1/3	Variable Remuneration (VR) 2/3	
	Annual Variable Remuneration (AVR) 1/3	Long Term Variable Remuneration (LTVR) 1/3

AT RISK

On target opportunity: 100% of fixed remuneration Maximum opportunity: 150% of target		On target opportunity: 100% of fixed remuneration
Cash 50% of AVR	Deferred Shares 1 to 4 years 50% of AVR	Performance Rights[1] 4 years (3 years deferred and 1 year restricted[2]) 100% of LTVR

Disclosed Executives[3]

Fixed Remuneration 1/3	Variable Remuneration (VR) 2/3

AT RISK

On target opportunity: 200% of fixed remuneration
Maximum opportunity: 150% of target

Cash	Deferred Shares	Performance Rights[1]
33% of VR	1 to 4 years 33% of VR	3 years 34% of VR

1. Face value at threshold vesting (50% vesting).
2. One year restriction introduced to enable equity to remain subject to downward adjustment for a further period.
3. The CRO's remuneration arrangements are 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.

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 on ANZ's strategic objectives; and
- can be adjusted downwards, including to zero (if appropriate), allowing the Board to hold executives accountable.

4.2 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 continue to set fixed remuneration lower than that of the prior incumbent (following the trend established with the CEO appointment).

4.3 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 variable remuneration pool sizing and allocation process

ANZIP variable remuneration pool determined based on performance and affordability ▶ Board approval of ANZIP variable remuneration pool ▶ Business and individual allocations from ANZIP variable remuneration pool

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

ANZIP variable remuneration pool based on performance

Managing risk appropriately is fundamental to the way ANZ operates and is therefore a key element of how we measure and assess performance at a Group, Division and individual level.

When determining the size of the ANZIP variable remuneration pool the Board considers:

1. our economic profit performance – a risk adjusted financial measure;
2. our performance against the Group Performance Framework (Risk, Financial and Discipline, Customer, and People and Reputation performance indicators) that were agreed by the Board at the start of the financial year; and
3. other factors such as the overall operating environment, affordability and the quality of our results.

The Board exercise their judgement to determine the appropriate size of the variable remuneration pool each year – it is not a formulaic outcome.

4. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

The ANZ 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.

Performance indicators are set by the Board at the start of each year under the categories of:

- Risk – separate measure which can adjust the overall performance assessment;
- Financial and Discipline, 50% weighting;
- Customer, 25% weighting; and
- People and Reputation, 25% weighting.

The indicators within each category encourage our people to focus on both annual priorities and on broader long-term strategies to deliver great outcomes for our customers and shareholder value.

The performance indicators are designed to be stretching, yet achievable. They are approved by the Board at the start of each year and are set considering prior year performance, industry standards and ANZ's strategic objectives. They may reflect targets set for the current year and also longer term strategic goals. As the specific targets and features relating to many of these indicators are commercially sensitive, we have not provided them in detail.

4.3.2 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 long term 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 (behaviours) and ANZ's risk and compliance standards.
- The HR Committee seeks input from the CEO, CRO (on risk management), CFO (on financial performance), Group Executive, Talent and Culture (GE T&C) (on talent and culture matters) 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.

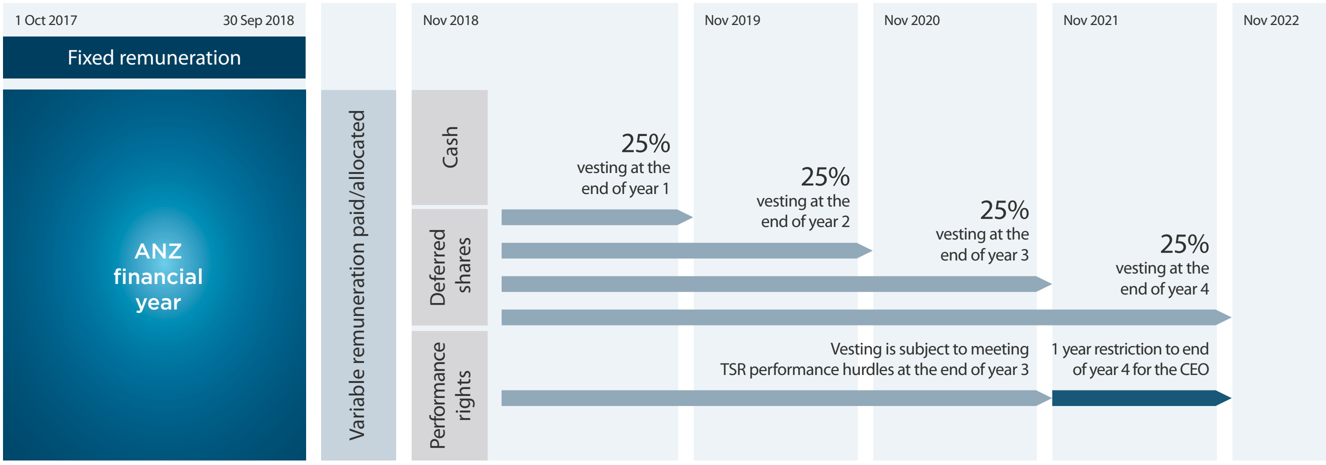
Determination of remuneration outcomes

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

4. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

4.3.3 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. The CEO's 2018 performance rights are also subject to a 12 month restriction period post vesting.



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 or 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

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. The value depends on our performance against the hurdles and on the share price at the time of exercise.
What is the performance period?	Performance rights have a three year performance period. For the 2018 grant (to be granted in November/December 2018), the performance period is from 22 November 2018 to 21 November 2021. 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 is the restriction period that applies to the CEO?	The performance rights granted to the CEO in December 2018 will also be subject to a 12 month restriction period. This means they are effectively deferred for four years (three year deferral period and one year restriction period). The CEO's performance rights which meet the performance hurdle will be converted to shares at the third anniversary of grant. They are then restricted for 12 months (to the fourth anniversary of grant) and remain subject to downward adjustment. The CEO is unable to trade the shares during this period. Dividends on any vested shares will be payable to the CEO during the restriction period.

4. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

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

What are the performance hurdles and why?

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

We will apply two TSR performance hurdles for the 2018 grants of performance rights (as we did in 2017):

- 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 – 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, made up 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 – that is: one tranche may vest fully or partially but the other tranche may not vest.

What is the relative TSR performance hurdle for the 2018 grant?

(Also see ANZ TSR performance in section 5.2 and hurdle outcomes in section 5.5)

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 for the 2018 grant?

Absolute CAGR TSR is an internal hurdle as to 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. When 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 10%	is nil
is 10%	is 50%
reaches at least 10%, but is less than 15%	is progressively increased on a pro-rata, straight-line, basis from 50% to 100%
reaches or exceeds 15%	is 100%

4. COMPOSITION OF EXECUTIVE REMUNERATION (continued)

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

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, which is only used for expensing purposes. They consider factors including: the performance conditions; share price volatility; life of the instrument; dividend yield; and share price at grant date.

Deferred share rights for the CRO

The CRO receives deferred share rights instead of performance rights to preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across the organisation.

The CRO's deferred share rights are subject to a time-based vesting hurdle of three years. The value the Board uses to determine the number of deferred share rights to be allocated to the CRO is the face value of the Company's shares traded on the ASX at the time of grant adjusted for the loss of dividends over the three year deferral period.

4.3.4 DOWNWARD ADJUSTMENT OF DEFERRED REMUNERATION – BOARD DISCRETION

Any deferred remuneration we award is subject to the Board's on-going discretion to reduce (including to zero) deferred/retained remuneration. This discretion may be exercised, for example, where the Board considers this is necessary to protect the financial soundness of ANZ, to meet unexpected or unknown regulatory requirements or if the Board subsequently considers that the grant was not justified.

Further, if the CEO and/or Disclosed Executives have failed to comply with their accountability obligations under the Banking Executive Accountability Regime (BEAR), their deferred remuneration will be reduced by an amount that is proportionate to the failure, as required by BEAR.

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 2018.

However, given that many of the issues, that led to the large/notable items that have impacted performance this year, pre-date many of the members of the existing management team, the Board has exercised its discretion to apply downwards adjustment to the unvested deferred remuneration held by previous members of the management team.

5. 2018 OUTCOMES

5.1 ANZIP VARIABLE REMUNERATION POOL

At the end of each financial year the HR Committee (with input from the Risk and Audit Committees) determines the size of the ANZIP variable remuneration pool for that year and makes a recommendation to the Board for their approval.

When determining the size of the 2018 variable remuneration pool the HR Committee:

- considered the pool size generated based on a percentage of the economic profit for the year (which was down on prior year reflecting large/notable items including announced divestments, customer remediation, accelerated software amortisation, Royal Commission legal costs and restructuring charges);
- reviewed outcomes achieved against the Group Performance Framework, which was set at the start of the year. This was assessed overall as below target (as detailed in section 5.2); and
- considered all other relevant factors (such as operating environment, affordability, and quality of the result).

5. 2018 OUTCOMES (continued)

The matters raised in ANZ's submission to the Royal Commission, including their significant reputational impact, were specifically taken into account in the overall assessment of Group performance and when determining the size of the 2018 variable remuneration pool.

Taking all of this into account the Board decided that the 2018 ANZIP variable remuneration pool would be materially reduced. The pool is down by $124 million from the prior year and accordingly the variable remuneration outcomes for all executives (and employees) have been materially reduced.

5.2 ASSESSMENT AGAINST THE GROUP PERFORMANCE FRAMEWORK FOR THE 2018 FINANCIAL YEAR

Risk	×	[Financial & Discipline	+	Customer	+	People & Reputation]	=	Group Performance Assessment
Overall Adjustment Assessment: On Target		*50% weight* Assessment: On Target		*25% weight* Assessment: On Target		*25% weight* Assessment: Below Target		Overall Assessment Outcome: Below Target

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

This performance framework reflects both annual (Run the Bank Well) and longer term (Strategic) performance indicators across Risk, Financial and Discipline, Customer, and People and Reputation categories. Risk outcomes form an integral part of the assessment and 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 table below provides an overview of some of the indicative measures used to inform the overall assessment for each of the key performance categories. For strategic measures '+' refers to delivered, '=' on track, and '–' more work to do.

Indicative Measure	Performance against Indicative Measures
Risk	
Overall assessment: On Target Key risk, control, governance and compliance metrics were met despite a challenging external and regulatory environment. This includes strong risk foundations being put in place in line with our objectives to: a. Manage the bank well and ensure our risk appetite, balance sheet, systems, processes and culture are strong, coherent and aligned appropriately; b. Operate safely within all regulatory limits at all times; and c. Ensure ANZ's products, services and processes are responsible and fair for customers. There is strong leadership on the importance of Risk and Compliance and setting the right culture, as well as a heavy emphasis on maintaining high ethical standards, acting fairly and with integrity. ANZ is focused on making it easier, safer and important for our people to raise issues and concerns. 2018 saw the lowest credit provisions in more than 20 years with a loss rate of 0.12%. While a benign credit environment played a role, it must be recognised that management decisions, often at the expense of revenue, as well as a significant reshaping of the portfolio, contributed to this outcome.	
Run the bank well	
• No material anti-money laundering, know your customer or sanctions breaches	• = There were no material breaches in 2018
• Fixing repeat adverse audit trends in a timely and sustainable manner	• = Management accountability for fixing issues in a timely and sustainable manner saw the number of adverse audits fall by 16%. There was a very low number of repeat adverse rated audits during FY18, representing less than 1% of all audits. None of these indicated broader risk management awareness issues
• No unplanned material breaches of primary metrics in Group Risk Appetite Statement	• = No material breaches recorded
• Leaders demonstrate accountability for managing risk	• – My Voice engagement survey result on 'leaders demonstrate accountability for managing risk' although 81% positive, was slightly below target
Strategic	
• Build out enabling technology per roadmap	• = Successful delivery of projects relating to Retail Credit Infrastructure, as well as progress on rationalising multiple mortgage models into one

5. 2018 OUTCOMES (continued)

Performance framework: Overview of indicative measures informing our assessment of performance (continued)

Indicative Measure	Performance against Indicative Measures
Financial and Discipline	
Overall assessment: On Target	
The assessment of financial measures such as return on equity, considers the outcomes both with and without the impact of the large/notable items[1]. While cost outcomes were below target (resulting from the large/notable items), we maintained a strong balance sheet, and divestments during the year reduced the complexity of the Group. Total shareholder returns were positive relative to peers and return on equity was on target. Organic capital generation remained strong. Capital, funding and liquidity continued to be well above regulatory minimums.	
Run the bank well	
Profitability	
• Reduction in operating expenses	• – 3.1% higher than 2017 as a result of large/notable items[1] or 1.5% lower excluding large/notable items[1]
Returns	
• Total shareholder returns (TSR) relative to peers	• = TSR for 2018 is 0.6% – above the median of the financial services comparator group and domestic majors
• Return on equity (ROE)	• = ROE on target. ROE (continuing) was 11.0% or 11.8% excluding large/notable items[1]
Sound Balance Sheet Indicators	
• Common Equity Tier 1 (CET1) and Net Stable Funding Ratio	• + Funding and liquidity have been well managed, with CET1 of 11.4%, comfortably ahead of regulatory requirements. ANZ generated 182 bps of capital which compares favourably to the historical average of 154 bps. Net Stable Funding Ratio of 115%
Strategic	
• Simplification and standardisation of our technology landscape	• = ANZ has been simplifying its technology architecture and progress has been in-line with expectations
• Transactions to simplify and create a better balanced bank	• + Significant asset divestments announced in 2018 include Wealth Australia – Life Insurance (to Zurich), Wealth Australia – One Path Pensions & Investments/Aligned Dealer Group (to IOOF), ANZ Royal joint venture, One Path Life New Zealand and PNG Retail, Commercial and SME. Completed sales include Asia Retail in 6 countries and Metrobank Card Corporation investment in Philippines and Shanghai Rural Commercial Bank investment in China

5. 2018 OUTCOMES (continued)

Performance framework: Overview of indicative measures informing our assessment of performance (continued)

Indicative Measure	Performance against Indicative Measures
Customer	
Overall assessment: On Target ANZ continued to improve customer experience this year, with a highlight being Institutional performance in key customer satisfaction/relationship strength surveys. A disappointing Net Promoter Score (NPS)[2] in Australia was balanced by a record NPS in New Zealand Retail and strong digital engagement with customers across the Group. The ANZ app remains the top-rated banking app in the Apple store with almost 150,000 reviews. The Royal Commission has had a significant impact on the Group this year and ANZ is fast-tracking changes to build a bank worthy of the trust of all stakeholders.	
Run the bank well	
Customers as Advocates	
• Improve Net Promoter Score (NPS)[2]	• + A record NPS in New Zealand, and a slightly improved Australia Retail score • – A disappointing result in Business and Private Banking
• Maintain or improve position in respect of relevant corporate and institutional customer satisfaction/relationship strength indices	• + Strong performance as evidenced by results on Peter Lee Associates[3]: #1 lead bank penetration in Australia (biggest gap on competition since 2003) and New Zealand; #1 for Relationship Strength Index in Australia (highest score ever recorded by any bank) and New Zealand. Greenwich Associates[4]: #4 top Corporate Bank in Asia for the 6th successive year
Improving Digital Offering	
• Increase the proportion of customers choosing digital for services or purchases, by delivering digital solutions that improve the customer experience	• – Customers use of digital solutions increased year-on-year, but were slightly below set targets
Strategic	
Building for the future	
• Build and deliver new customer ecosystems to engage and increase customer retention • Improve our data assets to strengthen relationships and improve risk management • Build a payments platform that delivers continuous innovation and improves the customer experience	• = The business is on track with major initiatives/projects to create the best bank and experiences for our customers. Rolled out New Payments Platform to three million small, medium and Institutional customers; improved digital channels with the launch of 39 digital branches; introduced cash withdrawals from ANZ ATMs using any mobile device – an Australian first; maintained mobile payment leadership

5. 2018 OUTCOMES (continued)

Performance framework: Overview of indicative measures informing our assessment of performance (continued)

Indicative Measure	Performance against Indicative Measures
People and Reputation	
Overall assessment: Below Target	
Strong progress to build new digital capabilities as well as an increase in the number of women in leadership. This was offset by employee engagement scores falling below target and our standing in the community was impacted by significant community concern as a result of our failures highlighted by the Royal Commission.	
Run the bank well	
Diversifying our workforce	
• Improving women in leadership	• = 0.9% increase year-on-year to 32% (0.1% below the desired target of 32.1%)
• Environment open and accepting of individual differences	• = Maintained high score of >90% in employee My Voice survey
Engaging our People	
• Significantly improve staff engagement	• – 2018 engagement score of 73% was 1% higher than the 2017 'pulse' survey (for a small sample of our population) and 1% lower than 74% in 2016 (full survey). Solid result given the current operating environment and the significant transformation underway
Sustainability	
• Glassdoor[5] employer of choice ratings	• = Improved score on 2017 and achieved the target of 3.7
• Maintain strong performance on Dow Jones Sustainability Indices (DJSI)	• = DJSI assessment is down to a score of 83, however ANZ is the leading Australian bank
• Corporate Confidence Index (CCI)	• = Outcomes of the CCI are provided to ANZ on a confidential basis, however ANZ has assessed its score as on-target
Strategic	
People and Reputation	
• Building and attracting talent in core digital capability areas	• = We have attracted and retained talent in areas such as digital and technology, and work has commenced to build new skills more broadly across the organisation
• Introducing and embedding new ways of working to more rapidly deliver valuable new features and services to our customers	• = Good progress in rolling out new ways of working to Australia and Technology divisions
• Rebuild reputation	• – ANZ's standing in the community was impacted by significant community concern resulting from failures highlighted by the Royal Commission. ANZ has taken action to fast-track changes to build a bank worthy of the trust and respect of all stakeholders

1. Large/notable items include announced divestments, customer remediation, accelerated amortisation of software assets, Royal Commission legal costs and restructuring charges.
2. 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.
3. Peter Lee Associates 2018 Large Corporate and Institutional Relationship Banking surveys, Australia and New Zealand.
4. Greenwich Associates 2017 Asian Large Corporate Banking study; ANZ ranked = No.4 in 2016 and 2017.
5. Glassdoor is a website where employees and former employees anonymously review companies and their management.

5. 2018 OUTCOMES (continued)

5.3 ANZ PERFORMANCE OUTCOMES

ANZ's Financial Performance 2014 – 2018

	2014	2015	2016	2017	2018
Statutory profit ($m)	7,271	7,493	5,709	6,406	6,400
Cash profit ($m, unaudited)	7,117	7,216	5,889	6,938	5,805
Cash profit – Continuing operations ($m, unaudited)[1]	7,117	7,216	5,889	6,809	6,487
Cash return on equity (ROE) (%) – Continuing operations (unaudited)[1]	15.4	14.0	10.3	11.7	11.0
Cash earnings per share (EPS) – Continuing operations (unaudited)[1]	260.3	260.3	202.6	232.7	223.4
Share price at 30 September ($) (On 1 October 2013, opening share price was $30.75)	30.92	27.08	27.63	29.60	28.18
Total dividend (cents per share)	178	181	160	160	160
Total shareholder return (12 month %)	5.9	(7.5)	9.2	13.1	0.6

1. Cash profit from continuing operations has been presented for FY17 and FY18, prior periods are not restated.

The Group uses cash profit as a measure of performance for the Group's ongoing business activities, as this 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. 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.

The sizing of the ANZIP variable remuneration pool takes account of both cash profit and economic profit. Importantly, economic profit takes into consideration credit losses across an economic cycle.

Cash profit from continuing operations represents the Group's cash profit excluding the impact of our discontinued businesses which consists of OnePath pensions and investments and aligned dealer groups and the Group's life insurance business in Australia. The businesses were reclassified to discontinuing in 2018, and only the 2017 result was restated in the table above.

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 above the median TSR of the SFS Comparator Group when comparing over one, three and ten years, and below the median over five years to 30 September 2018.

	Years to 30 September 2018			
	1	3	5	10
ANZ (%)	0.6	22.4	21.6	161.6
Median TSR SFS (%)	(1.5)	16.0	42.5	121.3
Upper Quartile TSR SFS (%)	17.2	38.6	51.4	177.0

5.4 CEO'S AND DISCLOSED EXECUTIVES' REMUNERATION OUTCOMES

At the start of each year, the Board sets stretching – yet achievable – performance objectives for the CEO and for each Disclosed Executive. When executives deliver on target performance at a Group and individual level (taking into consideration ANZ Values (behaviours) and risk/compliance standards), then their 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 in light of their risk/compliance standards and their demonstration of ANZ Values (behaviours). 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. It then makes recommendations to the Board on both the CEO and the Disclosed Executives' performance and remuneration outcomes.

In 2018, the Board reviewed the CEO and Disclosed Executives' fixed remuneration. The only change made in 2018 was an adjustment for Alexis George on commencement in the expanded role of Deputy CEO and Group Executive, Wealth Australia.

The Board approved the CEO's and the Disclosed Executives' 2018 VR outcomes. In doing so, it considered the performance of the individual, the business and overall Group performance, and the shareholder experience.

5. 2018 OUTCOMES (continued)

5.4 CEO'S AND DISCLOSED EXECUTIVES' REMUNERATION OUTCOMES (continued)

CEO: The CEO's VR for 2018 has been awarded at 75% of target, noting that this comprises both AVR and LTVR.

The 2018 AVR awarded to the CEO is 83% of target (56% of maximum), which reflects his performance against his objectives and the overall performance of the Group. The proposed 2018 LTVR is 67% of target, and this reduction, in addition to the AVR reduction, further acknowledges the conduct issues and reputational damage of the matters raised in the Royal Commission.

The proposed LTVR of $1.4 million/$2.8 million (performance rights face value at threshold/full vesting) is subject to shareholder approval at the 2018 Annual General Meeting.

Disclosed Executives: The average 2018 VR for current Disclosed Executives is 78% of target (53% of maximum). This is significantly below target and in line with the material reduction in the ANZIP variable remuneration pool. Every executive is below target and there is significant differentiation at an individual level ranging between 60% to 91% of target. The different VR outcomes reflect the relative performance of the different areas/individuals, demonstrate the 'at risk' nature of VR, and demonstrate a clear link between performance and reward at both an ANZ and individual level for the 2018 financial year.

The VR awards will be paid/granted in November/December 2018. The majority of the VR award is deferred and remains subject to the Board's discretion to adjust this downwards at any time prior to vesting. In addition, whether the portion of 2018 VR delivered as performance rights actually vests will be subject to ANZ's TSR performance over a three year performance period, which is in line with our business planning cycle.

Year-on-year Remuneration awarded

This table shows a year-on-year comparison of remuneration awarded to the CEO and current Disclosed Executives for the 2017 and 2018 performance periods.

The year-on-year difference for Alexis George reflects her time as a KMP in 2017 and her adjustment in fixed remuneration in 2018.
For David Hisco, the year-on-year difference reflects differences in exchange rate when converting NZD to AUD.

	Financial Year		Fixed remuneration $	Variable remuneration awarded[1] $	Total remuneration awarded[1] $
CEO and Current Disclosed Executives					
S Elliott	2018		2,100,000	3,150,000	5,250,000
	2017		2,100,000	4,100,000	6,200,000
M Carnegie	2018		1,000,000	1,600,000	2,600,000
	2017		1,000,000	1,700,000	2,700,000
K Corbally	2018	(6.5 months in role)	486,000	499,500	985,500
A George	2018	(12 months/4.5 months as Deputy CEO)	876,000	1,075,000	1,951,000
	2017	(10 months in role)	664,000	913,000	1,577,000
D Hisco	2018		1,170,713	1,952,719	3,123,432
	2017		1,195,013	2,200,550	3,395,563
M Jablko	2018		1,000,000	1,750,000	2,750,000
	2017		1,000,000	2,240,000	3,240,000
F Ohlsson	2018		1,000,000	1,200,000	2,200,000
	2017		1,000,000	1,620,000	2,620,000
M Whelan	2018		1,200,000	2,175,000	3,375,000
	2017		1,200,000	3,275,000	4,475,000

1. Performance rights face value at threshold vesting.

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 2018 is provided on the next page.

5. 2018 OUTCOMES (continued)

2018 Variable Remuneration awarded

This table shows the VR awarded to the CEO and current Disclosed Executives for the year ending 30 September 2018, and what this represents as a % of their target opportunity and maximum opportunity.

The average variable remuneration awarded to the CEO and current Disclosed Executives is 78% of target (53% of maximum), which appropriately reflects ANZ's overall performance and the impact to the overall ANZIP variable remuneration pool.

Only the cash component will be received this year. The deferred shares will vest evenly over four years. The performance rights may or may not vest when tested against the performance hurdles in three years' time.

Target opportunity | Maximum opportunity

		Cash		Deferred shares or deferred share rights		Performance rights face value at threshold vesting[4]
S Elliott	VR[1] $3,150,000 (75% of target, 60% of max[2])	= $875,000	+	$875,000	+	$1,400,000
M Carnegie	VR $1,600,000 (80% of target, 53% of max)	= $528,000	+	$528,000	+	$544,000
K Corbally[3]	VR $499,500 (83% of target, 55% of max)	= $164,835	+	$164,835	+	$169,830
A George	VR $1,075,000 (61% of target, 41% of max)	= $354,750	+	$354,750	+	$365,500
D Hisco	VR $1,952,719 (83% of target, 56% of max)	= $644,397	+	$644,397	+	$663,925
M Jablko	VR $1,750,000 (88% of target, 58% of max)	= $577,500	+	$577,500	+	$595,000
F Ohlsson	VR $1,200,000 (60% of target, 40% of max)	= $396,000	+	$396,000	+	$408,000
M Whelan	VR $2,175,000 (91% of target, 60% of max)	= $717,750	+	$717,750	+	$739,500

Cash | Deferred shares or deferred share rights | Performance rights face value at threshold vesting[4]

1. VR for the CEO = AVR + LTVR (LTVR subject to shareholder approval at the 2018 Annual General Meeting).
2. % of max for the CEO = 150% of AVR target plus LTVR target (face value at threshold vesting). The maximum opportunity arrow for the CEO is not to scale, given there is no max for LTVR.
3. Remuneration disclosed from commencement in Disclosed Executive role, CRO receives deferred share rights instead of performance rights.
4. Multiply by two to convert to face value at full vesting for performance rights.

2018 Actual Remuneration received

This table shows the remuneration the CEO and current Disclosed Executives actually received in relation to the 2018 performance year as cash; or in the case of prior equity awards, the value which vested in 2018. The final column also shows the value of prior equity awards which lapsed in 2018 (these awards reflect the 2014 performance rights which failed to meet the performance hurdles when tested in November 2017).

Only the cash component of the 2018 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	875,000	2,975,000	874,666	-	3,849,666	(1,582,649)
M Carnegie[2]	1,000,000	528,000	1,528,000	34,610	1,481,009	3,043,619	-
K Corbally[3]	486,000	164,835	650,835	-	-	650,835	-
A George[4]	876,000	354,750	1,230,750	334,044	250,000	1,814,794	(153,292)
D Hisco[5]	1,170,713	644,397	1,815,110	864,274	-	2,679,384	(1,383,354)
M Jablko[6]	1,000,000	577,500	1,577,500	34,610	428,084	2,040,194	-
F Ohlsson	1,000,000	396,000	1,396,000	597,403	-	1,993,403	(404,809)
M Whelan	1,200,000	717,750	1,917,750	856,454	-	2,774,204	(395,655)

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 disclosed. The lapsed/forfeited values relate to the performance rights we awarded in November 2014 which lapsed due to the performance hurdles not being met.
2. Other deferred remuneration for M Carnegie relates to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.
3. Remuneration disclosed from commencement in Disclosed Executive role (19 March 2018).
4. A George's fixed remuneration was adjusted in May 2018 when she commenced in the expanded role of Deputy CEO and Group Executive, Wealth Australia. As disclosed in 2017, in relation to A George's role before 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).
5. Paid in NZD and converted to AUD.
6. Other deferred remuneration for M Jablko relates to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.

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.

5. 2018 OUTCOMES (continued)

2018 Statutory Remuneration – CEO and Disclosed Executives

The following table outlines the statutory remuneration disclosed in accordance with the Australian Accounting Standards. While it shows the fixed remuneration awarded (cash and superannuation contributions) and also the cash component of the 2018 VR award, it does not show the actual VR awarded or received in 2018 (which are shown on the previous pages), but instead shows the amortised accounting value for this financial year of deferred remuneration (including prior year awards).

		Short-Term Employee Benefits				Post-Employment	
	Financial Year	Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3] $	Other cash[4] $	Super contributions[5] $	Retirement benefit accrued during year[6] $
CEO and Current Disclosed Executives							
S Elliott	2018	2,079,831	17,321	875,000	-	20,169	-
	2017	2,080,276	16,995	1,000,000	-	19,724	-
M Carnegie[9]	2018	979,831	29,254	528,000	-	20,669	-
	2017	980,776	29,920	561,000	100,000	19,724	-
K Corbally[10]	2018	472,582	6,383	164,835	-	10,145	-
A George[11]	2018	843,584	40,254	354,750	250,000	20,669	-
	2017	657,308	22,468	301,290	250,000	15,320	-
D Hisco[12, 13]	2018	1,168,324	464,599	644,397	-	2,389	2,305
	2017	1,195,013	465,103	726,181	-	-	7,636
M Jablko[14]	2018	979,831	15,341	577,500	-	20,669	-
	2017	980,276	15,515	739,200	268,082	20,224	-
F Ohlsson[13]	2018	979,831	31,668	396,000	-	20,169	-
	2017	980,276	46,848	534,600	-	19,724	-
M Whelan	2018	1,179,831	11,821	717,750	-	20,169	-
	2017	1,180,276	11,995	1,080,750	-	19,724	-
Former Disclosed Executives							
G Hodges[15]	2018	1,029,831	20,861	264,000	-	20,169	-
	2017	1,030,276	17,753	732,600	-	19,724	4,565
N Williams[16]	2018	1,449,515	52,472	-	-	21,985	-
	2017	1,330,276	19,359	627,000	-	19,724	5,870

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 (and the associated Fringe Benefits Tax) such as car parking, taxation services, costs met by the company in relation to relocation, outplacement services and gifts received on leaving ANZ for former Disclosed Executives.
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 24 October 2018. 100% of the cash component of the AVR/VR awarded for the 2017 and 2018 years vested to the executive in the applicable financial year.
4. Other cash and other equity allocations relate to employment arrangements such as compensation for bonus opportunity foregone and deferred remuneration forfeited, retention awards, and shares received in relation to the Employee Share Offer. For further details, see the individual footnotes for each relevant executive.
5. For all Australian based executives, the 2018 and 2017 superannuation contributions reflect the Superannuation Guarantee Contribution based on the Maximum Contribution Base. In the 2017 Remuneration Report, superannuation contributions reflected the Superannuation Guarantee Contribution of 9.5% of cash salary – individuals may have elected to take this contribution as superannuation or a combination of superannuation and cash salary. From 31 August 2018 D Hisco commenced superannuation contributions to KiwiSaver where ANZ provides an employer contribution matching member contributions up to 4% of total gross pay (less employer superannuation contribution tax).
6. Accrual relates to Retirement Allowance. As a result of being employed with ANZ before November 1992, D Hisco, G Hodges and N Williams were 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).
7. 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 neither relates to, nor indicates, the benefit (if any) that the executive may ultimately realise if the equity become exercisable.
8. Termination benefits reflect payment for accrued annual leave, long service leave and the retirement allowance, payable on termination.

Long-Term Employee Benefits	Share-Based Payments[7]					
	Total amortisation value of					
	Variable remuneration			Other equity allocations[4]		
Long service leave accrued during the year $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits[8] $	Grand total remuneration $
31,819	1,023,295	-	1,597,860	-	-	5,645,295
31,819	1,105,401	-	1,380,645	-	-	5,634,860
15,152	366,123	-	282,708	353,951	-	2,575,688
15,152	225,446	-	177,089	2,794,880	-	4,903,987
24,255	172,709	40,943	33,129	118,316	-	1,043,297
26,767	308,376	-	194,781	-	-	2,039,181
15,405	262,448	-	120,594	-	-	1,644,833
3,782	-	589,413	651,112	475	-	3,526,796
21,319	-	669,039	757,389	533	-	3,842,213
15,152	436,228	-	331,802	323,545	-	2,700,068
15,152	281,374	-	221,998	952,292	-	3,494,113
15,152	283,517	127,777	341,086	284	-	2,195,484
15,152	162,978	299,530	331,818	533	-	2,391,459
18,182	730,160	-	723,576	-	-	3,401,489
18,182	827,073	-	661,203	-	-	3,799,203
-	245,423	773,203	228,378	-	261,623	2,843,488
15,910	554,318	-	610,999	-	-	2,986,145
-	(236,591)	(1,131,223)	-	-	192,380	348,538
20,455	600,960	867,287	-	-	-	3,490,931

9. Other cash and other equity allocations for M Carnegie relate to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.

10. K Corbally commenced in a Disclosed Executive role on 19 March 2018. So his 2018 remuneration reflects partial service year. In relation to K Corbally's role before his appointment to the Group Executive Committee, in August 2016 the Board approved an equity retention award of $600,000 vesting in August 2019.

11. A George commenced in a Disclosed Executive role on 1 December 2016. So her 2017 remuneration reflects partial service year. A George's fixed remuneration was adjusted in May 2018 when she commenced in the expanded role of Deputy CEO and Group Executive, Wealth Australia. As disclosed in 2017, in relation to A George's role before 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).

12. D Hisco's fixed remuneration is paid in NZD and converted to AUD. The year-on-year differences in cash salary, retirement benefit accrual and long service leave accrual relate to fluctuations in the exchange rate.

13. In 2016 D Hisco and F Ohlsson, and in 2018 D Hisco, were eligible 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. See Note 31 Employee Share and Option Plans for further details on the Employee Share Offer.

14. Other cash and other equity allocations for M Jablko relate to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.

15. G Hodges concluded in his role 13 May 2018 and ceased employment 30 September 2018. Statutory remuneration table reflects his remuneration up to his date of termination (noting his annual fixed remuneration for 2018 remained unchanged at $1.05 million). Share-based payments include expensing treatment on termination for unvested deferred remuneration (including reversals for forfeiture on retirement). For 2018 G Hodges' VR is $800,000 of which $264,000 is delivered as cash and $264,000 is delivered as share rights deferred evenly over four years. Performance rights will not be granted as they would have been forfeited on retirement.

16. N Williams concluded in his role 30 March 2018 and ceased employment 2 November 2018. Statutory remuneration table reflects 13 months of remuneration up to his date of termination (noting his annual fixed remuneration for 2018 remained unchanged at $1.35 million). Share-based payments include expensing treatment on termination for unvested deferred remuneration (including reversals for forfeiture on termination).

5. 2018 OUTCOMES (continued)

5.5 PERFORMANCE RIGHTS VESTING OUTCOMES

Performance rights granted to the CEO and Disclosed Executives (excluding the CRO) in November 2014 reached the end of their performance period in November 2017.

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	21-Nov-14	20-Nov-17	9.39%	16.67%	0%	Performance rights lapsed
Relative TSR – ASX 50 Comparator Group	21-Nov-14	20-Nov-17	9.39%	25.79%	0%	Performance rights lapsed

The performance rights we awarded in late 2015 will be tested against their hurdles in November 2018 to determine vesting.

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

The Board reviewed NED fees for 2018 and determined once again not to increase their fees (which remain unchanged from 2016).

While the NEDs do not receive variable remuneration, the Board accepts that it is appropriate that they too share some accountability for the failures highlighted by the Royal Commission. As a consequence, the NEDs, who have served on the Board in FY18, have agreed to a 20% reduction of their fee for FY19 (20% reduction to the Chairman fee from $825,000 to $660,000, and 20% reduction to the NED member fee from $240,000 to $192,000).

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 serving on a Board Committee.

In setting Board and Committee fees, the Board considers: 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.

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.

This table shows the NED fee policy structure for 2018:

	Board[1]	Audit Committee[2]	Risk Committee[2]	Human Resources Committee[2]	Digital Business & Technology Committee[2]	Ethics, Environment, Social & Governance Committee[2]
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.
2. The Chairman of the Board does not receive additional fees for serving on a Board Committee.

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)

2018 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	2018	804,831	20,169	825,000
	2017	805,276	19,724	825,000
I Atlas	2018	324,331	20,169	344,500
	2017	317,776	19,724	337,500
P Dwyer	2018	344,831	20,169	365,000
	2017	345,276	19,724	365,000
J Halton[3]	2018	277,567	20,169	297,736
	2017	241,063	18,894	259,957
J Key[4]	2018	148,546	11,996	160,542
H Lee	2018	314,831	20,169	335,000
	2017	315,276	19,724	335,000
G Liebelt	2018	345,858	20,169	366,027
	2017	343,151	19,724	362,875
J Macfarlane	2018	298,331	20,169	318,500
	2017	298,776	19,724	318,500
Former Non-Executive Director				
I Macfarlane[5]				
	2017	68,225	4,904	73,129
Total of all Non-Executive Directors	2018	2,859,126	153,179	3,012,305
	2017	2,734,819	142,142	2,876,961

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 2017 or 2018.
3. J Halton commenced as a Non-Executive Director on 21 October 2016, so 2017 remuneration reflects a partial service year.
4. J Key commenced as a Non-Executive Director for Australia and New Zealand Banking Group Limited on 28 February 2018, so 2018 remuneration reflects a partial service year. In addition for 2018, in relation to his Non-Executive Directorship from 18 October 2017 for ANZ Bank New Zealand Limited, J Key also received a total of NZD 302,925 as a Non-Executive Director until 31 December 2017 and from 1 January 2018 as Chairman.
5. I Macfarlane retired as a NED on 16 December 2016, so 2017 remuneration reflects partial service year 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, aligned with our business strategy, and seeks input from the Risk and Audit Committees where relevant. During the year the HR Committee met on eight 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, and fees for the NEDs;
- 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, including the consideration of downward adjustment;
- key senior executive appointments and terminations;
- the effectiveness of the ANZ Remuneration Policy and changes to the policy to incorporate the Banking Executive Accountability Regime (BEAR) requirements;
- succession plans for key senior executives; and
- culture, diversity and inclusion, and employee engagement.

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.

7. REMUNERATION GOVERNANCE (continued)

Link between remuneration and risk To further reflect the importance of the link between remuneration and risk:

- the Board had three NEDs in 2018 who served 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, 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, ANZ did not receive any remuneration recommendations from external consultants about the remuneration of KMP.

ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee and the Board. 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 2018, 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 their 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. If an executive is terminated due to redundancy or they are classified as a 'good leaver', then: • their deferred shares/share 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 (to the extent that the performance hurdles are met). On an executive's death or total and permanent disablement, their deferred equity vests. In relation to the 2018 CEO grant of performance rights, in the event of termination during the restriction period, the shares will be released at the end of restriction period – unless the Board determines otherwise. In the event the CEO ceases employment because of death or total and permanent disability, the restriction period will no longer apply. Unvested equity remains subject to downward adjustment post termination.
Change of control (applies to 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. In relation to the 2018 CEO grant of performance rights, the Board may waive the restriction period in relation to any shares to which the CEO becomes entitled as a result.

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 2017, 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 2018 year; or
- in prior years and that then vested, were exercised/sold or which lapsed/were forfeited during the 2018 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 2018 grants only) $	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 2018[3]	Unexercisable as at 30 Sep 2018[4]
CEO and Current Disclosed Executives																	
S Elliott	Deferred shares	22,796		18-Nov-15	18-Nov-17	-	22,796	100	671,427	-	-	-	-	-	-	22,796	-
	Deferred shares	6,941		22-Nov-16	22-Nov-17	-	6,941	100	203,239	-	-	-	-	-	-	6,941	-
	Deferred shares	8,531	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	8,531
	Deferred shares	8,529	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	8,529
	Deferred shares	8,529	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	8,529
	Deferred shares	8,529	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	8,529
	Performance rights	28,089		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(28,089)	100	(824,081)	-	-	-	-	-
	Performance rights	25,856		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(25,856)	100	(758,568)	-	-	-	-	-
	Performance rights	107,471	10.23	19-Dec-17	19-Dec-20	19-Dec-22	-	-	-	-	-	-	-	-	-	-	107,471
	Performance rights	35,823	7.01	19-Dec-17	19-Dec-20	19-Dec-22	-	-	-	-	-	-	-	-	-	-	35,823
M Carnegie	Deferred shares	17,034		20-Aug-16	21-Nov-17	-	17,034	100	499,747	-	-	-	(15,707)	92	439,282	1,327	-
	Deferred shares	17,034		20-Aug-16	27-Feb-18	-	17,034	100	495,890	-	-	-	(15,707)	92	439,282	1,327	-
	Deferred shares	18,141		20-Aug-16	01-Jun-18	-	18,141	100	485,372	-	-	-	(9,586)	53	268,095	8,555	-
	Deferred shares	1,182		22-Nov-16	22-Nov-17	-	1,182	100	34,610	-	-	-	-	-	-	1,182	-
	Deferred shares	4,785	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	4,785
	Deferred shares	4,785	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	4,785
	Deferred shares	4,785	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	4,785
	Deferred shares	4,785	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	4,785
	Performance rights	29,580	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	29,580
	Performance rights	9,860	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	9,860
K Corbally[5]																	
A George	Deferred shares	2,430		21-Nov-14	21-Nov-17	-	2,430	100	71,292	-	-	-	-	-	-	2,430	-
	Deferred shares	4,148		18-Nov-15	18-Nov-17	-	4,148	100	122,174	-	-	-	-	-	-	4,148	-
	Deferred shares	4,801		22-Nov-16	22-Nov-17	-	4,801	100	140,578	-	-	-	-	-	-	4,801	-
	Deferred shares	3,096	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	3,096
	Deferred shares	3,096	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	3,096
	Deferred shares	3,096	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	3,096
	Deferred shares	3,096	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	3,096
	Performance rights	2,721		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(2,721)	100	(79,829)	-	-	-	-	-
	Performance rights	2,504		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(2,504)	100	(73,463)	-	-	-	-	-
	Performance rights	19,140	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	19,140
	Performance rights	6,380	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	6,380

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 2018 grants only) $	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 2018[3]	Unexercisable as at 30 Sep 2018[4]
CEO and Current Disclosed Executives																	
D Hisco	Employee Share Offer	23		04-Dec-14	04-Dec-17	-	23	100	653	-	-	-	-	-	-	23	-
	Employee Share Offer	24		01-Dec-17	01-Dec-20	-	-	-	-	-	-	-	-	-	-	-	24
	Deferred share rights	22,427		18-Nov-15	18-Nov-17	18-Nov-19	22,427	100	660,558	-	-	-	(22,427)	100	646,028	-	-
	Deferred share rights	6,935		22-Nov-16	22-Nov-17	22-Nov-19	6,935	100	203,063	-	-	-	(6,935)	100	199,768	-	-
	Deferred share rights	6,565	27.65	22-Nov-17	22-Nov-18	22-Nov-20	-	-	-	-	-	-	-	-	-	-	6,565
	Deferred share rights	6,942	26.15	22-Nov-17	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	6,942
	Deferred share rights	7,344	24.72	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	7,344
	Deferred share rights	7,764	23.38	22-Nov-17	22-Nov-21	22-Nov-23	-	-	-	-	-	-	-	-	-	-	7,764
	Performance rights	24,552		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(24,552)	100	(720,311)	-	-	-	-	-
	Performance rights	22,600		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(22,600)	100	(663,043)	-	-	-	-	-
	Performance rights	38,290	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	38,290
	Performance rights	12,763	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	12,763
M Jablko	Deferred shares	11,444		20-Aug-16	27-Feb-18	-	11,444	100	333,155	-	-	-	(11,444)	100	319,644	-	-
	Deferred shares	3,153		20-Aug-16	20-Aug-18	-	3,153	100	94,929	-	-	-	-	-	-	3,153	-
	Deferred shares	1,182		22-Nov-16	22-Nov-17	-	1,182	100	34,610	-	-	-	-	-	-	1,182	-
	Deferred shares	6,305	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	6,305
	Deferred shares	6,305	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	6,305
	Deferred shares	6,305	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	6,305
	Deferred shares	6,305	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	6,305
	Performance rights	38,976	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	38,976
	Performance rights	12,992	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	12,992
F Ohlsson	Deferred shares	4,562	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	4,562
	Deferred shares	4,559	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	4,559
	Deferred shares	4,559	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	4,559
	Deferred shares	4,559	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	4,559
	Employee Share Offer	23		04-Dec-14	04-Dec-17	-	23	100	653	-	-	-	-	-	-	23	-
	Deferred share rights	7,361		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	-	-	-	(7,361)	100	204,660	-	-
	Deferred share rights	4,861		22-Nov-13	22-Nov-16	21-Nov-18	-	-	-	-	-	-	(4,861)	100	135,152	-	-
	Deferred share rights	4,406		21-Nov-14	21-Nov-16	21-Nov-18	-	-	-	-	-	-	(4,406)	100	122,501	-	-
	Deferred share rights	7,553		21-Nov-14	21-Nov-17	21-Nov-19	7,553	100	221,591	-	-	-	(7,553)	100	209,998	-	-
	Deferred share rights	8,199		18-Nov-15	18-Nov-16	18-Nov-18	-	-	-	-	-	-	(8,199)	100	227,959	-	-
	Deferred share rights	8,711		18-Nov-15	18-Nov-17	18-Nov-19	8,711	100	256,571	-	-	-	(8,711)	100	242,195	-	-
	Deferred share rights	4,050		22-Nov-16	22-Nov-17	29-Nov-17	4,050	100	118,588	-	-	-	(4,050)	100	118,588	-	-
	Performance rights	7,185		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(7,185)	100	(210,795)	-	-	-	-	-
	Performance rights	6,613		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(6,613)	100	(194,014)	-	-	-	-	-
	Performance rights	28,188	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	28,188
	Performance rights	9,396	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	9,396

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 2018 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 2018[3]	Unexer-cisable as at 30 Sep 2018[4]
CEO and Current Disclosed Executives																	
M Whelan	Deferred shares	6,271		21-Nov-14	21-Nov-17	-	6,271	100	183,980	-	-	-	(6,271)	100	176,110	-	-
	Deferred shares	16,147		18-Nov-15	18-Nov-17	-	16,147	100	475,589	-	-	-	(16,147)	100	453,461	-	-
	Deferred shares	6,724		22-Nov-16	22-Nov-17	-	6,724	100	196,885	-	-	-	(6,724)	100	188,832	-	-
	Deferred shares	9,219	29.28	22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	-	-	-	-	9,219
	Deferred shares	9,218	29.28	22-Nov-17	22-Nov-19	-	-	-	-	-	-	-	-	-	-	-	9,218
	Deferred shares	9,218	29.28	22-Nov-17	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	9,218
	Deferred shares	9,218	29.28	22-Nov-17	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	9,218
	Performance rights	7,022		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(7,022)	100	(206,013)	-	-	-	-	-
	Performance rights	6,464		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(6,464)	100	(189,642)	-	-	-	-	-
	Performance rights	56,985	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	56,985
	Performance rights	18,995	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	-	-	-	-	-	-	-	18,995
Former Disclosed Executives																	
G Hodges[6]	Deferred shares	13,297		18-Nov-15	18-Nov-17	-	13,297	100	391,646	-	-	-	-	-	-	13,297	-
	Deferred shares	5,276		22-Nov-16	22-Nov-17	-	5,276	100	154,486	-	-	-	-	-	-	5,276	-
	Deferred share rights	6,623	27.65	22-Nov-17	22-Nov-18	29-Nov-18	-	-	-	-	-	-	-	-	-	-	6,623
	Deferred share rights	7,003	26.15	22-Nov-17	22-Nov-19	29-Nov-19	-	-	-	-	-	-	-	-	-	-	7,003
	Deferred share rights	7,408	24.72	22-Nov-17	22-Nov-20	29-Nov-20	-	-	-	-	-	-	-	-	-	-	7,408
	Deferred share rights	7,833	23.38	22-Nov-17	22-Nov-21	29-Nov-21	-	-	-	-	-	-	-	-	-	-	7,833
	Performance rights	17,556		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(17,556)	100	(515,061)	-	-	-	-	-
	Performance rights	16,160		21-Nov-14	21-Nov-17	21-Nov-19	-	-	-	(16,160)	100	(474,105)	-	-	-	-	-
	Performance rights	12,664		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(567)	4	(15,925)	-	-	-	-	12,097
	Performance rights	12,664		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(567)	4	(15,925)	-	-	-	-	12,097
	Performance rights	12,664		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(567)	4	(15,925)	-	-	-	-	12,097
	Performance rights	32,617		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(12,452)	38	(349,726)	-	-	-	-	20,165
	Performance rights	10,872		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(4,151)	38	(116,585)	-	-	-	-	6,721
	Performance rights	38,628	13.40	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	(27,632)	72	(776,070)	-	-	-	-	10,996
	Performance rights	12,876	7.68	22-Nov-17	22-Nov-20	22-Nov-22	-	-	-	(9,211)	72	(258,699)	-	-	-	-	3,665
N Williams	Deferred shares	17,097		18-Nov-15	18-Nov-17	-	17,097	100	503,570	-	-	-	(17,097)	100	500,616	-	-
	Deferred shares	6,355		22-Nov-16	22-Nov-17	-	6,355	100	186,080	-	-	-	(6,355)	100	186,080	-	-
	Deferred shares	6,355		22-Nov-16	22-Nov-18	-	-	-	-	(6,355)	100	(180,708)	-	-	-	-	-
	Deferred shares	6,355		22-Nov-16	22-Nov-19	-	-	-	-	(6,355)	100	(180,708)	-	-	-	-	-
	Deferred shares	6,355		22-Nov-16	22-Nov-20	-	-	-	-	(6,355)	100	(180,708)	-	-	-	-	-
	Deferred share rights	27,685		21-Nov-14	21-Nov-17	21-Nov-19	27,685	100	812,228	-	-	-	(27,685)	100	810,642	-	-
	Deferred share rights	33,632		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	(33,632)	100	(956,346)	-	-	-	-	-
	Deferred share rights	31,686		22-Nov-16	22-Nov-19	29-Nov-19	-	-	-	(31,686)	100	(901,010)	-	-	-	-	-
	Deferred share rights	5,669	27.65	22-Nov-17	22-Nov-18	29-Nov-18	-	-	-	(5,669)	100	(161,201)	-	-	-	-	-
	Deferred share rights	5,994	26.15	22-Nov-17	22-Nov-19	29-Nov-19	-	-	-	(5,994)	100	(170,443)	-	-	-	-	-
	Deferred share rights	6,341	24.72	22-Nov-17	22-Nov-20	29-Nov-20	-	-	-	(6,341)	100	(180,310)	-	-	-	-	-
	Deferred share rights	6,704	23.38	22-Nov-17	22-Nov-21	29-Nov-21	-	-	-	(6,704)	100	(190,632)	-	-	-	-	-
	Deferred share rights	26,132	24.72	22-Nov-17	22-Nov-20	29-Nov-20	-	-	-	(26,132)	100	(743,079)	-	-	-	-	-

8. OTHER INFORMATION (continued)

CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

1. For the purpose of the five highest paid executive disclosures, Executives are defined as Disclosed Executives or other members of the Group Executive Committee. For the 2018 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 2018 are included in the table. Rights granted to F Faruqui as remuneration in 2018 include four tranches of deferred share rights and two tranches of performance rights granted on 22 Nov 2017. (8,572 (tranche 1) deferred share rights first exercisable 22 Nov 2018, expiring 29 Nov 2018; 9,064 (tranche 2) deferred share rights first exercisable 22 Nov 2019, expiring 29 Nov 2019; 9,588 (tranche 3) deferred share rights first exercisable 22 Nov 2020, expiring 29 Nov 2020; 10,138 (tranche 4) deferred share rights first exercisable 22 Nov 2021, expiring 29 Nov 2021; 49,992 (tranche 1) and 16,664 (tranche 2) performance rights first exercisable 22 Nov 2020 subject to meeting performance hurdles, expiring 22 Nov 2022). No rights have been granted to the CEO, Disclosed Executives or the five highest paid executives since the end of 2018 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. No terms of share-based payment transactions have been altered or modified during the reporting period.
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 2018 include:

	Nov-15	Nov-16	Nov-17
S Elliott	159,573	150,482	143,294
M Carnegie	-	9,745	39,440
K Corbally	10,520	5,445	4,230
A George	5,772	4,738	25,520
D Hisco	53,133	53,597	51,053
M Jablko	-	9,745	51,968
F Ohlsson	10,910	31,306	37,584
M Whelan	53,190	55,428	75,980
G Hodges	36,291	26,886	14,661
N Williams	-	-	-

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 2017	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 2018[3, 4]
Current Non-Executive Directors						
D Gonski	Ordinary shares	31,488	-	-	-	31,488
I Atlas	Ordinary shares	7,360	-	-	7,000	14,360
P Dwyer	Ordinary shares	15,000	-	-	2,500	17,500
J Halton	Ordinary shares	2,830	-	-	6,219	9,049
J Key[5]	Ordinary shares	3,000	-	-	-	3,000
	Perpetual subordinated bonds[7]	590,000	-	-	(590,000)	-
H Lee	Directors' Share Plan	2,518	-	-	144	2,662
	Ordinary shares	8,000	-	-	-	8,000
G Liebelt	Ordinary shares	20,315	-	-	-	20,315
	Capital notes 1	1,500	-	-	-	1,500
	Capital notes 2	2,500	-	-	-	2,500
J Macfarlane	Ordinary shares	17,851	-	-	-	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	53,906	34,118	-	4,065	92,089
	Ordinary shares	131,679	-	-	-	131,679
	Performance rights	364,000	143,294	-	(53,945)	453,349
M Carnegie	Deferred shares	80,085	19,140	-	(36,304)	62,921
	Ordinary shares	14	-	-	-	14
	Performance rights	9,745	39,440	-	-	49,185

8. OTHER INFORMATION (continued)

NED, CEO and Disclosed Executive equity holdings

Name	Type	Opening balance at 1 Oct 2017	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 2018[3,4]
CEO and Current Disclosed Executives (continued)						
K Corbally[5]	Deferred shares	44,963	-	-	676	45,639
	Performance rights	20,195	-	-	-	20,195
A George	Deferred shares	30,626	12,384	-	1,969	44,979
	Ordinary shares	2,678	-	-	-	2,678
	Capital notes 1	802	-	-	-	802
	Performance rights	15,735	25,520	-	(5,225)	36,030
D Hisco	Employee Share Offer	74	24	-	-	98
	Ordinary shares	195,657	-	29,362	(87,019)	138,000
	Deferred share rights	52,994	28,615	(29,362)	-	52,247
	Performance rights	153,882	51,053	-	(47,152)	157,783
M Jablko	Deferred shares	46,569	25,220	-	(10,058)	61,731
	Performance rights	9,745	51,968	-	-	61,713
F Ohlsson	Deferred shares	-	18,239	-	526	18,765
	Employee Share Offer	74	-	-	-	74
	Ordinary shares	-	-	45,141	(41,091)	4,050
	Deferred share rights	63,571	-	(45,141)	-	18,430
	Performance rights	56,014	37,584	-	(13,798)	79,800
M Whelan	Deferred shares	51,798	36,873	-	(28,691)	59,980
	Performance rights	122,104	75,980	-	(13,486)	184,598
Former Disclosed Executives						
G Hodges[6]	Deferred shares	205,626	-	-	8,804	214,430
	Ordinary shares	70,639	-	-	-	70,639
	Capital notes 4	1,350	-	-	-	1,350
	Deferred share rights	-	28,867	-	-	28,867
	Performance rights	115,197	51,504	-	(88,863)	77,838
N Williams	Deferred shares	45,173	-	-	(43,928)	1,245
	Ordinary shares	-	-	27,685	(27,685)	-
	Deferred share rights	93,003	50,840	(27,685)	(116,158)	-

1. Details of options/rights granted as remuneration during 2018 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 2018: D Gonski – 31,488, I Atlas – 14,360, P Dwyer – 17,500, J Halton – 0, J Key – 3,000, H Lee – 2,662, G Liebelt – 8,158, J Macfarlane – 24,851, S Elliott – 223,768, M Carnegie – 62,921, K Corbally – 45,639, A George – 48,459, D Hisco – 138,098, M Jablko – 61,731, F Ohlsson – 18,839, M Whelan – 59,980, G Hodges – 258,515 and N Williams – 1,245.
4. No options/rights were vested and exercisable or vested and unexerciseable as at 30 September 2018. There was no change in the balance as at the Directors' Report sign-off date.
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.
7. Issued by ANZ Bank New Zealand Limited listed on NZDX (code: ANBHA) – redeemed at par at NZD1.00 per bond.

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. There has been no write down of loans during the period.

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 October 2017[1] $	Closing balance at 30 September 2018 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Current Non-Executive Directors				
J Macfarlane	9,413,444	11,133,324	454,730	12,490,913
CEO and Current Disclosed Executives				
S Elliott	3,095,492	3,008,098	109,950	3,095,492
A George	1,988,132	1,931,665	69,584	1,988,132
D Hisco	78,704	-	595	78,867
F Ohlsson	2,945,973	2,875,528	71,725	2,946,274
M Whelan	1,729,311	1,719,062	76,290	1,739,112
Former Disclosed Executives				
G Hodges[2]	3,258,912	2,276,139	142,039	3,732,600
N Williams	45,337	900,000	7,003	900,000
Total	**22,555,305**	**23,843,816**	**931,916**	**26,971,390**

1. Actual interest paid after considering offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.
2. Concluding balance is based on balance as at the date of retirement.

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.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

DIRECTORS' REPORT

The Directors' Report for the financial year ended 30 September 2018 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 5
- Operating and financial review on pages 14 to 26
- Dividends on page 25
- Information on the Directors, Company Secretaries and Directors' meetings on pages 28 to 36
- Remuneration report on pages 40 to 67

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

There have been no significant events from 30 September 2018 to the date of signing this report.

Political donations

Our policy is that we make an annual donation to the two major Federal parties to support the democratic process in Australia. In 2018, ANZ donated $100,000 to the Liberal Party of Australia and $100,000 to the Australia Labor Party.

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 2018 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 the 2018 financial year, 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 2018 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	2018	2017
General market or regulatory insights	187	91
Training related services	17	8
Controls related assessments	94	165
Methodology and procedural reviews	10	478
Total	308	742

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 $6.28 million (2017: $6.17 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 2018 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, or its auditor, against liabilities (so far as may be permitted under applicable law) incurred as such by an officer, employee or auditor, 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, employee or auditor in defending an action for a liability incurred as such by an officer, employee or auditor, 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.

In accordance with the employee indemnity policy, the Company has during or since the year ended 30 September 2018 paid legal expenses totalling $30,455.31 incurred by Mr Richard Moscati in relation to legal proceedings brought against him and the Company by a third party.

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.

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 2018 financial year and as at the date of this report.

Note 31 Employee Share and Option Plans to the 2018 Financial Report contains details of the 2018 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

30 October 2018

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 2018.

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 2018, 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

30 October 2018

FINANCIAL REPORT

CONTENTS

Consolidated Financial Statements

Notes to The Consolidated Financial Statements

INCOME STATEMENT

For the year ended 30 September[1]	Note	2018 $m	2017 $m
Interest income		30,327	29,120
Interest expense		(15,813)	(14,245)
Net interest income	2	14,514	14,875
Other operating income	2	4,558	3,589
Net funds management and insurance income	2	576	634
Share of associates' profit	2	183	300
Operating income		19,831	19,398
Operating expenses	3	(9,248)	(8,967)
Profit before credit impairment and income tax		10,583	10,431
Credit impairment charge	13	(688)	(1,198)
Profit before income tax		9,895	9,233
Income tax expense	4	(2,784)	(2,874)
Profit after tax from continuing operations		7,111	6,359
Profit/(Loss) after tax from discontinued operations	29	(695)	62
Profit for the year		6,416	6,421
Comprising:			
Profit attributable to shareholders of the Company		6,400	6,406
Profit attributable to non-controlling interests		16	15
Earnings per ordinary share (cents) including discontinued operations			
Basic	6	221.6	220.1
Diluted	6	212.1	210.8
Earnings per ordinary share (cents) from continuing operations			
Basic	6	245.6	218.0
Diluted	6	234.2	208.8
Dividend per ordinary share (cents)	5	160	160

1. Information has been restated and presented on a continuing operations basis. Discontinued operations consists of OnePath pensions and investments and aligned dealer groups being sold to IOOF Holdings Limited and the life insurance business being sold to Zurich Financial Services Australia.

The notes appearing on pages 77 to 163 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September[1]	2018 $m	2017 $m
Profit for the year from continuing operations	7,111	6,359
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	32	26
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve[2]	222	(748)
Other reserve movements	137	(297)
Income tax attributable to the above items	(118)	8
Share of associates' other comprehensive income[3]	25	1
Other comprehensive income after tax from continuing operations	298	(1,010)
Profit/(Loss) after tax from discontinued operations	(695)	62
Other comprehensive income after tax from discontinued operations	18	(30)
Total comprehensive income for the year	6,732	5,381
Comprising total comprehensive income attributable to:		
Shareholders of the Company	6,706	5,372
Non-controlling interests	26	9

1. Information has been restated and presented on a continuing operations basis. Discontinued operations consists of OnePath pensions and investments and aligned dealer groups being sold to IOOF Holdings Limited and the life insurance business being sold to Zurich Financial Services Australia.
2. Includes foreign currency translation differences attributable to non-controlling interests of $10 million gain (2017: $6 million loss).
3. Share of associates' other comprehensive income includes an available-for-sale revaluation reserve gain of $28 million (2017: $1 million loss) and a foreign currency translation reserve loss of $3 million (2017: $2 million gain) that may be reclassified subsequently to profit or loss.

The notes appearing on pages 77 to 163 form an integral part of these financial statements.

BALANCE SHEET

As at 30 September	Note	2018 $m	2017 $m
Assets			
Cash and cash equivalents[1]	8	84,636	68,048
Settlement balances owed to ANZ		2,319	5,504
Collateral paid		11,043	8,987
Trading securities	9	37,722	43,605
Derivative financial instruments	10	68,423	62,518
Available-for-sale assets	11	74,284	69,384
Net loans and advances	12	603,938	574,331
Regulatory deposits		882	2,015
Assets held for sale	29	45,248	7,970
Investments in associates	26	2,553	2,248
Current tax assets		268	30
Deferred tax assets		900	675
Goodwill and other intangible assets	20	4,930	6,970
Investments backing policy liabilities		-	37,964
Premises and equipment		1,833	1,965
Other assets		3,645	5,112
Total assets		942,624	897,326
Liabilities			
Settlement balances owed by ANZ		11,810	9,914
Collateral received		6,542	5,919
Deposits and other borrowings	14	618,150	595,611
Derivative financial instruments	10	69,676	62,252
Current tax liabilities		300	241
Deferred tax liabilities		59	257
Liabilities held for sale	29	47,159	4,693
Policy liabilities		-	37,448
External unit holder liabilities		-	4,435
Payables and other liabilities		6,788	8,350
Employee entitlements		540	530
Other provisions	21	1,038	628
Debt issuances	15	121,179	107,973
Total liabilities		883,241	838,251
Net assets		59,383	59,075
Shareholders' equity			
Ordinary share capital	22	27,205	29,088
Reserves	22	323	37
Retained earnings	22	31,715	29,834
Share capital and reserves attributable to shareholders of the Company	22	59,243	58,959
Non-controlling interests	22	140	116
Total shareholders' equity	22	59,383	59,075

1. Includes settlement balances owed to ANZ that meet the definition of cash and cash equivalents.

The notes appearing on pages 77 to 163 form an integral part of these financial statements.

CASH FLOW STATEMENT

The Consolidated Cash Flow Statement includes discontinued operations. Please refer to Note 29 for cash flows associated with discontinued operations and cash and cash equivalents reclassified as held for sale.

For the year ended 30 September	2018 $m	2017 $m
Profit after income tax	6,416	6,421
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Provision for credit impairment	688	1,198
Depreciation and amortisation	1,199	972
(Profit)/loss on sale of premises and equipment	(4)	(114)
Net derivatives/foreign exchange adjustment	6,721	(3,409)
(Gain)/loss on sale from divestments	(594)	541
Reclassification of businesses to held for sale	693	-
Other non-cash movements	(55)	(167)
Net (increase)/decrease in operating assets:		
Collateral paid	(1,648)	3,533
Trading securities	8,565	2,081
Net loans and advances	(24,739)	(17,838)
Investments backing policy liabilities[1]	(3,914)	(2,122)
Other assets	(973)	509
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	12,207	30,904
Settlement balances owed by ANZ	1,853	(627)
Collateral received	186	(310)
Life insurance contract policy liabilities[1]	4,263	2,260
Other liabilities	(298)	215
Total adjustments	4,150	17,626
Net cash provided by operating activities[2]	10,566	24,047
Cash flows from investing activities		
Available-for-sale assets:		
Purchases	(23,806)	(27,220)
Proceeds from sale or maturity	20,592	19,751
Proceeds from divestments	2,148	(5,213)
Proceeds from Zurich reinsurance arrangement	1,000	-
Other assets	232	(148)
Net cash provided by/(used in) investing activities	166	(12,830)
Cash flows from financing activities		
Debt issuances:[3]		
Issue proceeds	25,075	25,128
Redemptions	(15,898)	(27,409)
Dividends paid	(4,563)	(4,386)
On market purchase of treasury shares	(114)	(75)
Share buyback	(1,880)	-
Net cash provided by/(used in) financing activities	2,620	(6,742)
Net increase in cash and cash equivalents	13,352	4,475
Cash and cash equivalents at beginning of year	68,048	66,220
Effects of exchange rate changes on cash and cash equivalents	3,564	(2,647)
Cash and cash equivalents at end of year[4]	84,964	68,048

1. Investments backing policy liabilities and life insurance policy liabilities have been reclassified as held for sale.
2. Net cash provided by/(used in) operating activities includes income taxes paid of $3,373 million (2017: $2,864 million).
3. Non-cash changes in debt issuances includes fair value hedging gains of $1,443 million (2017: $1,498 million) and foreign exchange losses of $5,712 million (2017: foreign exchange gains $1,324 million).
4. Includes cash and cash equivalents recognised on the face of balance sheet of $84,636 million (2017: $68,048 million) and amounts recorded as part of assets held for sale of $328 million (2017: nil).

The notes appearing on pages 77 to 163 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Share capital and reserves attributable to shareholders of the Company $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2016	28,765	1,078	27,975	57,818	109	57,927
Profit or loss from continuing operations	-	-	6,344	6,344	15	6,359
Profit or loss from discontinued operations	-	-	62	62	-	62
Other comprehensive income for the year from continuing operations	-	(1,019)	15	(1,004)	(6)	(1,010)
Other comprehensive income for the year from discontinued operations	-	(30)	-	(30)	-	(30)
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[1]:						
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[2]	198	-	-	198	-	198
Other equity movements[1]:						
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
Profit or loss from continuing operations	-	-	7,095	7,095	16	7,111
Profit or loss from discontinued operations	-	-	(695)	(695)	-	(695)
Other comprehensive income for the year from continuing operations	-	264	24	288	10	298
Other comprehensive income for the year from discontinued operations	-	18	-	18	-	18
Total comprehensive income for the year	-	282	6,424	6,706	26	6,732
Transactions with equity holders in their capacity as equity holders[1]:						
Dividends paid	-	-	(4,585)	(4,585)	(2)	(4,587)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	24	24	-	24
Dividend reinvestment plan[2]	-	-	-	-	-	-
Group share buy-back[3]	(1,880)	-	-	(1,880)	-	(1,880)
Other equity movements[1]:						
Treasury shares Wealth Australia adjustment	(2)	-	-	(2)	-	(2)
Group employee share acquisition scheme	(1)	-	-	(1)	-	(1)
Other items	-	4	18	22	-	22
As at 30 September 2018	27,205	323	31,715	59,243	140	59,383

1 Current period and prior periods include discontinued operations.

2 No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2018 interim dividend (nil shares for the 2017 final dividend; nil shares for the 2017 interim dividend; 7.1 million shares for the 2016 final dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market share purchases for the DRP in the September 2018 financial year were $392 million (2017: $176 million).

3 As announced on 18 December 2017, 22 June 2018 and 19 October 2018, there is currently an on-market buy-back in relation to ANZ's ordinary shares of $3.0 billion. The Company bought back $1,880 million worth of shares during the 2018 financial year resulting in 66.7 million shares being cancelled during the year.

The notes appearing on pages 77 to 163 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 2018. 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 30 October 2018, the Directors resolved to authorise the issue of these financial statements.

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

- the 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 period - for example, business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Group's operations that is important to its future performance (qualitative factor); and
- the information is required under legislative requirements of the *Corporations Act 2001*, the *Banking Act 1959 (Cth)* or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

BASIS OF MEASUREMENT

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

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment is made on the underlying hedged exposure;
- available-for-sale financial assets;
- financial instruments held for trading;
- other financial assets and financial liabilities designated at fair value through profit or loss; and
- certain other assets and liabilities held for sale where the fair value less costs 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.

DISCONTINUED OPERATIONS

The financial results of the Wealth Australia businesses being divested (OnePath pensions and investments and the aligned dealer groups business being sold to IOOF Holdings Limited, and the life insurance business being sold to Zurich Financial Services Australia) and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. These businesses qualify as discontinued operations, which are a subset of assets held for sale, as they represent a major line of business. The comparative Group Income Statement and Statement of Comprehensive Income have been restated to show discontinued operations separately from continuing operations in a separate line item 'Profit/(Loss) from discontinued operations'. This impacts the current and comparative financial information for Wealth Australia and Technology, Services & Operations (TSO) and Group Centre divisions. The Balance Sheet is not restated when a business is reclassified as a discontinued operation.

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 that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. 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 past and 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.

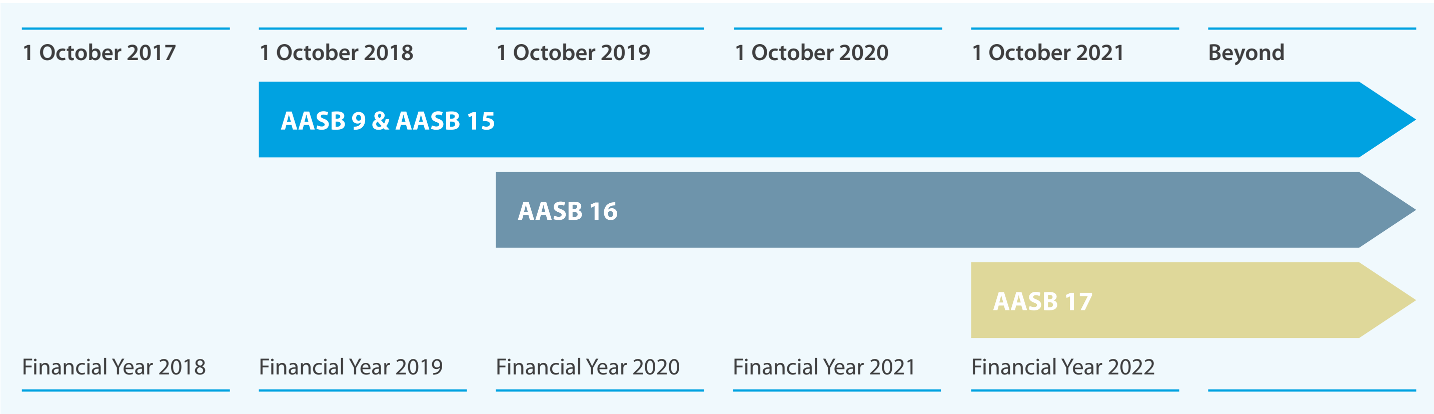
1. ABOUT OUR FINANCIAL STATEMENTS (continued)

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 2018, and have not been applied by the Group in preparing these financial statements.

We have identified four standards relevant to the Group and further details are set out below.

Mandatory Application of New Accounting Standards to the Group



AASB 9 *FINANCIAL INSTRUMENTS* (AASB 9)

In December 2014, the AASB issued the Australian Accounting Standard AASB 9 *Financial Instruments* which has replaced AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139). AASB 9 is effective for the Group from 1 October 2018.

AASB 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Group are outlined below.

Impairment

AASB 9 replaces the incurred loss impairment model under AASB 139 with an expected credit loss (ECL) model incorporating forward looking information and which does not require an actual loss event to have occurred for an impairment provision to be recognised.

The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees not measured at fair value through profit or loss.

Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL.
- 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.

Expected credit losses are estimated at the facility level by using a probability of default reflecting a probability weighted range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money.

Key judgements and estimates made by the Group include the following:

- *Significant increase in credit risk*

  Stage 2 assets are those that have experienced a significant increase in credit risk (SICR) since initial recognition. In determining what constitutes a SICR, the Group considers both qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination. The Group will also use secondary indicators, such as 30 days past due arrears, as backstops to these primary indicators.

  The determination of trigger points in relation to the deterioration of rating grades, combined with secondary risk indicators where used, requires judgement. In determining the Group's policy, alternative indicators have been considered and assessed, and these will be subject to regular review to ensure they remain appropriate.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

- *Forward looking information*

  The measurement of expected credit losses reflects an unbiased probability-weighted range of possible future outcomes.

  In applying forward looking information in the Group's AASB 9 credit models, the Group uses four alternative economic scenarios in estimating ECL. A base case scenario reflects management's base case assumptions used for medium term planning purposes. Additional upside and downside scenarios are determined together with a severe downside scenario. The Group's Credit and Market Risk Committee (CMRC) will be responsible for reviewing and approving forecast economic scenarios and the associated probability weights applied to each scenario.

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

The overall level of expected credit losses and areas of significant management judgement will be reported to, and oversighted by, the Group's Board Risk Committee.

Classification and measurement

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: Amortised Cost, Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows;
- Fair value through other comprehensive income: Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell; and
- Fair value through profit or loss: Any other financial assets not falling into the categories above are measured at FVTPL.

In December 2017, the AASB issued AASB 2017-6 *Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation* which amends the requirements of AASB 9 so that certain prepayment features meet the solely payments of principal and interest test. The Group intends to early adopt this amendment so that it applies from the date of initial application of AASB 9.

AASB 9 allows the Group to irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets - equity instruments

AASB 9 also permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. If this election is made under AASB 9, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Financial liabilities

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, except where doing so would create or enlarge an accounting mismatch in profit or loss. This part of the standard was early adopted by the Group on 1 October 2013.

General hedge accounting

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 provides the Group with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

Transition to AASB 9

Other than as noted above under classification and measurement of financial liabilities, 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 opening retained earnings at 1 October 2018. ANZ does not intend to restate comparatives.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

Impact

The estimated impact of AASB 9 relates to the Impairment and the Classification and Measurement provisions. These estimates are based on accounting policies, assumptions and judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 30 September 2019.

- *Impairment*

  For the consolidated financial statements of the Group, the adoption of AASB 9 is expected to reduce net assets at 1 October 2018 by approximately $813 million offset by deferred tax of approximately $232 million. This will result in a reduction in the CET1 capital ratio of approximately 6 bps at Level 2, and approximately 12 bps at Level 1.

- *Classification and measurement of financial assets*

  While some classification changes will occur as a result of the application of the business model and contractual cash flow characteristics tests, these are not expected to be significant from a Group perspective.

  The adoption of the Classification and Measurement requirements of the standard will result in measurement differences compared to those under AASB 139. Financial assets with a current carrying value of approximately $4.5 billion, predominantly bonds and debt instruments, will be reclassified between amortised cost, FVTPL and FVOCI. The net re-measurement from these reclassifications is not material. There are no other material changes in the measurement categories.

- *Classification and measurement of financial liabilities*

  The Group has issued certain financial liabilities (bonds included within the Debt issuances caption) with an amortised cost carrying amount at 30 September 2018 of $879 million. The Group will elect to designate these liabilities as measured at fair value through profit or loss effective from initial application of AASB 9 to reduce an accounting mismatch that currently exists. The impact on net assets and retained earnings is not material.

AASB 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (AASB 15)

AASB 15 is effective for the Group from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. 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 then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of AASB 15 is immaterial given a majority of Group revenues are outside the scope of the standard. The Group will adopt AASB 15 retrospectively including restatement of prior period comparatives.

Certain revenues for the Retail credit cards and Wealth businesses will be impacted as follows:

- Trail commissions: Certain trail commission income previously recognised over time by the Group will be recognised at inception of a contract when the Group distributes the underlying products to customers. This will result in the Group recognising the expected future trail commission income upfront where it is highly probable the revenue will not need to be reversed in future periods.
- Credit card revenue: Certain loyalty costs will be presented as operating expenses rather than presented as a net reduction of other operating income where the Group is assessed to be acting as a principal (rather than an agent) under the new standard. In addition, certain incentives received from card scheme providers related to card marketing and migration activities will be presented as operating income and no longer netted against operating expenses.

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 its obligation to make lease payments as a lease liability.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*.

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.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

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.

2. OPERATING INCOME

	2018 $m	2017 $m
Net interest income		
Interest income by type of financial asset		
Available-for-sale assets	1,524	1,223
Financial assets at amortised cost	27,657	26,790
Trading securities	1,140	1,099
Financial assets designated at FV through profit or loss	6	8
Interest income	30,327	29,120
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(15,082)	(13,836)
Securities sold short	(253)	(131)
Financial liabilities designated at FV through profit or loss	(123)	(192)
Interest expense	(15,458)	(14,159)
Major bank levy	(355)	(86)
Net interest income	14,514	14,875
Other operating income		
i) Fee and commission income		
Lending fees[1]	655	732
Non-lending fees and commissions	2,823	2,993
Fee and commission income	3,478	3,725
Fee and commission expense	(1,224)	(1,272)
Net fee and commission income	2,254	2,453
ii) Other income		
Net foreign exchange earnings and other financial instruments income	1,666	1,445
Gain on sale of 100 Queen Street, Melbourne	-	114
Sale of Asia Retail and Wealth businesses	99	(310)
Sale of Shanghai Rural Commercial Bank (SRCB)	233	(231)
Sale of Metrobank Card Corporation (MCC)	240	-
Sale of ANZ Royal Bank (Cambodia) Ltd (Cambodia JV)	(42)	-
Sale of PNG Retail, Commercial & SME	(19)	-
Other	127	118
Other income[2]	2,304	1,136
Other operating income	4,558	3,589
Net funds management and insurance income		
Funds management income	261	321
Investment income	-	17
Insurance premium income	375	424
Commission expense	(29)	(47)
Claims	(67)	(49)
Changes in policy liabilities	36	(32)
Net funds management and insurance income	576	634
Share of associates' profit	183	300
Operating income[3]	19,831	19,398

1. Lending fees exclude fees treated as part of the effective yield calculation of interest income.
2. Other income includes external dividend income of $39 million (2017: $27 million).
3. Includes customer remediation of $228 million (2017: $70 million).

Information has been restated and presented on a continuing operations basis.

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 (AFS) assets or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate 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 rate 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') became effective from 1 July 2017 and 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 presented in 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 that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the AFS revaluation reserve in equity when an AFS asset is sold; 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 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 customers in connection with financial advice and the management of investment products when we have provided the service.

Insurance Income

We recognise:

- premiums with a regular due date as income on an accruals basis;
- claims on an accruals basis once our liability to the policyholder has been confirmed under the terms of contract; and
- change in life insurance contract asset net of liability for reinsurance, under the Margin of Service (MoS) model.

We show 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. 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.

3. OPERATING EXPENSES

	2018 $m	2017 $m
Personnel		
Salaries and related costs	4,225	4,332
Superannuation costs	290	303
Other	243	289
Personnel expenses	4,758	4,924
Premises		
Rent	468	500
Other	343	362
Premises expenses	811	862
Technology		
Depreciation and amortisation	739	721
Licences and outsourced services	675	633
Accelerated amortisation[1]	251	-
Other	234	248
Technology expenses	1,899	1,602
Restructuring	227	62
Other		
Advertising and public relations	200	239
Professional fees	528	429
Freight, stationery, postage and communication	223	258
Royal Commission legal costs	55	-
Other	547	591
Other expenses	1,553	1,517
Operating expenses[2]	9,248	8,967

1. Accelerated software amortisation charge relates to certain software assets in the Institutional and Australia divisions following the reassessment of useful lives.
2. Includes customer remediation expenses of $191 million (2017: $83 million).

Information has been restated and presented on a continuing operations basis.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

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:

	2018 $m	2017 $m
Profit before income tax from continuing operations	9,895	9,233
Prima facie income tax expense at 30%	2,969	2,770
Tax effect of permanent differences:		
Sale of MCC	(78)	-
Share of associates' profit	(55)	(90)
Sale of SRCB	(84)	172
Sale of Cambodia JV	13	-
Sale of PNG Retail, Commercial & SME	8	-
Interest on convertible instruments	67	69
Overseas tax rate differential	(58)	(37)
Provision for foreign tax on dividend repatriation	32	15
Tax provisions no longer required	(41)	-
Other	8	(6)
Subtotal	2,781	2,893
Income tax (over)/under provided in previous years	3	(19)
Income tax expense	2,784	2,874
Current tax expense	3,004	3,150
Adjustments recognised in the current year in relation to the current tax of prior years	3	(19)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(223)	(257)
Income tax expense	2,784	2,874
Australia	1,799	2,017
Overseas	985	857
Effective tax rate	28.1%	31.1%

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 (2017: $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 $422 million (2017: $413 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.

KEY JUDGEMENTS AND ESTIMATES

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

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS - INCLUDING DISCONTINUED OPERATIONS

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 2017			
2016 final dividend paid		80 cents	2,342
2017 interim dividend paid		80 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
Financial Year 2018			
2017 final dividend paid		80 cents	2,350
2018 interim dividend paid		80 cents	2,317
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2018			4,585
Cash	91.5%		4,193
Dividend reinvestment plan	8.5%		392
Dividends paid during the year ended 30 September 2018			4,585

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2018 final dividend (fully franked at 30%, New Zealand imputation credit NZD 10 cents per share)	18 December 2018	80 cents	2,296

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 2018 final dividend, DRP participation will be satisfied by an on-market purchase of shares 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 22 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2018 $m	2017 $m
Australian franking credits available at 30% (2017: 30%) tax rate	AUD	97	171
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	3,868	3,680

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.

5. DIVIDENDS (continued)

The proposed final 2018 dividend will utilise the entire balance of $97 million franking credits available at 30 September 2018. Instalment tax payments on account of the 2019 financial year which will be made after 30 September 2018 will generate sufficient franking credits to enable the final 2018 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Group that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

6. EARNINGS PER ORDINARY SHARE

Earnings per ordinary share (EPS) - Basic	2018 cents	2017 cents
Earnings Per Share[1]	221.6	220.1
Earnings Per Share from continuing operations	245.6	218.0
Earnings Per Share from discontinued operations	(24.0)	2.1

Earnings per ordinary share (EPS) - Diluted	2018 cents	2017 cents
Earnings Per Share[1]	212.1	210.8
Earnings Per Share from continuing operations	234.2	208.8
Earnings Per Share from discontinued operations	(22.1)	2.0

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

Reconciliation of earnings used in EPS calculations	2018 $m	2017 $m
Basic:		
Profit for the year	6,416	6,421
Less: profit attributable to non-controlling interests	16	15
Earnings used in calculating basic earnings per share	6,400	6,406
Less: profit/(loss) after tax from discontinued operations	(695)	62
Earnings used in calculating basic earnings per share from continuing operations	7,095	6,344
Diluted:		
Earnings used in calculating basic earnings per share	6,400	6,406
Add: interest on convertible subordinated debt	279	288
Earnings used in calculating diluted earnings per share	6,679	6,694
Less: profit/(loss) after tax from discontinued operations	(695)	62
Earnings used in calculating diluted earnings per share from continuing operations	7,374	6,632

Reconciliation of weighted average number of ordinary shares (WANOS) used in EPS calculations[2]	2018 millions	2017 millions
WANOS used in calculating basic earnings per share	2,888.3	2,910.3
Add: Weighted average dilutive potential ordinary shares		
Convertible subordinated debt	249.0	253.3
Share based payments (options, rights and deferred shares)	11.4	11.9
Adjusted weighted average number of shares - diluted	3,148.7	3,175.5

1. Post disposal of the discontinued operations, treasury shares held in Wealth Australia will cease to be eliminated in the Group's consolidated financial statements and will be included in the denominator used in calculating earnings per share. If the weighted average number of treasury shares held in Wealth Australia was included in the denominator used in calculating earnings per share from continuing operations for the September 2018 financial year, basic earnings per share would have been 244.4 cents (2017: 216.8) and diluted earnings per share would have been 233.1 cents (2017: 207.8 cents).
2. Excludes the weighted average number of treasury shares held in ANZEST of 5.9 million (2017: 8.1 million) and Wealth Australia of 15.0 million (2017: 16.2 million)

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 Business & Private Banking (B&PB) business units.

- **Retail** provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centres, a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third party brokers.
- **B&PB** provides a full range of banking products and financial services including asset financing across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services global institutional and corporate 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, commodity 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 and corporate advisory.
- **Markets** provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets 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 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.

- **Discontinued operations** of the Wealth Australia division comprise of the businesses subject to the sales agreement with IOOF and Zurich as described in Note 29 Discontinued Operations and Assets and Liabilities Held for Sale.
- **Continuing operations** includes lenders mortgage insurance, share investing, financial planning and general insurance distribution.

Asia Retail & Pacific

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

- **Asia Retail and Wealth** 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 29 Discontinued Operations and 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, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes Group Treasury, Shareholder Functions and minority investments in Asia. Refer to Note 29 Discontinued Operations and Assets and Liabilities Held for Sale for details on TSO and Group Centre discontinued operations.

7. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

During 2018, the following structural changes were made as part of the broader ANZ simplification strategy:

- the corporate business, formerly part of the Corporate and Commercial Banking business within the Australia division, was transferred to the Institutional division;
- the residual Asia Retail and Wealth businesses in Philippines, Japan and Cambodia not sold as part of the Asia Retail and Wealth divestment have been transferred to the Institutional division; and
- the Group made a further realignment by transferring Group Hub's (Service Centres) divisional specific operations in TSO and Group Centre to their respective divisions.

Year ended 30 September 2018	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
Net interest income	8,409	3,068	2,587	49	186	215	-	14,514
Other operating income	1,086	2,062	663	282	246	361	617	5,317
Operating income	9,495	5,130	3,250	331	432	576	617	19,831
Operating expenses	(3,677)	(2,944)	(1,196)	(257)	(211)	(963)	-	(9,248)
Profit before credit impairment and income tax	5,818	2,186	2,054	74	221	(387)	617	10,583
Credit impairment (charge)/release	(698)	44	(6)	-	(28)	-	-	(688)
Profit before income tax	5,120	2,230	2,048	74	193	(387)	617	9,895
Income tax expense and non-controlling interests	(1,540)	(695)	(573)	(22)	(42)	81	(9)	(2,800)
Profit after tax from continuing operations	3,580	1,535	1,475	52	151	(306)	608	7,095
Profit/(Loss) after tax from discontinued operations	-	-	-	(649)	-	(33)	(13)	(695)
Profit after tax attributable to shareholders	3,580	1,535	1,475	(597)	151	(339)	595	6,400
Non-cash items								
Share of associates' profit	(1)	-	5	-	-	179	-	183
Depreciation and amortisation[2]	(217)	(410)	(48)	(43)	(7)	(474)	-	(1,199)
Equity-settled share based payment expenses	(14)	(83)	(7)	(3)	(4)	(26)	(1)	(138)
Credit impairment (charge)/release	(698)	44	(6)	-	(28)	-	-	(688)
Financial position[3]								
Goodwill	6	1,067	1,979	1,031	48	-	-	4,131
Investments in associates	18	1	5	1	-	2,530	-	2,555
Year ended 30 September 2017								
Net interest income	8,218	3,264	2,519	49	576	249	-	14,875
Other operating income	1,217	2,366	653	344	18	343	(418)	4,523
Operating income	9,435	5,630	3,172	393	594	592	(418)	19,398
Operating expenses	(3,382)	(2,814)	(1,193)	(262)	(614)	(702)	-	(8,967)
Profit before credit impairment and income tax	6,053	2,816	1,979	131	(20)	(110)	(418)	10,431
Credit impairment (charge)/release	(885)	(92)	(78)	-	(144)	-	1	(1,198)
Profit before income tax	5,168	2,724	1,901	131	(164)	(110)	(417)	9,233
Income tax expense and non-controlling interests	(1,552)	(800)	(532)	(36)	7	72	(48)	(2,889)
Profit after tax from continuing operations	3,616	1,924	1,369	95	(157)	(38)	(465)	6,344
Profit/(Loss) after tax from discontinued operations	-	-	-	143	-	(14)	(67)	62
Profit after tax attributable to shareholders	3,616	1,924	1,369	238	(157)	(52)	(532)	6,406
Non-cash items								
Share of associates' profit	2	(1)	5	-	-	294	-	300
Depreciation and amortisation[2]	(184)	(210)	(49)	(77)	(14)	(438)	-	(972)
Equity-settled share based payment expenses	(17)	(92)	(8)	(5)	(4)	(32)	-	(158)
Credit impairment (charge)/release	(885)	(92)	(78)	-	(144)	-	1	(1,198)
Financial position[4]								
Goodwill	5	1,077	1,990	1,452	45	-	-	4,569
Investments in associates	19	2	7	2	-	4,086	-	4,116

1. Cash profit represents ANZ's preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 94 if we consider them not integral to the ongoing performance of the segment.
2. Includes technology depreciation and amortisation of $990 million (2017: $721 million) from continuing operations.
3. Includes goodwill ($691 million) and investments in associates ($2 million) presented as assets held for sale.
4. Restated to include goodwill ($122 million) and investment in associates ($1,868 million) presented as assets held for sale.

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.

Item	Related segment	Profit after tax 2018 $m	Profit after tax 2017 $m
Revaluation of policy liabilities	New Zealand	14	(25)
Economic hedges	Institutional, TSO and Group Centre	248	(209)
Revenue and expense hedges	TSO and Group Centre	9	99
Structured credit intermediation trades	Institutional	4	3
Reclassification of SRCB to held for sale	TSO and Group Centre	333	(333)
Total from continuing operations		608	(465)
Treasury shares adjustment	Wealth Australia	(7)	(58)
Revaluation of policy liabilities	Wealth Australia	(6)	(9)
Total from discontinued operations		(13)	(67)
Total		595	(532)

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 including discontinued operations 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, including those presented as asset held for sale.

	Australia		Asia Pacific, Europe & Americas		New Zealand		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Total operating income	13,141	13,603	2,823	2,945	3,948	3,725	19,912	20,273
Assets to be recovered in more than one year	389,119	387,954	46,801	42,266	98,312	96,453	534,232	526,673

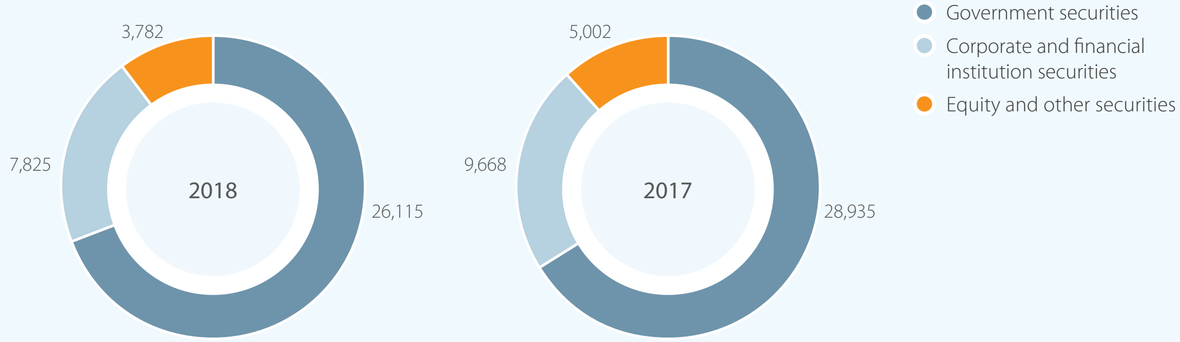
8. CASH AND CASH EQUIVALENTS

	2018 $m	2017 $m
Coins, notes and cash at bank	1,382	1,544
Money at call, bills receivable and remittances in transit	74	108
Securities purchased under agreements to resell in less than 3 months	28,302	21,479
Balances with central banks	33,724	24,039
Settlement balances owed to ANZ within 3 months	21,154	20,878
Cash and cash equivalents[1]	84,636	68,048

1. Excludes cash and cash equivalents held for sale of $328 million (2017: nil).

9. TRADING SECURITIES

Trading securities ($m)



	2018 $m	2017 $m
Government securities	**26,115**	28,935
Corporate and financial institution securities	**7,825**	9,668
Equity and other securities	**3,782**	5,002
Trading securities	**37,722**	43,605

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any 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 Financial Liabilities for further details.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Derivative financial instruments - held for trading	66,457	(66,198)	60,387	(59,602)
Derivative financial instruments - designated in hedging relationships	1,966	(3,478)	2,131	(2,650)
Derivative financial instruments	**68,423**	**(69,676)**	62,518	(62,252)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risks in the Group that are not in a designated hedge accounting relationship. • 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 and currency 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 two parties exchange a 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:

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

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 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Interest rate contracts				
Forward rate agreements	2	(2)	2	(1)
Futures contracts	54	(41)	102	(56)
Swap agreements	35,079	(35,428)	31,331	(30,814)
Options purchased	782	-	746	-
Options sold	-	(1,408)	-	(1,365)
Total	35,917	(36,879)	32,181	(32,236)
Foreign exchange contracts				
Spot and forward contracts	15,200	(14,088)	15,232	(14,943)
Swap agreements	12,532	(11,821)	10,298	(10,374)
Options purchased	494	-	517	-
Options sold	-	(669)	-	(475)
Total	28,226	(26,578)	26,047	(25,792)
Commodity contracts	2,260	(2,683)	1,991	(1,398)
Credit default swaps				
Structured credit derivative purchased	22	-	52	-
Other credit derivatives purchased	8	(29)	13	(110)
Credit derivatives purchased	30	(29)	65	(110)
Structured credit derivatives sold	-	(26)	-	(58)
Other credit derivatives sold	24	(3)	103	(8)
Credit derivatives sold	24	(29)	103	(66)
Total	54	(58)	168	(176)
Derivative financial instruments - held for trading	66,457	(66,198)	60,387	(59,602)

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 and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of 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 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Foreign exchange swap agreements	Fair value	1	-	1	-
Foreign exchange spot and forward contracts	Fair value	1	-	-	-
Interest rate swap agreements	Fair value	1,261	(3,001)	1,366	(2,114)
Interest rate futures contracts	Fair value	47	(1)	80	-
Interest rate swap agreements	Cash flow	592	(379)	638	(476)
Foreign exchange swap agreements	Cash flow	44	(52)	35	(49)
Foreign exchange spot and forward contracts	Cash flow	2	-	-	(5)
Foreign exchange spot and forward contracts	Net investment	18	(45)	11	(6)
Derivative financial instruments - designated in hedging relationships		1,966	(3,478)	2,131	(2,650)

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	2018 $m	2017 $m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	1,190	122
Hedging instrument	Fair value	(1,210)	(128)
Ineffective portion of hedging instrument	Cash flow	13	(18)

RECOGNITION AND MEASUREMENT

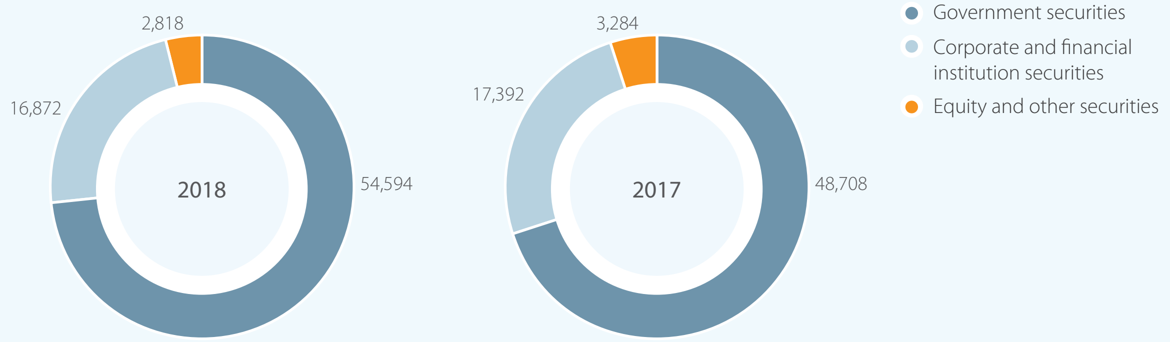
Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Group's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated 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 98 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 Financial Liabilities for further details.

11. AVAILABLE-FOR-SALE ASSETS

Available-for-sale assets ($m)



Period	Security type	2018 Government securities $m	2018 Corporate and financial institution securities $m	2018 Equity and other securities $m	2018 Total $m	2017 Government securities $m	2017 Corporate and financial institution securities $m	2017 Equity and other securities $m	2017 Total $m
Less than 3 months		6,715	948	-	7,663	6,745	1,201	-	7,946
Between 3 and 12 months		8,159	2,549	-	10,708	5,576	2,738	-	8,314
Between 1 and 5 years		28,144	13,283	159	41,586	19,302	12,960	403	32,665
Greater than 5 years		12,455	287	1,569	14,311	17,085	493	2,134	19,712
No maturity		-	-	1,095	1,095	-	-	747	747
Available-for-sale assets		55,473	17,067	2,823	75,363	48,708	17,392	3,284	69,384
Less: Available-for-sale assets reclassified as held for sale (refer to Note 29)		(879)	(195)	(5)	(1,079)	-	-	-	-
Available-for-sale assets		54,594	16,872	2,818	74,284	48,708	17,392	3,284	69,384

During the year, the Group recognised a net gain (before tax) in other operating income of $48 million (2017: $15 million) in respect of available-for-sale (AFS) assets.

The carrying value of AFS equity securities is $1,095 million (2017: $747 million). This includes the Group's $1,025 million (2017: $676 million) investment in the Bank of Tianjin (BoT) that ceased being classified as an associate in March 2016.

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 their 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 Financial Liabilities for further details.

12. NET LOANS AND ADVANCES

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

	2018 $m	2017 $m
Overdrafts	7,061	7,345
Credit cards	9,890	11,009
Commercial bills[1]	6,861	8,471
Term loans – housing	346,154	337,309
Term loans – non-housing[1]	234,405	215,905
Other	3,442	3,405
Subtotal	607,813	583,444
Unearned income	(430)	(411)
Capitalised brokerage/mortgage origination fees	997	1,058
Gross loans and advances (including assets reclassified as held for sale)	608,380	584,091
Provision for credit impairment (refer to Note 13)	(3,443)	(3,798)
Net loans and advances (including assets reclassified as held for sale)	604,937	580,293
Less: Net loans and advances reclassified as held for sale (refer to Note 29)	(999)	(5,962)
Net loans and advances	603,938	574,331
Residual contractual maturity:		
Within one year	126,811	108,555
After more than one year	477,127	465,776
Net loans and advances	603,938	574,331
Carried on Balance Sheet at:		
Amortised cost	603,805	574,175
Fair value through profit or loss (designated on initial recognition)	133	156
Net loans and advances	603,938	574,331

1. Some of the loans previously shown in Commercial bills outstanding have been reclassified to Term Loans – non-housing. Restatement impact of $2,597 million for 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 which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any 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, the transferred assets remain on the Group's balance sheet, however if substantially all the risks and rewards are transferred, the Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, the Group derecognises the asset. If control over the asset is not lost, the Group continues to recognise the asset to the extent of its continuing involvement.

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

13. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT - BALANCE SHEET

Provision for credit impairment	Net loans and advances 2018 $m	Net loans and advances 2017 $m	Off-balance sheet credit related commitments 2018 $m	Off-balance sheet credit related commitments 2017 $m	Total 2018 $m	Total 2017 $m
Individual provision						
Balance at start of year	1,118	1,278	18	29	1,136	1,307
New and increased provisions	1,426	2,068	18	1	1,444	2,069
Write-backs	(425)	(501)	-	-	(425)	(501)
Bad debts written off (excluding recoveries)	(1,224)	(1,693)	-	-	(1,224)	(1,693)
Other[1]	(1)	(34)	(10)	(12)	(11)	(46)
Total individual provision	894	1,118	26	18	920	1,136
Collective provision						
Balance at start of year	2,118	2,245	544	631	2,662	2,876
Charge/(release) to profit or loss	(34)	(76)	(51)	(66)	(85)	(142)
Other[2]	(61)	(51)	7	(21)	(54)	(72)
Total collective provision	2,023	2,118	500	544	2,523	2,662
Total provision for credit impairment	2,917	3,236	526	562	3,443	3,798

1. Other individual provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment in 2018. It includes an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment, including an adjustment for exchange rate fluctuations.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge	2018 $m	2017 $m
New and increased provisions	1,444	2,069
Write-backs	(425)	(501)
Recoveries of amounts previously written-off	(246)	(228)
Individual credit impairment charge	773	1,340
Collective credit impairment release	(85)	(142)
Total credit impairment charge	688	1,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics 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.	

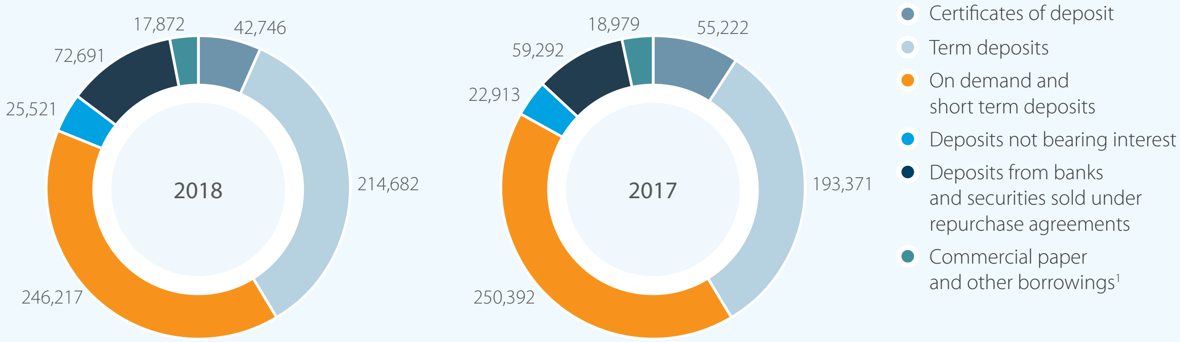
KEY JUDGEMENTS AND ESTIMATES

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.		

14. DEPOSITS AND OTHER BORROWINGS

Deposits and other borrowings ($m)



	2018 $m	2017 $m
Certificates of deposit	42,746	55,222
Term deposits	214,682	193,371
On demand and short term deposits	246,217	250,392
Deposits not bearing interest	25,521	22,913
Deposits from banks & securities sold under repurchase agreements	72,691	59,292
Commercial paper and other borrowings[1]	17,872	18,979
Deposits and other borrowings (including liabilities reclassified as held for sale)	**619,729**	600,169
Less: Deposits and other borrowings reclassified as held for sale (refer to Note 29)	(1,579)	(4,558)
Deposits and other borrowings	**618,150**	595,611
Residual contractual maturity:		
- to be settled within 1 year	606,175	577,495
- to be settled after 1 year	11,975	18,116
Deposits and other borrowings	**618,150**	595,611
Carried on Balance Sheet at:		
Amortised cost	615,818	592,114
Fair value through profit or loss (designated on initial recognition)	2,332	3,497
Deposits and other borrowings	**618,150**	595,611

1. Other borrowings related to secured investments of the consolidated subsidiary UDC Finance Limited (UDC) of NZD 0.9 billion (2017: NZD 1.0 billion) and the accrued interest thereon which are secured by a security interest over all the assets of UDC NZD 3.3 billion (2017: NZD 3.0 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
- are 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 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 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.

	2018 $m	2017 $m
Senior debt	86,193	68,852
Covered bonds	17,846	19,859
Securitisation	1,232	1,552
Total unsubordinated debt	105,271	90,263
Subordinated debt		
- Additional Tier 1 capital	7,917	8,452
- Tier 2 capital	7,991	9,258
Total subordinated debt	15,908	17,710
Total debt issued	121,179	107,973

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.

		2018 $m	2017 $m
USD	United States dollars	49,610	45,799
EUR	Euro	23,239	22,507
AUD	Australian dollars	29,477	23,194
NZD	New Zealand dollars	5,673	6,361
JPY	Japanese yen	3,471	3,233
CHF	Swiss francs	2,067	2,248
GBP	Pounds sterling	3,776	854
HKD	Hong Kong dollars	1,157	1,136
Other	Chinese yuan, Norwegian krone, Turkish lira, Singapore dollars, Canadian dollars, Mexican peso and South African rand	2,709	2,641
Total debt issued		121,179	107,973
Residual contractual maturity:			
- to be settled within 1 year		21,585	13,458
- to be settled after 1 year		97,938	92,159
- no maturity date (instruments in perpetuity)		1,656	2,356
Total debt issued		121,179	107,973

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 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.

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

15. DEBT ISSUANCES (continued)

AT1 CAPITAL

All outstanding AT1 capital instruments are Basel III fully compliant instruments (refer to Note 23 Capital Management for further information about Basel III). Each of the ANZ CN and ANZ CS rank equally with each other.

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

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

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

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

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

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

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

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

			2018 $m	2017 $m
Additional Tier 1 capital (perpetual subordinated securities)[1]				
ANZ Convertible Preference Shares (ANZ CPS)				
AUD	1,340m	ANZ CPS3	-	573
ANZ Capital Notes (ANZ CN)				
AUD	1,120m	ANZ CN1	**1,117**	1,116
AUD	1,610m	ANZ CN2	**1,605**	1,604
AUD	970m	ANZ CN3	**965**	963
AUD	1,622m	ANZ CN4	**1,610**	1,608
AUD	931m	ANZ CN5	**924**	925
ANZ Capital Securities (ANZ CS)				
USD	1,000m	ANZ Capital Securities	**1,240**	1,206
ANZ NZ Capital Notes (ANZ NZ CN)				
NZD	500m	ANZ NZ Capital Notes	**456**	457
Total Additional Tier 1 capital			**7,917**	8,452

1. Carrying values net of issue costs.

15. DEBT ISSUANCES (continued)

ANZ Convertible Preference Shares (ANZ CPS)

	CPS3
Issuer	ANZ
Issue date	28 September 2011
Issue amount	$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. On 1 March 2018, ANZ repaid the remaining $573 million of CPS3 on issue.
Face value	$100
Dividend frequency	Semi-annually in arrears
Dividend rate	Floating rate: (180 day Bank Bill rate +3.1%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 March 2018 and each subsequent semi-annual dividend payment date
Mandatory conversion date	1 September 2019
Common equity capital trigger event	Yes
Non-viability trigger event	No
Cash dividend payments treated as interest expense	$8 million (2017: $47 million)
Carrying value 2018 (net of issue costs)	$nil million (2017: $573 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 2018 (net of issue costs)	$1,117 million (2017: $1,116 million)	$1,605 million (2017: $1,604 million)	$965 million (2017: $963 million)

15. 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 2018 (net of issue costs)	$1,610 million (2017: $1,608 million)	$924 million (2017: $925 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 2018 (net of issue costs)	$1,240 million (2017: $1,206 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 2018 (net of issue costs)	$456 million (2017: $457 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:

- the EUR 750 million term subordinated notes until its maturity in 2019; 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 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	2018 $m	2017 $m
Basel III transitional subordinated notes (perpetual)							
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	No	416	382
NZD	835m	Perpetual	2018	Fixed	No	-	768
Basel III transitional subordinated notes (term)							
EUR	750m	2019	N/A	Fixed	No	1,249	1,205
AUD	750m	2023	2018	Floating	No	-	747
Total Basel III transitional subordinated notes						1,665	3,102
Basel III fully compliant convertible subordinated notes (term)							
AUD	750m	2024	2019	Floating	Yes	750	750
USD	800m	2024	N/A	Fixed	Yes	1,091	1,061
CNY	2,500m	2025	2020	Fixed	Yes	503	478
SGD	500m	2027	2022	Fixed	Yes	507	478
AUD	200m	2027	2022	Fixed	Yes	199	199
JPY	20,000m	2026	N/A	Fixed	Yes	243	226
AUD	700m	2026	2021	Floating	Yes	698	699
USD	1,500m	2026	N/A	Fixed	Yes	1,869	1,817
JPY	10,000m	2026	2021	Fixed	Yes	121	112
JPY	10,000m	2028	2023	Fixed	Yes	120	111
AUD	225m	2032	2027	Fixed	Yes	225	225
Total Basel III fully compliant subordinated notes						6,326	6,156
Total Tier 2 capital						7,991	9,258

RECOGNITION AND MEASUREMENT

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

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Events or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no value as of the reporting date given the remote nature of those trigger 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, 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 exposure
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.	• 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
Life insurance 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.	Not applicable. We control and minimise life insurance risk in the following ways: • 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.

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), which sets out the Board's expectations regarding the degree of risk that ANZ is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes ANZ's strategy for managing risks and the key elements of the RMF that 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.

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 interbank, treasury, trade finance and capital markets activities around the world.

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

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

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

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

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

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

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is 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 & Poor's Rating
Strong credit profile	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory 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 – B1	BB+ – B+
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.	B2 - 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.

For the purpose of this note, assets presented as assets held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
On-balance sheet positions						
Net loans and advances[2]	604,937	580,293	(526)	(562)	605,463	580,855
Other financial assets:						
Cash and cash equivalents	84,964	68,048	1,466	1,544	83,498	66,504
Settlement balances owed to ANZ[3]	2,319	5,504	2,319	5,504	-	-
Collateral paid	11,043	8,987	-	-	11,043	8,987
Trading securities	37,722	43,605	3,595	4,713	34,127	38,892
Derivative financial instruments	68,426	62,518	-	-	68,426	62,518
Available-for-sale assets	75,363	69,384	1,095	747	74,268	68,637
Regulatory deposits	1,028	2,015	-	-	1,028	2,015
Investments backing policy liabilities	40,054	37,964	40,054	37,964	-	-
Other financial assets[4]	3,850	3,764	-	-	3,850	3,764
Total other financial assets	324,769	301,789	48,529	50,472	276,240	251,317
Subtotal	929,706	882,082	48,003	49,910	881,703	832,172
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	245,108	232,162	526	562	244,582	231,600
Total	1,174,814	1,114,244	48,529	50,472	1,126,285	1,063,772

1. Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents, 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. Equity securities and precious metal exposures recognised as trading securities have been excluded as they do not have credit exposure.
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.
3. Settlement balances owed to ANZ relate 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 include guarantees, letters of credit and performance related contingencies.

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.

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Neither past due nor impaired								
Strong credit profile[1]	**445,997**	410,343	**272,110**	246,774	**206,859**	190,083	**924,966**	847,200
Satisfactory risk[2]	**127,384**	137,432	**4,014**	4,429	**36,037**	39,578	**167,435**	181,439
Sub-standard but not past due or impaired[3]	**15,567**	16,879	**116**	114	**1,644**	1,858	**17,327**	18,851
Sub-total	**588,948**	564,654	**276,240**	251,317	**244,540**	231,519	**1,109,728**	1,047,490
Past due but not impaired								
≥ 1 < 30 days	**8,958**	8,790	**-**	-	**-**	-	**8,958**	8,790
≥ 30 < 60 days	**2,240**	2,143	**-**	-	**-**	-	**2,240**	2,143
≥ 60 < 90 days	**1,268**	1,148	**-**	-	**-**	-	**1,268**	1,148
≥ 90 days	**2,998**	2,953	**-**	-	**-**	-	**2,998**	2,953
Sub-total	**15,464**	15,034	**-**	-	**-**	-	**15,464**	15,034
Restructured and impaired								
Impaired loans	**1,676**	2,118	**-**	-	**-**	-	**1,676**	2,118
Restructured items[4]	**269**	167	**-**	-	**-**	-	**269**	167
Non-performing commitments and contingencies	**-**	-	**-**	-	**68**	99	**68**	99
Gross impaired financial assets	**1,945**	2,285	**-**	-	**68**	99	**2,013**	2,384
Individual provisions	**(894)**	(1,118)	**-**	-	**(26)**	(18)	**(920)**	(1,136)
Sub-total restructured and net impaired	**1,051**	1,167	**-**	-	**42**	81	**1,093**	1,248
Total	**605,463**	580,855	**276,240**	251,317	**244,582**	231,600	**1,126,285**	1,063,772

1. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile, are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly.
2. In 2018, collective provisions against Satisfactory risk, which previously had been allocated against Strong credit profile, are now reallocated to Satisfactory risk. Comparatives have been restated accordingly (2017: Net loans and advances $586 million, Credit related commitments $187 million).
3. In 2018, collective provisions against Sub-standard risk, which previously had been allocated against Strong credit profile, are now reallocated to Sub-standard risk. Comparatives have been restated accordingly (2017: Net loans and advances $638 million, Credit related commitments $85 million).
4. 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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Agriculture, forestry, fishing and mining	38,124	35,592	705	773	17,583	16,093	56,412	52,458
Business services	8,439	8,413	122	182	7,016	7,251	15,577	15,846
Construction	6,849	6,965	61	84	6,950	6,419	13,860	13,468
Electricity, gas and water supply	6,390	6,472	920	1,186	6,152	6,103	13,462	13,761
Entertainment, leisure and tourism	12,360	12,462	355	447	3,666	3,650	16,381	16,559
Financial, investment and insurance	48,059	39,741	187,194	162,198	37,821	29,640	273,074	231,579
Government and official institutions	922	2,307	75,763	73,904	2,854	2,733	79,539	78,944
Manufacturing	23,538	21,107	2,612	2,691	41,927	38,872	68,077	62,670
Personal lending	352,155	352,841	1,379	1,902	55,159	62,090	408,693	416,833
Property services	45,473	42,514	708	838	15,837	13,057	62,018	56,409
Retail trade	13,530	13,375	209	321	6,947	6,506	20,686	20,202
Transport and storage	12,075	11,884	650	1,163	7,980	6,998	20,705	20,045
Wholesale trade	15,220	14,178	3,148	2,817	21,834	20,501	40,202	37,496
Other	24,679	15,593	2,414	2,811	13,382	12,249	40,475	30,653
Gross total	607,813	583,444	276,240	251,317	245,108	232,162	1,129,161	1,066,923
Provision for credit impairment	(2,917)	(3,236)	-	-	(526)	(562)	(3,443)	(3,798)
Subtotal	604,896	580,208	276,240	251,317	244,582	231,600	1,125,718	1,063,125
Unearned income	(430)	(411)	-	-	-	-	(430)	(411)
Capitalised brokerage/mortgage origination fees	997	1,058	-	-	-	-	997	1,058
Maximum exposure to credit risk	605,463	580,855	276,240	251,317	244,582	231,600	1,126,285	1,063,772

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 cash flows. 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:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
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).
Off-balance sheet positions	
Undrawn and contingent facilities	Collateral for off balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Net loans and advances	605,463	580,855	482,097	474,746	123,366	106,109
Other financial assets	276,240	251,317	33,215	25,429	243,025	225,888
Off-balance sheet positions	244,582	231,600	49,141	46,083	195,441	185,517
Total	1,126,285	1,063,772	564,453	546,258	561,832	517,514

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 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 for the relevant holding period.

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 2018				30 September 2017			
	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	3.7	10.3	1.7	4.2	4.2	10.5	2.5	5.1
Interest rate	8.4	16.0	4.9	7.9	6.3	21.3	5.1	7.9
Credit	2.5	6.5	2.3	4.0	4.4	5.4	2.0	3.4
Commodity	3.7	4.5	1.4	3.1	2.2	3.8	1.4	2.1
Equity	-	-	-	-	-	0.5	-	0.2
Diversification benefit[1]	(10.5)	n/a	n/a	(8.1)	(7.6)	n/a	n/a	(7.7)
Total VaR	7.8	19.9	6.9	11.1	9.5	24.9	6.9	11.0

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 2018				30 September 2017			
	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	21.9	32.7	20.3	23.6	31.6	37.5	25.9	31.3
New Zealand	6.8	7.1	5.6	6.6	11.8	15.1	11.1	12.4
Asia Pacific, Europe & America	15.1	15.1	12.5	13.7	14.6	19.0	14.3	15.9
Diversification benefit[1]	(16.1)	n/a	n/a	(14.4)	(20.6)	n/a	n/a	(19.7)
Total VaR	27.7	36.4	26.0	29.5	37.4	44.0	33.5	39.9

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.

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 a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2018	2017
Impact of 1% rate shock		
As at period end	0.20%	0.52%
Maximum exposure	0.60%	0.65%
Minimum exposure	0.03%	0.01%
Average exposure (in absolute terms)	0.25%	0.28%

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.

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 fund increases in its assets.

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

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Scenario modelling of funding sources

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

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, the Group has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia. 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 2018, ANZ's CLF is $46.9 billion (2017 calendar year end: $43.8 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 that the Reserve Bank of New Zealand (RBNZ) will accept in its domestic market operations.

LIQUIDITY RISK OUTCOMES[1]

Liquidity Coverage Ratio

ANZ's Liquidity Coverage Ratio (LCR) averaged 138% for 2018, an increase from the 2017 average of 135%, and above the regulatory minimum of 100%.

Net Stable Funding Ratio

ANZ's Net Stable Funding Ratio (NSFR) as at 30 September 2018 was 115%, above the regulatory minimum of 100%.

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

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

Liquidity crisis contingency planning

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

Ongoing business management	Early signs/ mild stress	Severe Stress
• Establish crisis/severity levels • Liquidity limits • Early warning indicators	• Monitoring and review • Management actions not requiring business rationalisation	• Activate contingency funding plans • Management actions for altering asset and liability behaviour
Assigned responsibility for internal and external communications and the appropriate timing to communicate		

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

Group funding

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

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

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF GROUP'S LIABILITIES

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

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed on page 121.

2018	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	11,810	-	-	-	11,810
Collateral received	6,542	-	-	-	6,542
Deposits and other borrowings	518,650	92,213	12,444	117	623,424
Policy liabilities	38,325	2	9	1,271	39,607
External unit holder liabilities	4,712	-	-	-	4,712
Liability for acceptances	803	-	-	-	803
Debt issuances[1]	5,575	21,538	83,685	23,399	134,197
Derivative liabilities (trading)[2]	60,499	-	-	-	60,499
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(17,972)	(30,894)	(85,054)	(35,580)	(169,500)
Pay leg	17,936	29,757	82,344	35,431	165,468
- Other balance sheet management					
Receive leg	(52,708)	(16,646)	(14,401)	(2,089)	(85,844)
Pay leg	53,022	16,879	15,283	2,256	87,440

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	4,435	-	-	-	4,435
Liability for acceptances	614	-	-	-	614
Debt issuances[1]	4,673	15,290	75,732	24,131	119,826
Derivative liabilities (trading)[2]	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

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
2. The full mark-to-market of derivative liabilities held for trading purposes is included in the 'less than 3 months' category.

At 30 September 2018, $202,531 million (2017: $191,323 million) of the Group's undrawn facilities and $42,577 million (2017: $40,839 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. In addition the Group also holds assets classified as held for sale which are measured at fair value less costs to sell. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

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

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

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

Fair value designation

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

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises 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, certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

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.

		2018			2017		
	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	8	84,636	-	84,636	68,048	-	68,048
Settlement balances owed to ANZ		2,319	-	2,319	5,504	-	5,504
Collateral paid		11,043	-	11,043	8,987	-	8,987
Trading securities	9	-	37,722	37,722	-	43,605	43,605
Derivative financial instruments	10	-	68,423	68,423	-	62,518	62,518
Available-for-sale assets	11	-	74,284	74,284	-	69,384	69,384
Net loans and advances	12	603,805	133	603,938	574,175	156	574,331
Regulatory deposits		882	-	882	2,015	-	2,015
Assets held for sale[1]		727	43,151	43,878	5,966	-	5,966
Investments backing policy liabilities		-	-	-	-	37,964	37,964
Other financial assets		2,899	-	2,899	4,364	-	4,364
Total		706,311	223,713	930,024	669,059	213,627	882,686
Financial liabilities							
Settlement balances owed by ANZ		11,810	-	11,810	9,914	-	9,914
Collateral received		6,542	-	6,542	5,919	-	5,919
Deposits and other borrowings	14	615,818	2,332	618,150	592,114	3,497	595,611
Derivative financial instruments	10	-	69,676	69,676	-	62,252	62,252
Liabilities held for sale[1]		130	46,641	46,771	4,635	-	4,635
Policy liabilities		-	-	-	342	37,106	37,448
External unit holder liabilities		-	-	-	-	4,435	4,435
Payables and other liabilities		5,617	1,171	6,788	6,458	1,892	8,350
Debt issuances	15	119,737	1,442	121,179	106,221	1,752	107,973
Total		759,654	121,262	880,916	725,603	110,934	836,537

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.

FAIR VALUE HIERARCHY

The Group categorises 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 where significant unobservable inputs are used to measure the fair value of the asset or liability.

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

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Assets								
Trading securities[1]	**30,855**	40,435	**6,867**	3,170	**-**	-	**37,722**	43,605
Derivative financial instruments	**647**	433	**67,717**	61,996	**59**	89	**68,423**	62,518
Available-for-sale assets[1]	**69,508**	61,694	**3,695**	7,479	**1,081**	211	**74,284**	69,384
Net loans and advances (measured at fair value)	**-**	-	**133**	156	**-**	-	**133**	156
Investments backing policy liabilities[1]	**-**	27,308	**-**	10,306	**-**	350	**-**	37,964
Assets held for sale[2]	**-**	-	**44,623**	1,748	**-**	-	**44,623**	1,748
Total	**101,010**	129,870	**123,035**	84,855	**1,140**	650	**225,185**	215,375
Liabilities								
Deposits and other borrowings (designated at fair value)	**-**	-	**2,332**	3,497	**-**	-	**2,332**	3,497
Derivative financial instruments	**1,680**	275	**67,952**	61,900	**44**	77	**69,676**	62,252
Policy liabilities[3]	**-**	-	**-**	37,106	**-**	-	**-**	37,106
External unit holder liabilities	**-**	-	**-**	4,435	**-**	-	**-**	4,435
Payables and other liabilities[4]	**1,159**	1,726	**12**	166	**-**	-	**1,171**	1,892
Debt issuances (designated at fair value)	**-**	-	**1,442**	1,752	**-**	-	**1,442**	1,752
Liabilities held for sale[2]	**-**	-	**46,829**	-	**-**	-	**46,829**	-
Total	**2,839**	2,001	**118,567**	108,856	**44**	77	**121,450**	110,934

1. Of the assets and liabilities held at the end of 2018, during the year, we transferred:
   - $676 million (2017: nil) from Level 1 to Level 3 following a change in the valuation approach used to measure the investment in Bank of Tianjin;
   - $953 million (2017: $44 million) from Level 2 to Level 1 following increased trading activity to support the quoted prices;
   - There was no material transfer from Level 1 to Level 2 (2017: $713 million).

   Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. The amount classified as Assets and Liabilities held for sale relates to assets and liabilities measured at fair value less cost to sell in accordance with AASB *5 Non-current Assets Held for Sale and Discontinued Operations*. The amount presented reflects fair value excluding cost to sell but including intercompany eliminations.
3. Policy liabilities relate only to life investment contract liabilities, as we designated these at fair value through profit or loss.
4. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $1,096 million (2017: $573 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in the Level 3 balance are due to the following transfers:

- investment backing policy liabilities being classified as Level 2 on transfer to assets held for sale following the agreed sale of the Wealth businesses, and;
- our available-for-sale investment in Bank of Tianjin has been transferred to Level 3 following a change in the valuation approach used to measure the asset.

There were no other material transfers in or out of Level 3 during the period.

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

Bank of Tianjin (BoT)

A revised valuation technique was applied to the investment in BoT as the Group considers that, in light of persistent illiquidity, the share price of BoT is not representative of fair value. The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgment applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification. The application of this valuation approach resulted in a $349 million increase in the carrying value of the investment during the period to $1,025 million. The increase has been recognised as an unrealised gain in the available-for-sale revaluation reserve within shareholders' equity and accordingly, there is no impact from this revaluation on the Income Statement for the September 2018 financial year.

The movement in Investments backing policy liabilities classified as Level 3 is predominantly due to reclassification of the balance as asset held for sale. 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.

Sensitivity to Level 3 data inputs

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

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $102 million increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Group.

Deferred fair value gains and losses

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

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Group's basis of estimating fair values of 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.

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)			
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Financial assets										
Net loans and advances[1,2]	604,804	580,137	-	-	29,586	26,928	575,691	553,395	605,277	580,323
Total	604,804	580,137	-	-	29,586	26,928	575,691	553,395	605,277	580,323
Financial liabilities										
Deposits and other borrowings[1]	617,397	596,672	-	-	617,563	596,862	-	-	617,563	596,862
Debt issuances	119,737	106,221	43,413	45,836	77,205	61,663	-	-	120,618	107,499
Total	737,134	702,893	43,413	45,836	694,768	658,525	-	-	738,181	704,361

1. Net loans and advances and deposits and other borrowings include amounts reclassified to assets and liabilities held for sale (refer Note 29 Discontinued Operations and Assets and Liabilities Held for Sale).
2. We have reviewed the fair value of Net loans and advances previously presented as Level 2. In line with broader industry practice Net loans and advances other than Loans to Banks are now presented as Level 3.

KEY JUDGEMENTS AND ESTIMATES

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

The majority of valuation models the Group uses employ only observable market data as inputs. 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 carrying amount of assets pledged as security are as follows:

	2018 $m	2017 $m
Securities sold under arrangements to repurchase[1]	40,164	36,242
Assets pledged as collateral for UDC Secured Investments	3,019	2,746
Residential mortgages provided as security for covered bonds	29,455	29,353
Other	2,794	3,140

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:

	2018 $m	2017 $m
Fair value of assets which can be sold or repledged	36,122	30,085
Fair value of assets sold or repledged	23,300	19,965

19. OFFSETTING

We offset financial assets and financial 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 financial 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			
2018	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 financial assets[1]	68,426	(3,292)	65,134	(54,251)	(5,507)	5,376
Reverse repurchase, securities borrowing and similar agreements[2]	35,310	(4,738)	30,572	(398)	(30,174)	-
Total financial assets	103,736	(8,030)	95,706	(54,649)	(35,681)	5,376
Derivative financial liabilities	(69,677)	3,644	(66,033)	54,252	8,287	(3,494)
Repurchase, securities lending and similar agreements[3]	(38,378)	12,794	(25,584)	398	25,186	-
Total financial liabilities	(108,055)	16,438	(91,617)	54,650	33,473	(3,494)

			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 financial assets	62,518	(3,226)	59,292	(49,243)	(5,185)	4,864
Reverse repurchase, securities borrowing and similar agreements[2]	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 lending and similar agreements[3]	(34,536)	9,590	(24,946)	819	24,127	-
Total financial liabilities	(96,788)	13,252	(83,536)	50,062	30,644	(2,830)

1. Includes derivative assets and liabilities reclassified as held for sale.
2. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
3. Repurchase agreements are presented in the Balance Sheet within deposits and other borrowings.

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Balance at start of year	4,447	4,729	1,860	2,202	663	741	6,970	7,672
Additions	1	5	390	404	-	-	391	409
Amortisation expense[2]	-	-	(821)	(567)	(38)	(73)	(859)	(640)
Impairment expense	(12)	(3)	(17)	(17)	-	-	(29)	(20)
Impairment on reclassification to held for sale[3]	(421)	(50)	-	(154)	-	-	(421)	(204)
Transferred to held for sale	(571)	(122)	-	-	(555)	-	(1,126)	(122)
Foreign currency exchange difference	(4)	(112)	9	(8)	(1)	(5)	4	(125)
Balance at end of year	3,440	4,447	1,421	1,860	69	663	4,930	6,970
Cost	3,440	4,447	6,490	6,092	149	1,358	10,079	11,897
Accumulated amortisation/impairment	n/a	n/a	(5,069)	(4,232)	(80)	(695)	(5,149)	(4,927)
Carrying amount	3,440	4,447	1,421	1,860	69	663	4,930	6,970

1. Goodwill excludes notional goodwill in equity accounted investments.
2. ANZ has accelerated the amortisation of certain software assets, predominantly relating to the Institutional division. This follows a recent review of the international business along with a number of divestments announced or completed this year. Accelerated amortisation expense of $251m ($206 million post-tax) attributable to these assets has been recorded in the 2018 financial year.
3. In 2018, this relates to discontinued operations (refer to Note 29) and in 2017 this relates to the sale of the Retail Asia and Wealth businesses.

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.

FAIR VALUE LESS COST OF DISPOSAL

The Group has determined, using a market multiple approach, the fair value less costs of disposal of each CGU. This 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 2018, 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	2018	2017
Australia	16.9	17.3
Institutional	14.6	15.4
New Zealand	16.8	17.0
Wealth Australia[1]	19.4	n/a
Asia Retail & Pacific[2]	18.5	17.3

1. In 2017, Wealth Australia goodwill was tested for impairment using a value-in-use calculation as various strategic options were being considered for components of the Wealth CGU. In 2018, testing is based on the retained businesses of Wealth Australia and the associated goodwill.
2. Due to the sale of Asia Retail and Wealth businesses, testing of goodwill is based on Pacific earnings only.

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 are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Management fee rights
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less 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.	Management fee rights with an indefinite life are reviewed for impairment at least annually or where there is an indication of impairment.
Depreciation method	Not applicable.	Straight-line method.	Not applicable.

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 earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The level at which goodwill is allocated, the estimation of future earnings and the selection of earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets, including those not yet ready for use, are assessed for indicators of 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.

In addition, the expected useful life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change. In the current year, the assessment of useful economic life of software assets resulted in accelerated amortisation of certain software assets in the Institutional and Australia divisions of $251 million.

21. OTHER PROVISIONS

	2018 $m	2017 $m
Customer remediation[1]	602	142
Restructuring costs	106	119
Non-lending losses, frauds and forgeries	100	97
Other	296	314
Total other provisions (including liabilities reclassified as held for sale)	1,104	672
Less: Other provisions reclassified as held for sale	(66)	(44)
Total other provisions	1,038	628

1. Customer remediation provisions relating to discontinued operations amounting to $174 million (2017: $5 million) have not been reclassified to liabilities held for sale as the Group remains accountable for customer remediation post sale completion.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m	Total $m
Balance at start of year	142	119	97	314	672
New and increased provisions made during the year	558	153	16	239	966
Provisions used during the year	(72)	(139)	(11)	(184)	(406)
Unused amounts reversed during the year	(26)	(27)	(2)	(73)	(128)
Balance at end of year (including liabilities reclassified as held for sale)	602	106	100	296	1,104
Less: Other provisions reclassified as held for sale	(10)	(2)	-	(54)	(66)
Balance at end of year	592	104	100	242	1,038

Customer remediation

Customer remediation refers to the Group's activities in relation to compensating customers for past matters associated with products and services provided.

Restructuring costs

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

Non-lending losses, frauds and forgeries

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

Other

Other provisions comprise various other provisions including loyalty programs, workers compensation, make-good provisions associated with leased premises and contingent liabilities recognised as part of a business combination.

21. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

The Group holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These 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.

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

22. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2018 $m	2017 $m
Ordinary share capital	27,205	29,088
Reserves		
Foreign currency translation reserve	12	(196)
Share option reserve	92	87
Available-for-sale revaluation reserve	113	38
Cash flow hedge reserve	127	131
Transactions with non-controlling interests reserve	(21)	(23)
Total reserves	323	37
Retained earnings	31,715	29,834
Share capital and reserves attributable to shareholders of the Company	59,243	58,959
Non-controlling interests	140	116
Total shareholders' equity	59,383	59,075

ORDINARY SHARE CAPITAL

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

	2018		2017	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,937,415,327	29,088	2,927,476,660	28,765
Bonus option plan[1]	2,891,060	-	2,880,009	-
Dividend reinvestment plan[2]	-	-	7,058,658	198
Group employee share acquisition scheme	-	(1)	-	56
Share buy-back[3]	(66,688,269)	(1,880)	-	-
Treasury shares in Wealth Australia[4]	-	(2)	-	69
Balance at end of year	2,873,618,118	27,205	2,937,415,327	29,088

1. The Company issued 1.4 million shares under the Bonus Option Plan (BOP) for the 2018 interim dividend (1.5 million shares for the 2017 final dividend; 1.4 million shares for the 2017 interim dividend; 1.5 million shares for the 2016 final dividend).
2. No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2018 interim dividend (nil shares for the 2017 final dividend; nil shares for the 2017 interim dividend; 7.1 million shares for the 2016 final dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market purchases for the DRP in the September 2018 financial year were $392 million (2017: $176 million).
3. As announced on 18 December 2017, 22 June 2018 and 19 October 2018, there is currently an on-market buy-back in relation to ANZ's ordinary shares of $3.0 billion. The Company bought back $1,880 million worth of shares during the 2018 financial year resulting in 66.7 million shares being cancelled during the year.
4. 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 2018 were 15,542,800 (2017: 15,386,741).

22. SHAREHOLDERS' EQUITY

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.

23. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

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

REGULATORY ENVIRONMENT

Australia

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

Regulatory Capital Definition			
Common Equity Tier 1 (CET1) Capital	**Tier 1 Capital**	**Tier 2 Capital**	**Total Capital**
Shareholders' equity adjusted for specific items.	CET1 Capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 Capital.	Subordinated debt instruments which have a minimum term of 5 years at issue date.	Tier 1 plus Tier 2 Capital.
Minimum Prudential Capital Ratios (PCRs)			
CET1 Ratio	**Tier 1 Ratio**	**Total Capital Ratio**	
CET1 Capital divided by total risk weighted assets must be at least 4.5%.	Tier 1 Capital divided by total risk weighted assets must be at least 6.0%.	Total Capital divided by total risk weighted assets must be at least 8.0%.	
Reporting Levels			
Level 1	**Level 2**	**Level 3**	
The ADI on a stand-alone basis (that is the Company and specified subsidiaries which are consolidated to form the ADI's Extended Licensed Entity).	The consolidated Group less certain subsidiaries and associates that are excluded under prudential standards.	A conglomerate Group at the widest level.	

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

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

ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis 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.

23. 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 and Insurance Regulatory Commission. They may impose minimum capitalisation levels on operations in their individual jurisdictions.

CAPITAL ADEQUACY[1]

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

	2018 $m	2017 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	59,383	59,075
Prudential adjustments to shareholders' equity	(322)	(481)
Gross Common Equity Tier 1 capital	59,061	58,594
Deductions	(14,370)	(17,258)
Common Equity Tier 1 capital	44,691	41,336
Additional Tier 1 capital	7,527	7,988
Tier 1 capital	52,218	49,324
Tier 2 capital	7,291	8,669
Total qualifying capital	59,509	57,993
Capital adequacy ratios		
Common Equity Tier 1	11.4%	10.6%
Tier 1	13.4%	12.6%
Tier 2	1.9%	2.2%
Total capital ratio	15.2%	14.8%
Risk weighted assets	390,820	391,113

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The information presented in this table is a regulatory requirement disclosed in Part A of the *APRA Reporting Form (ARF) 110 Capital Adequacy* which will be subject to audit in accordance with *Prudential Standard APS 310 Audit and Related Matters*.

24. 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

	2018 $m	2017 $m
Income statement information for the financial year		
Profit after tax for the year	8,524	6,234
Total comprehensive income for the year	8,450	5,915
Balance sheet information as at the end of the financial year		
Cash and cash equivalents	80,227	63,399
Net loans and advances	475,419	452,424
Total assets	840,747	797,379
Deposits and other borrowings	511,992	494,235
Total liabilities	786,893	745,531
Shareholders' equity		
Ordinary share capital	27,533	29,416
Reserves	(56)	36
Retained earnings	26,377	22,396
Total shareholders' equity	53,854	51,848

PARENT ENTITY'S CONTRACTUAL COMMITMENTS

PROPERTY RELATED COMMITMENTS

	2018 $m	2017 $m
Lease rentals		
Land and buildings	1,533	1,818
Furniture and equipment	112	145
Total lease rental commitments[1]	1,645	1,963
Due within 1 year	321	394
Due later than 1 year but not later than 5 years	769	908
Due later than 5 years	555	661
Total lease rental commitments[1]	1,645	1,963

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2018 is $81 million (2017: $91 million). During the year, we received sublease payments of $29 million (2017: $28 million) and netted them against rent expense.

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 $m	2017 $m
Contract amount of:		
Undrawn facilities	164,944	150,339
Guarantees and letters of credit	16,363	18,062
Performance related contingencies	22,176	18,890
Total	203,483	187,291

24. 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.

25. 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.

25. 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 2018 or the year ended 30 September 2017.

RECOGNITION AND MEASUREMENT

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

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

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

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

When the Group ceases to control a subsidiary, it:

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

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

All transactions between Group entities are eliminated on consolidation.

26. INVESTMENTS IN ASSOCIATES

Significant associates of the Group are:

		Ordinary share interest		Carrying amount $m	
Name of entity	Principal activity	2018	2017	2018	2017
AMMB Holdings Berhad	Banking and insurance	24%	24%	1,427	1,185
PT Bank Pan Indonesia	Consumer and business bank	39%	39%	1,103	1,033
Shanghai Rural Commercial Bank[1]	Rural commercial bank	-	20%	-	-
Aggregate other individually immaterial associates[1]		n/a	n/a	23	30
Total carrying value of associates				2,553	2,248

1. During 2017, Shanghai Rural Commercial Bank (SRCB) and Metrobank Card Corporation (MCC) were reclassified as held for sale. Post completion of the sale of SRCB in December 2017 and MCC in September 2018, SRCB and MCC were no longer classified as held for sale. Refer to Note 29 Assets and Liabilities Held For Sale for further details.

26. 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		Peoples' Republic of China	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Summarised results						
Operating income	3,016	2,469	1,000	930	-	-
Profit for the year	430	415	192	253	-	-
Other comprehensive income/(loss)	(37)	(1)	(10)	22	-	-
Total comprehensive income	393	414	182	275	-	-
Less: Total comprehensive (income)/loss attributable to non–controlling interests	(33)	(19)	39	(10)	-	-
Total comprehensive income attributable to owners of associate	360	395	221	265	-	-
Summarised financial position						
Total assets[1]	49,092	41,304	19,552	20,216	-	-
Total liabilities[1]	42,700	36,004	16,446	17,298	-	-
Total Net assets[1]	6,392	5,300	3,106	2,918	-	-
Less: Non–controlling interests of associate	(395)	(320)	(272)	(259)	-	-
Net assets attributable to owners of associate	5,997	4,980	2,834	2,659	-	-
Reconciliation to carrying amount of Group's interest in associate[2]						
Carrying amount at the beginning of the year	1,185	1,198	1,033	997	-	1,955
Group's share of total comprehensive income	86	95	88	103	-	58
Dividends received from associate	(35)	(38)	-	-	-	-
Group's share of other reserve movements of associate and foreign currency translation reserve adjustments	191	(70)	(18)	(67)	-	(46)
Impairment charge	-	-	-	-	-	(219)
Less: carrying value transferred to assets held for sale (Note 29)	-	-	-	-	-	(1,748)
Carrying amount at the end of the year	1,427	1,185	1,103	1,033	-	-
Market value of Group's investment in associate[3]	992	943	853	1,009	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 in 2017.
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.

26. 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). During 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 was transferred to held for sale assets (refer to Note 29 Discontinued Operations and 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). The sale was completed in December 2017 and SRCB is no longer classified as held for sale.

As at 30 September 2018, 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 (2017: nil impairment) and PT Panin (2017: 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 the goodwill incorporated in the associates carrying amount for impairment.

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

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

We use a discounted cash flow methodology, and 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 2018	AmBank	PT Panin
Post-tax discount rate	11.0%	12.3%
Terminal growth rate	4.9%	5.6%
Expected NPAT growth (compound annual growth rate – 5 years)	4.6%	7.6%
Core Equity Tier 1 rate	12% to 12.5%	10.6%

27. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in 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 28 Transfers of Financial Assets for further details. The Group also establishes SEs on behalf of customers to securitise their loans or receivables. The Group may manage these securitisation vehicles or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. In limited circumstances, where control exists, 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 28 Transfers of Financial Assets for further details.
Structured finance arrangements	The Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Group may manage the SE, hold minor amounts of the SE's capital, or provide risk management products (derivatives) to the SE. In most instances, the Group does not control these SEs. 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.

27. 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 (2017: 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 a SE that exposes the Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass-on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

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

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

	Securitisation and structured finance		Investment funds		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
On-balance sheet interests						
Available-for-sale assets	1,715	2,532	-	-	1,715	2,532
Investments backing policy liabilities	-	-	18	21	18	21
Loans and advances	7,018	7,130	-	-	7,018	7,130
Total on-balance sheet	8,733	9,662	18	21	8,751	9,683
Off-balance sheet interests						
Commitments (facilities undrawn)	1,381	4,371	-	-	1,381	4,371
Guarantees	10	-	-	-	10	-
Total off-balance sheet	1,391	4,371	-	-	1,391	4,371
Maximum exposure to loss	10,124	14,033	18	21	10,142	14,054

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $505 million (2017: $493 million) during the year.

27. STRUCTURED ENTITIES (continued)

Group's Interest in Unconsolidated 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 $1.0 billion (2017: $2.1 billion); and
- Investment funds: size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $36.9 billion (2017: $35.9 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2017: 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.

28. TRANSFERS OF FINANCIAL ASSETS

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

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Group's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. This includes mortgages that are held for potential repurchase agreements 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.

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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Current carrying amount of assets transferred	**1,239**	1,520	**29,455**	29,353	**40,164**	36,242	**96**	98
Carrying amount of associated liabilities	**1,232**	1,552	**17,846**	19,859	**38,378**	34,536	**88**	91

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

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

DISCONTINUED OPERATIONS

On 17 October 2017, the Group announced it had agreed to sell its OnePath pensions and investments (OnePath P&I) and aligned dealer groups (ADG) businesses to IOOF Holdings Limited. The aligned dealer groups business consists of aligned advice businesses that operate under their own Australian Financial Services licences. The sale of the aligned dealer groups business completed on 1 October 2018. The completion of the remaining OnePath pensions and investment business will occur after the successful completion of the successor fund transfer, which is expected to occur in the 2019 financial year.

On 12 December 2017, ANZ announced that it had agreed to the sale of its life insurance business to Zurich Financial Services Australia (Zurich) and regulatory approval was obtained on 10 October 2018. The transaction is subject to closing conditions and ANZ expects it to complete in the 2019 financial year.

As a result of the sale transactions outlined above, the financial results of the businesses to be divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. This impacts the current and comparative financial information for Wealth Australia and TSO and Group Centre divisions.

Details of the financial performance and cash flows of discontinued operations are shown below.

Income Statement

	2018 $m	2017 $m
Net interest income	-	(3)
Other operating income[1]	(646)	11
Net funds management and insurance income[2]	727	867
Operating income	81	875
Operating expenses[2]	(544)	(481)
Profit/(Loss) before income tax	(463)	394
Income tax expense[2]	(232)	(332)
Profit/(Loss) for the period attributable to shareholders of the Company	**(695)**	**62**

1. Includes a $632 million loss recognised on the reclassification of Wealth Australia businesses to held for sale.
2. Includes customer remediation of $127 million post-tax recognised in the September 2018 financial year (2017: nil) comprising $106 million of customer remediation recognised in Net funds management and insurance income, $75 million of remediation costs recognised in Operating expenses, and a $54 million benefit in Income tax expense.

Cash Flow Statement

	2018 $m	2017 $m
Net cash provided by/(used in) operating activities	2,989	1,582
Net cash provided by/(used in) investing activities	(2,444)	(2,167)
Net cash provided by/(used in) financing activities	(575)	575
Net increase/(decrease) in cash and cash equivalents	**(30)**	**(10)**

ASSETS AND LIABILITIES HELD FOR SALE

At 30 September 2018, assets and liabilities held for sale are re-measured at the lower of their existing carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement and continue to be recognised at their existing carrying value.

In addition to the assets and liabilities associated with the Group's discontinued operations, assets and liabilities held for sale contain the assets and liabilities of other assets or disposal groups, subject to sale, which do not meet the criteria to classify as a discontinued operation under the accounting standards.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

As at 30 September 2018[1]	Discontinued Operations $m	Cambodia JV $m	OPL NZ $m	PNG Retail, Commercial & SME $m	Total $m
Cash and cash equivalents	5	323	-	-	328
Derivative financial instruments	-	3	-	-	3
Available-for-sale assets	1,079	-	-	-	1,079
Net loans and advances	46	806	-	147	999
Regulatory deposits	-	146	-	-	146
Investments in associates	1	1	-	-	2
Deferred tax assets	102	2	-	-	104
Goodwill and other intangible assets	1,155	-	93	-	1,248
Investments backing policy liabilities	40,054	-	-	-	40,054
Premises and equipment	4	6	-	6	16
Other assets	450	92	727	-	1,269
Total assets held for sale	42,896	1,379	820	153	45,248
Deposits and other borrowings	-	1,067	-	512	1,579
Derivative financial instruments	-	1	-	-	1
Current tax liabilities	(33)	8	15	-	(10)
Deferred tax liabilities	160	1	160	-	321
Policy liabilities	39,607	-	-	-	39,607
External unit holder liabilities	4,712	-	-	-	4,712
Payables and other liabilities	644	98	130	-	872
Provisions	28	43	-	6	77
Total liabilities held for sale	45,118	1,218	305	518	47,159

As at 30 September 2017[1]	Asia Retail and Wealth businesses $m	UDC $m	SRCB $m	MCC $m	Total $m
Cash and cash equivalents	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Available-for-sale assets	-	-	-	-	-
Net loans and advances	3,283	2,679	-	-	5,962
Regulatory deposits	-	-	-	-	-
Investments in associates	-	-	1,748	120	1,868
Deferred tax assets	-	-	-	-	-
Goodwill and other intangible assets	-	122	-	-	122
Investments backing policy liabilities	-	-	-	-	-
Premises and equipment	-	-	-	-	-
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
Derivative financial instruments	-	-	-	-	-
Current tax liabilities	-	22	-	-	22
Deferred tax liabilities	-	(8)	-	-	(8)
Policy liabilities	-	-	-	-	-
External unit holder liabilities	-	-	-	-	-
Payables and other liabilities	47	30	-	-	77
Provisions	43	1	-	-	44
Total liabilities held for sale	3,692	1,001	-	-	4,693

1. Amounts in the table above are shown net of intercompany balances.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

Other strategic divestments not classified as discontinued operations but have been presented as assets and liabilities held for sale:

- Asia Retail & Wealth Businesses

  The Group announced that it had agreed to sell its 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. The Group successfully completed the transition of businesses in China, Singapore and Hong Kong in the 2017 financial year, and Vietnam, Taiwan, and Indonesia in the 2018 financial year. These businesses were part of the Asia Retail & Pacific division.

- Shanghai Rural Commercial Bank (SRCB)

  On 3 January 2017, the Group announced it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). The sale was completed in the 2018 financial year. This asset was part of the TSO and Group Centre division.

- UDC Finance (UDC)

  On 11 January 2017, the Group announced that it had entered into a conditional agreement to sell UDC to HNA Group (HNA). On 21 December 2017, the Group announced that it had been informed that New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018. The assets and liabilities of UDC are no longer classified as held for sale as at 30 September 2018.

  This business is part of the New Zealand division.

- Metrobank Card Corporation (MCC)

  On 18 October 2017, the Group announced it had entered into a sale 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 sold its 40% stake in two equal tranches in January and September 2018. This asset was part of the TSO and Group Centre division.

- ANZ Royal Bank (Cambodia) Ltd (Cambodia JV)

  On 17 May 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV ANZ Royal Bank to J Trust, a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction is subject to closing conditions and regulatory approval and ANZ expects it to close in the 2019 financial year. This asset is part of the Institutional division.

- OnePath Life NZ Ltd (OPL NZ)

  On 30 May 2018, the Group announced that it had agreed to sell OnePath Life NZ Limited to Cigna Corporation and the final regulatory approval was obtained on 29 October 2018. The transaction is subject to closing conditions and ANZ expects it to close in the 2019 financial year. This business is part of the New Zealand division.

- Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses (PNG Retail, Commercial and SME)

  On 25 June 2018, the Group announced it had entered into an agreement to sell its Retail, Commercial and Small-Medium Sized Enterprise (SME) banking businesses in Papua New Guinea to Kina Bank. The transaction is subject to closing conditions and regulatory approval and ANZ expects it to close by late 2019 calendar year. This business is part of the Institutional division.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During the September 2018 financial year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $632 million loss after tax recognised on the reclassification of the Wealth Australia business to held for sale. This loss is recognised in discontinued operations.
- $85 million gain after tax comprising $99 million relating to the sale of the remaining Asia Retail and Wealth businesses, net of costs associated with the sale and a $14 million tax expense. This gain is recognised in continuing operations.
- $247 million gain after tax relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million tax benefit. This gain is recognised in continuing operations.
- $18 million gain after tax relating to UDC comprising a cost recovery in respect of the terminated transaction process. This gain is recognised in continuing operations.
- $247 million gain after tax relating to MCC comprising a $259 million gain on sale of the 40% stake, $13 million of foreign exchange losses, $6 million loss on release of reserves, and a $7 million tax benefit. This gain is recognised in continuing operations
- $42 million loss after tax relating to the reclassification of the Cambodia JV to held for sale, comprising a $27 million impairment and $15 million of costs associated with the sale. The loss is recognised in continuing operations.
- $3 million loss after tax relating to OnePath Life NZ transaction costs. The loss is recognised in continuing operations.
- $21 million loss after tax relating to the reclassification of the PNG Retail, Commercial and SME businesses to held for sale, comprising a $12 million impairment of goodwill, $7 million costs associated with the sale and a $2 million tax expense. The loss is recognised in continuing operations.

During the September 2017 financial year, the Group recognised the following impacts in continuing operations in relation to assets and liabilities held for sale:

- $333 million loss after tax relating to the Group's investment in SRCB comprising of a $219 million impairment to the investment, $12 million of foreign exchange losses, and a $102 million tax expense.
- $270 million loss after tax relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising $225 million of software, goodwill and other assets impairment charges, $99 million of costs associated with the sale, a $40 million tax benefit as a result of the loss on reclassification to held for sale, and a $14 million gain recognised on the partial completion of the Asia Retail and Wealth sale.

The impacts on continuing operations are shown in the relevant Income Statement categories and items relating to discontinued operations are included in Profit/(Loss) after tax from discontinued operations.

RECOGNITION AND MEASUREMENT

LIFE INSURANCE CONTRACT LIABILITIES AND LIABILITIES CEDED UNDER REINSURANCE CONTRACTS

We calculate Life insurance contract Liabilities under the Margin on Service (MoS) model using a projection method based on actuarial principles and standards.

We discount the expected future cash flows of these contracts at the risk-free discount rate.

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. 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

Our determination of fair value of investments backing policy liabilities involves the same judgement as other financial assets as described in Note 17 Fair Value of Financial Assets and Financial Liabilities.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

KEY JUDGEMENTS AND ESTIMATES

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

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

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

Life Insurance Liabilities continue to be measured in accordance with AASB 1038. The Group is largely insulated from significant changes to the carrying value of the liability due to the share sale agreements.

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 the 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 after taking into account of the share sale agreements.

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:

	2018 $m	2017 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,418)	(1,406)
Fair value of scheme assets	1,551	1,496
Net defined benefit asset	133	90
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(21)	(32)
Net assets arising from defined benefit obligations included in other assets	154	122
Net defined benefit asset	133	90
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 surplus of net market value of assets over the value of accrued benefits on a funding basis was $21 million (2017: deficit of $18 million). In 2018, the Group made defined benefit contributions totalling $5 million (2017: $5 million). It expects to make around $4 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Group participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Group. The trustees are the legal owners of the assets, which are held separately from the assets of the Group, and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

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

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

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

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

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

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

Defined contribution superannuation schemes

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

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Assumptions	2018	2017	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2018 $m	Increase/(decrease) in defined benefit obligation 2017 $m
Discount rate (% p.a.)	2.5 - 3.7	2.5 - 3.8	0.5% increase	(139)	(112)
Future salary increases (% p.a.)	1.7 - 3.8	1.6 - 3.7			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.7 - 3.0/2.3	1.7 - 3.0/ 2.2	0.5% increase	118	95
Life expectancy at age 60 for current pensioners			1 year increase	61	50
– Males (years)	25.5 - 29.0	25.4 - 28.9			
– Females (years)	28.7 - 31.1	28.6 - 31.0			

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 2017 and 2018 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 AUD 1,000 in Australia (and AUD 800 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 2018	541,982 shares were granted on 1 December 2017 at an issue price of $28.67.
FY 2017	Zero shares were granted in the 2017 financial year.

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 Incentive Plan (ANZIP) and Business Unit Incentive Plans (BUIPs) – for grants from 1 October 2017	
Eligibility	Employees participating in ANZ's standard VR arrangements.
Grant	If VR is at or exceeds AUD 150,000, then 60% of incentive amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as deferred shares.
Conditions	Deferred evenly over three years from grant date.
iii) ANZ Employee Reward Scheme (ANZERS) and BUIPs – for grants up to 30 September 2017	
Eligibility	Employees participating in ANZ's standard Short Term Incentive (STI) arrangements.
Grant	Half of all incentive amounts exceeding AUD 100,000 (subject to a minimum deferral amount of AUD 25,000) received as deferred shares.
Conditions	Deferred evenly over two years from grant date.
iv) Total Incentives Performance Plan (TIPP) – for grants up to 30 September 2017	
Eligibility	Employees participating in the Institutional TIPP.
Grant	60% of incentive amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 18,000) received as deferred shares.
Conditions	Deferred evenly over three years from grant date.
v) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
vi) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with ANZ to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to ANZ.
vii) Further information	
Downward adjustment	Deferred shares remain at risk and the Board has the discretion to 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 4.3.4 of the 2018 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 2018 grants	2,232,563 deferred shares were granted with a weighted average grant price of $29.31. 2,632 deferred shares were adjusted downward to zero, based on Board discretion.
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.

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 2018 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $80.9 million (2017: $56.7 million) based on 2,774,545 shares (2017: 2,016,835) at VWAP of $29.17 (2017: $28.09).

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 2018 Remuneration Report.
Downward adjustment	ANZ's downward adjustment provisions are detailed in section 4.3.4 of the 2018 Remuneration Report.

Option Plans that operated during 2018 and 2017

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. Further details on the performance hurdles are in section 4.3.3 of the 2018 Remuneration Report.
FY 2018 and FY 2017 grants	During the 2018 year, we granted 1,023,239 performance rights (2017: 944,419). No performance rights were adjusted downward to zero in 2018 and 2017, 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 108,783 deferred share rights (2017: 67,573) for which Board discretion was exercised.
Downward adjustment	Board discretion was also exercised to adjust downward 1,638 deferred share rights to zero in 2018 and 3,835 in 2017.
FY 2018 and FY 2017 grants	During the 2018 year 2,546,333 deferred share rights (no performance hurdles) were granted (2017: 2,547,377).

Options, Deferred Share Rights and Performance Rights on Issue

As at 30 October 2018, there were 657 holders of 4,204,281deferred share rights on issue and 159 holders of 2,865,941 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 2018 and the movements during 2018:

	Opening balance 1 Oct 2017	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2018
Number of options/rights	7,113,784	3,569,572	(2,043,209)	(1,558)	(1,490,016)	7,148,573
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$28.43
WA remaining contractual life						2.1 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						67,666

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

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment and performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2017 and 2018, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 30 October 2018:

- no options/rights over ordinary shares have been granted since the end of 2018; and
- no shares have been issued as a result of the exercise of options/rights since the end of 2018.

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.

	2018		2017	
	Deferred Share Rights	Performance Rights	Deferred Share Rights	Performance Rights
Exercise price ($)	**0.00**	**0.00**	0.00	0.00
Share closing price at grant date ($)	**29.24**	**29.21**	27.95	28.18
Expected volatility of ANZ share price (%)[1]	**20.0**	**20.0**	24.9	25.0
Equity term (years)	**2.4**	**5.0**	2.3	5.0
Vesting period (years)	**2.1**	**3.0**	2.1	3.0
Expected life (years)	**2.1**	**3.0**	2.1	3.0
Expected dividend yield (%)	**5.75**	**5.75**	6.49	6.46
Risk free interest rate (%)	**1.65**	**1.95**	1.76	1.86
Fair value ($)	**26.03**	**12.24**	24.59	13.73

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 2018 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 3,936,773 shares at an average price of $29.00 per share (2017: 2,704,206 shares at an average price of $27.83 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:

	2018 $000[1]	2017 $000[1]
Short-term benefits	**19,484**	21,002
Post-employment benefits	**333**	1,046
Other long-term benefits	**150**	169
Termination benefits	**454**	563
Share-based payments	**8,910**	14,926
Total	**29,331**	37,706

1. Includes former disclosed KMPs 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:

	2018 $000	2017 $000
Loans advanced[1]	23,844	23,950
Interest charged[2]	932	940

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP who ceased employment during the year).
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:

	2018 Number[1]	2017 Number[1]
Shares, options and rights	2,293,271	2,233,182
Subordinated debt	13,152	17,152

1. For KMP who ceased employment during the year, 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 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.

ASSOCIATES

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

	2018 $000	2017 $000
Amounts receivable from associates	35,083	77,350
Amounts payable to associates	1,504	2,481
Interest income from associates	1,772	2,817
Interest expense to associates	-	35
Other expenses paid to associates	15,296	23,078
Dividend income from associates	51,643	42,317
Costs recovered from associates	-	748

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.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

PROPERTY RELATED COMMITMENTS

	2018 $m	2017 $m
Lease rentals		
Land and buildings	**1,431**	1,760
Furniture and equipment	**205**	251
Total lease rental commitments[1]	**1,636**	2,011
Due within 1 year	**371**	461
Due later than 1 year but not later than 5 years	**832**	1,042
Due later than 5 years	**433**	508
Total lease rental commitments[1]	**1,636**	2,011

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2018 is $81 million (2017: $91 million). During the year, sublease payments we received amounted to $32 million (2017: $31 million) and were netted against rent expense.

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 $m	2017 $m
Contract amount of:		
Undrawn facilities	**202,531**	191,323
Guarantees and letters of credit	**18,441**	20,009
Performance related contingencies	**24,136**	20,830
Total	**245,108**	232,162

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 $202,531 million (2017: $191,323 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Group may be required to pay, the total guarantees and letters of credit of $18,441 million (2017: $20,009 million) and total performance related contingencies of $24,136 million (2017: $20,830 million) mature within 12 months.

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

OTHER CONTINGENT LIABILITIES

As at 30 September 2018, 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. In 2017, a new claim was 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.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

FRANCHISEE LITIGATION

In February 2018, two related class actions were brought against the Company. The primary action alleges that the Company breached contractual obligations and acted unconscionably when it lent to the applicant, and other 7-Eleven franchisees. The action seeks to set aside the loans to those franchisees and claims unspecified damages. The second action seeks to set aside related mortgages and guarantees given to the Company. The matters are at an early stage.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have 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 Group also instigates engagement with its regulators. The nature of these interactions 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 and product disclosure documentation. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. 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.

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

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The Commission has been asked to submit its final report by 1 February 2019 (an interim report was released on 28 September 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

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

WARRANTIES AND INDEMNITIES

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

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 Network 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.

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. 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.

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

	2018 $'000	2017 $'000
KPMG Australia		
Audit or review of financial reports	10,058	9,418
Audit-related services[1]	4,999	4,760
Non-audit services[2]	306	732
Total[3]	15,363	14,910
Overseas related practices of KPMG Australia		
Audit or review of financial reports	5,797	6,263
Audit-related services[1]	1,276	1,410
Non-audit services[2]	2	10
Total	7,075	7,683
Total compensation of auditors	22,438	22,593

1. Comprises prudential and regulatory services of $3.70 million (2017: $4.71 million), comfort letters $0.51 million (2017: $0.72 million) and other services $2.07 million (2017: $0.74 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

There have been no significant events from 30 September 2018 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 2018 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

Shayne C Elliott
Director

30 October 2018

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 2018 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 2018;
- 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

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.

The Key Audit Matters we identified are:

- Provision for credit impairment and disclosures for the expected impact of AASB 9 *Financial Instruments* applicable on 1 October 2018;
- Valuation of Financial Instruments held at Fair Value;
- Provision for Customer Remediation;
- Accounting for Divestments; 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 ($3,443M) AND DISCLOSURES FOR THE EXPECTED IMPACT OF AASB 9 *FINANCIAL INSTRUMENTS* APPLICABLE ON 1 OCTOBER 2018

Refer to the critical accounting estimates and judgements and disclosures in relation to credit impairment provisioning in Note 13 to the Financial Report, and to the disclosures in relation to accounting standards not yet adopted for the expected impact of AASB 9 Financial Instruments in Note 1 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.

In preparation for adoption of AASB 9 *Financial Instruments* on 1 October 2018, the Group disclosed the expected impact of adoption. This added effort to our FY18 audit given the complexity of the accounting standard and its expected pervasive impact on the industry. We focused on the Group's disclosure of the expected impact of measuring expected credit losses (ECLs) on loans and advances and the significant judgement exercised by the Group. The Group's models to calculate ECLs are inherently complex and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Group in applying the accounting standard requirements to the models, including the selection and input of forward-looking information.

How the matter was addressed in our audit

Our audit procedures for the provision for credit impairment and disclosures for the expected impact of AASB 9 *Financial Instruments* applicable on 1 October 2018 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 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.

KEY AUDIT MATTERS (continued)

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.

AASB 9 Financial Instruments

We assessed the Group's disclosures for the expected impact of AASB 9 *Financial Instruments* which is applicable on 1 October 2018. Together with KPMG credit risk and economics specialists, our procedures included:

- Assessing the Group's significant accounting policies against the requirements of the accounting standard;
- Assessing the Group's ECL modelling methodology and for a sample of models testing key credit modelling assumptions incorporated in the ECL models against the requirements of the standard and underlying accounting records;
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information, and the application into the ECL models;
- Testing data reconciliation controls between the ECL models and source systems;
- Testing the accuracy of the modelled calculations by re-performing the ECL calculations on a sample basis; and
- Assessing the disclosures in the financial report against the requirements of Australian accounting standards.

VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:
- ASSETS HELD AT FAIR VALUE $223,713M
- LIABILITIES HELD AT FAIR VALUE $121,262M

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, certain 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 assets and 14% 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 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;

KEY AUDIT MATTERS (continued)

- 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.

PROVISION FOR CUSTOMER REMEDIATION ($602M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 21 and 33 to the Financial Report.

The Key Audit Matter

The Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews.

The provision for customer remediation activities is a Key Audit Matter due to the judgements required by us in assessing the Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- The number of investigations and the quantum of amounts being paid arising from the present obligation;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Group's processes for identifying and assessing the potential impact of the investigations into customer remediation activities;
- Enquiring with the Group regarding ongoing legal, regulatory and investigation into other remediation activities;
- Reading the minutes and other relevant documentation of the Group's Board of Directors, Board Committees, various management committees, and attending the Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies and the Group's key submissions to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry;
- For a sample of individual customer remediation matters, assessing the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Group's documentation and the current regulatory environment. We also checked these features of these exposures against the criteria defining a provision or a contingency in the accounting standards;

KEY AUDIT MATTERS (continued)

- Assessing the appropriateness of the Group's conclusions against the requirements of Australian Accounting Standards where estimates were unable to be reliably made for a provision to be recognised; and
- Evaluating the related disclosures against the requirements of Australian Accounting Standards.

ACCOUNTING FOR DIVESTMENTS

Refer to the critical accounting estimates, judgments and the discontinued operations and assets and liabilities held for sale disclosures in Notes 1 and 29 to the Financial Report.

The Key Audit Matter

During the year the Group announced the sale of its Life Insurance business to Zurich Financial Services Australia, and the sales of its One Path pensions and investment business and Aligned Dealer Group business to IOOF Holdings Limited (the 'Divestment Businesses'). These businesses were part of the Wealth Australia operating segment. The financial results of the Divestment Businesses are presented as discontinued operations, and the associated assets and liabilities are classified as held for sale at balance date.

The divestments are considered a Key Audit Matter due to the:

- significance of the Divestment Businesses to the Group;
- judgement applied by the Group in the measurement of the Divestment Businesses using the requirements accounting standards and the terms and conditions of the divestments; and
- judgement applied by the Group in assessing the probability of the divestments against the requirements of Australian Accounting Standards at 30 September 2018.

We focused on the areas where judgement exists in the measurement of the discontinued operations, including the:

- allocation of goodwill between the Divestment Businesses;
- estimation of costs required to complete the divestments including costs associated with separating these businesses from the Group; and
- taxation implications of the divestments, potentially having a significant impact on the loss on sale and requiring specialist knowledge.

The presentation of the restatement of prior year financial information into continuing and discontinued operations in the financial report was also a focus for us.

How the matter was addressed in our audit

Our audit procedures in relation to the Divestment Businesses included:

- Reading the relevant transaction documents to understand the terms and conditions of the divestments;
- Assessing the criteria for the Divestment Businesses to be recognised and measured as held for sale against the criteria in the accounting standards at balance sheet date;
- Evaluating the substance of the divestments using the terms and conditions of the transaction documents against the criteria for discontinued operations in the accounting standards;
- Testing the Group's controls for measurement of the divestments held for sale. This included the Steering Committee review and approval of costs associated with separating the divestments from the Group;
- Assessing, on a sample basis, the identification of assets and liabilities disposed by comparing to transaction documents and underlying financial records at balance date;
- Checking the consideration for the divestments to the transaction documents and underlying financial records;
- Assessing the identification, basis for recognition, and treatment of a sample of costs associated with separating the divestments from the Group for compliance with the accounting standards;
- Comparing the quantum of the costs associated with separating the divestments from the Group to similar transactions within the market;
- Using our tax specialists, we evaluated the associated tax implications against the requirements of the tax legislation;
- Evaluating the methodology applied by the Group to allocate goodwill between the Divestment Businesses based on our knowledge of the businesses and the requirements of the accounting standards;
- Checking the Group's calculations of loss on sale of each of the divestments; and
- Assessing the disclosure in the financial report relating to the divestments including the presentation of the restatement of prior period information to reflect the impact of the divestments against the requirements of the accounting standards.

KEY AUDIT MATTERS (continued)

IT SYSTEMS AND CONTROLS

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 and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

In our opinion, the Remuneration Report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2018, 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 40 to 67 of the Directors' report for the year ended 30 September 2018.

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
30 October 2018

PEFC Certified
This product is from sustainably managed forests and controlled sources
Recognised in Australia through the Australian Forestry Standard
www.pefc.org.au
PEFC
PEFC/21-31-78

shareholder.anz.com

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

ABN 11 005 357 522

THE COMPANY

2018 Financial Report

30 September 2018

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL REPORT

INCOME STATEMENT

For the year ended 30 September	Note	2018 $m	2017 $m
Interest income		27,020	25,613
Interest expense		(16,574)	(15,017)
Net interest income	2	10,446	10,596
Other operating income	2	8,645	5,987
Net funds management and commission income	2	(8)	158
Share of associates' (loss)/profit	2	(1)	60
Operating income		19,082	16,801
Operating expenses	3	(8,121)	(7,623)
Profit before credit impairment and income tax		10,961	9,178
Credit impairment charge	12	(629)	(881)
Profit before income tax		10,332	8,297
Income tax expense	4	(1,808)	(2,063)
Profit for the year		8,524	6,234

The notes appearing on pages 8 to 70 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2018 $m	2017 $m
Profit for the year	8,524	6,234
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	27	2
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve	(154)	(57)
Other reserve movements	177	(272)
Income tax attributable to the above items	(124)	8
Other comprehensive income after tax	(74)	(319)
Total comprehensive income for the year	8,450	5,915

The notes appearing on pages 8 to 70 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2018 $m	2017 $m
Assets			
Cash and cash equivalents[1]	7	80,227	63,399
Settlement balances owed to ANZ		1,666	5,006
Collateral paid		9,184	7,685
Trading securities	8	29,519	35,606
Derivative financial instruments	9	64,448	57,036
Available-for-sale assets	10	64,728	58,506
Net loans and advances	11	475,419	452,424
Regulatory deposits		264	495
Assets held for sale	25	-	1,748
Due from controlled entities		90,170	91,208
Shares in controlled entities	23	18,852	18,084
Investments in associates		18	20
Current tax assets		266	23
Deferred tax assets		1,071	932
Goodwill and other intangible assets	19	1,446	1,852
Premises and equipment		898	928
Other assets		2,571	2,427
Total assets		840,747	797,379
Liabilities			
Settlement balances owed by ANZ		9,867	8,219
Collateral received		6,002	5,238
Deposits and other borrowings	13	511,992	494,235
Derivative financial instruments	9	65,638	56,830
Due to controlled entities		88,383	88,882
Current tax liabilities		85	94
Deferred tax liabilities		39	71
Payables and other liabilities		5,002	5,683
Employee entitlements		421	394
Other provisions	20	838	390
Debt issuances	14	98,626	85,495
Total liabilities		786,893	745,531
Net assets		53,854	51,848
Shareholders' equity			
Ordinary share capital	21	27,533	29,416
Reserves	21	(56)	36
Retained earnings	21	26,377	22,396
Total shareholders' equity	21	53,854	51,848

1. Includes settlement balances owed to ANZ that meet the definition of cash and cash equivalents.

The notes appearing on pages 8 to 70 form an integral part of the financial statements.

FINANCIAL REPORT (continued)

CASH FLOW STATEMENT

For the year ended 30 September	2018 $m	2017 $m
Profit after income tax	8,524	6,234
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Provision for credit impairment	629	881
Depreciation and amortisation	1,023	775
Net derivatives/foreign exchange adjustment	5,764	(2,099)
Impairment of investment in Wealth Australia	597	-
(Gain)/Loss on sale from divestments	(246)	219
Reclassification of businesses to held for sale	-	231
Other non-cash movements	(2)	(39)
Net(increase)/decrease in operating assets:		
Collateral paid	(1,083)	3,045
Trading securities	8,913	(1,696)
Net loans and advances	(20,187)	(13,772)
Net intra-group loans and advances	(1,796)	938
Other assets	(525)	(270)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	7,432	29,131
Settlement balances owed by ANZ	1,604	(837)
Collateral received	341	(505)
Other liabilities	84	686
Total adjustments	2,548	16,688
Net cash provided by operating activities[1]	11,072	22,922
Cash flows from investing activities		
Available-for-sale assets:		
Purchases	(18,853)	(15,151)
Proceeds from sale or maturity	15,282	11,512
Proceeds from divestments	1,786	(5,472)
Net return of capital	989	173
Other assets	(301)	(353)
Net cash (used in) investing activities	(1,097)	(9,291)
Cash flows from financing activities		
Debt issuances[2]:		
Issue proceeds	21,962	16,210
Redemptions	(11,921)	(21,462)
Dividends paid	(4,585)	(4,411)
On market purchase of treasury shares	(114)	(75)
Share buy-back	(1,880)	-
Net cash provided by/(used in) financing activities	3,462	(9,738)
Net increase in cash and cash equivalents	13,437	3,893
Cash and cash equivalents at beginning of year	63,399	61,994
Effects of exchange rate changes on cash and cash equivalents	3,391	(2,488)
Cash and cash equivalents at end of year	80,227	63,399

1. Net cash provided by operating activities includes income taxes paid of $2,648 million (2017: $2,155 million).
2. Non-cash changes in debt issuances includes fair value hedging gains of $1,168 million (2017: $1,149 million) and foreign exchange losses of $4,487 million (2017: foreign exchange gains $413 million).

The notes appearing on pages 8 to 70 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 2016	29,162	344	20,753	50,259
Profit for the year	-	-	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[2]	198	-	-	198
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
Profit for the year	-	-	8,524	8,524
Other comprehensive income for the year	-	(95)	21	(74)
Total comprehensive income for the year	-	(95)	8,545	8,450
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(4,585)	(4,585)
Dividend reinvestment plan[2]	-	-	-	-
Group share buy-back[3]	(1,880)	-	-	(1,880)
Other equity movements:				
Group employee share acquisition scheme	(3)	-	-	(3)
Other items	-	3	21	24
As at 30 September 2018	27,533	(56)	26,377	53,854

1. Further information on individual reserves is disclosed in Note 21 Shareholders' Equity.
2. No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2018 interim dividend (nil shares for the 2017 final dividend; nil shares for the 2017 interim dividend; 7.1 million shares for the 2016 final dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market share purchases for the DRP in the September 2018 financial year were $392 million (Sept 17 full year: $176 million).
3. As announced on 18 December 2017, 22 June 2018 and 19 October 2018, there is currently an on-market buy-back in relation to ANZ's ordinary shares of $3.0 billion. The Company bought back $1,880 million worth of shares during the 2018 financial year resulting in 66.7 million shares being cancelled during the year.

The notes appearing on pages 8 to 70 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 2018. 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 30 October 2018, the Directors resolved to authorise the issue of these financial statements.

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

- the dollar amount is significant in size (quantitative factor);
- the dollar amount is significant by nature (qualitative factor);
- the user cannot understand the Company'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 Company's business during the period, for example: business acquisitions or disposals (qualitative factor); and
- the information relates to an aspect of the Company's operations that is important to its future performance (qualitative factor).

.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 the financial statements.

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) the *Corporations Act 2001*, 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 Company is the ultimate parent entity of the ANZ Group. The Company consists of the following operations undertaken in Australia and in its overseas branches:

- Retail and Business & Private Banking operations,
- Institutional operations, and
- Technology Services & Operations and Group Centre operations

The consolidated financial statements of the Group can be found as part of the 2018 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

When applying accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within 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 2018, and have not been applied by the Company in preparing these financial statements.

We have identified three standards relevant to the Company and further details are set out below.

AASB 9 FINANCIAL INSTRUMENTS (AASB 9)

In December 2014, the AASB issued the Australian Accounting Standard AASB 9 *Financial Instruments* which has replaced AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139). AASB 9 is effective for the Company from 1 October 2018.

AASB 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Company are outlined below.

Impairment

AASB 9 replaces the incurred loss impairment model under AASB 139 with an expected credit loss (ECL) model incorporating forward looking information and which does not require an actual loss event to have occurred for an impairment provision to be recognised.

The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees not measured at fair value through profit or loss.

Under the ECL model, the following three-stage approach is applied to measuring expected credit losses based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL.
- 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.

Expected credit losses are estimated at the facility level by using a probability of default reflecting a probability weighted range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

Key judgements and estimates made by the Company include the following:

- *Significant increase in credit risk*

  Stage 2 assets are those that have experienced a significant increase in credit risk (SICR) since initial recognition. In determining what constitutes a SICR, the Company considers both qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination. The Company will also use secondary indicators, such as 30 days past due arrears, as backstops to these primary indicators.

  The determination of trigger points in relation to the deterioration of rating grades, combined with secondary risk indicators where used, requires judgement. In determining the Company's policy, alternative indicators have been considered and assessed, and these will be subject to regular review to ensure they remain appropriate.

- *Forward looking information*

  The measurement of expected credit losses reflects an unbiased probability-weighted range of possible future outcomes.

  In applying forward looking information in the Company's AASB 9 credit models, the Company uses four alternative economic scenarios in estimating ECL. A base case scenario reflects management's base case assumptions used for medium term planning purposes. Additional upside and downside scenarios are determined together with a severe downside scenario. The Company's Credit and Market Risk Committee (CMRC) will be responsible for reviewing and approving forecast economic scenarios and the associated probability weights applied to each scenario.

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

The overall level of expected credit losses and areas of significant management judgement will be reported to, and oversighted by, the Company's Board Risk Committee.

Classification and measurement

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: Amortised Cost, Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent 'solely payments of principal and interest').

The resultant financial asset classifications are as follows:

- Amortised cost: financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows;
- Fair value through other comprehensive income: financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to both collect their cash flows and to sell; and
- Fair value through profit or loss: Any other financial assets not falling into the categories above are measured at FVTPL.

In December 2017, the AASB issued AASB 2017-6 Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation which amends the requirements of AASB 9 so that certain prepayment features meet the solely payments of principal and interest test. The Company intends to early adopt this amendment so that it applies from the date of initial application of AASB 9.

AASB 9 allows the Company to irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets - equity instruments

AASB 9 also permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. If this election is made under AASB 9, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Financial liabilities

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 except where doing so would create or enlarge an accounting mismatch in profit or loss. This part of the standard was early adopted by the Company on 1 October 2013.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

General hedge accounting

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 provides the Company with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Company's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

Transition to AASB 9

Other than as noted above under classification and measurement of financial liabilities, 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 opening retained earnings at 1 October 2018. The Company does not intend to restate comparatives.

Impact

The estimated impact of AASB 9 relates to the Impairment and the Classification and Measurement provisions. These estimates are based on accounting policies, assumptions and judgements and estimation techniques that remain subject to change until the Company finalises its financial statements for the year ending 30 September 2019.

- *Impairment*

  For the financial statements of the Company, the adoption of AASB 9 is expected to reduce net assets at 1 October 2018 by approximately $729 million offset by deferred tax of approximately $208 million.

- *Classification and measurement of financial assets*

  While some classification changes will occur as a result of the application of the business model and contractual cash flow characteristics tests, these are not expected to be significant from a Company perspective.

  The adoption of the Classification and Measurement requirements of the standard will result in measurement differences compared to those under AASB 139. Financial assets with a current carrying value of approximately $4.8 billion, predominantly bonds and debt instruments, will be reclassified between amortised cost, FVTPL and FVOCI. The net re-measurement from these reclassifications is not material. There are no other material changes in the measurement categories.

- *Classification and measurement of financial liabilities*

  The Company has issued certain financial liabilities (bonds included within the Debt issuances caption) with an amortised cost carrying amount at 30 September 2018 of approximately $2.6 billion. The Company will elect to designate these liabilities as measured at fair value through profit or loss effective from initial application of AASB 9 to reduce an accounting mismatch that currently exists. The impact on net assets and retained earnings is not material.

AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AASB 15 is effective for the Company from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. 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 then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Company has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of AASB 15 is immaterial, given a majority of Company revenues are outside the scope of the standard. The Company will adopt AASB 15 retrospectively including restatement of prior period comparatives.

Certain revenues for the credit cards business will be impacted as follows:

- Certain loyalty costs will be presented as operating expenses rather than presented as a net reduction of other operating income where the Company is assessed to be acting as a principal (rather than an agent) under the new standard. In addition, certain incentives received from card scheme providers related to card marketing and migration activities will be presented as operating income and no longer netted against operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

AASB 16 LEASES

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.

2. OPERATING INCOME

	2018 $m	2017 $m
Net interest income		
Interest income by type of financial asset		
Available-for-sale assets	1,232	985
Financial assets at amortised cost	21,520	20,546
Trading securities	881	739
Interest income - external	23,633	22,270
Interest income - controlled entities	3,387	3,343
Interest income	27,020	25,613
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(12,148)	(10,961)
Securities sold short	(239)	(111)
Financial liabilities designated at fair value through profit or loss	(69)	(78)
Interest expense - external	(12,456)	(11,150)
Interest expense - controlled entities	(3,763)	(3,781)
Interest expense	(16,219)	(14,931)
Major bank levy	(355)	(86)
Net interest income	10,446	10,596
Other operating income		
i) Fee and commission income		
Lending fees[1]	599	652
Non-lending fees and commissions	2,152	2,211
Fee and commission income - external	2,751	2,863
Fee and commission income - controlled entities	1,279	1,197
Fee and commission income	4,030	4,060
Fee and commission expense	(994)	(1,019)
Net fee and commission income	3,036	3,041
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	1,178	1,053
Dividends received from controlled entities[3]	4,773	2,299
Sale of Asia Retail and Wealth businesses	13	(219)
Sale of Shanghai Rural Commercial Bank (SRCB)	233	(231)
Write down of investment in Wealth Australia (AWA)[3]	(597)	-
Other	9	44
Other income[4]	5,609	2,946
Other operating income	8,645	5,987
Net funds management and commission income		
Funds management income	(80)	74
Commission income[5]	72	84
Net funds management and commission income	(8)	158
Share of associates' profit	(1)	60
Operating income[6]	19,082	16,801

1. Lending fees exclude fees treated as part of the effective yield calculation in interest income.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit and loss.
3. During 2018 the Company received a dividend of $582 million from AWA and wrote the investment in AWA down by an equivalent amount. The impact of this has been presented net in the income statements.
4. Total other income includes external dividend income from Bank of Tianjin of $27 million (2017: $26 million).
5. Commission income includes insurance commissions which were previously reported separately.
6. Includes customer remediation of $310 million for the September 2018 year (2017: $52 million).

NOTES TO THE 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 (AFS) assets or designated at fair value, through profit or loss in net interest income. For assets held at amortised cost the Company use the effective interest rate method 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') became effective from 1 July 2017 and 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 presented in 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 that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the Available-for-sale (AFS) revaluation reserve in equity when an AFS asset is sold, 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 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 COMMISSION INCOME

Funds Management Income

We recognise the fees we charge to customers in connection with financial advice and the management of investment products when we have provided the service.

Commission Income

We recognise commissions received for distributing products to customers in the period when we become entitled to the commission.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING EXPENSES

	2018 $m	2017 $m
Personnel		
Salaries and related costs	3,233	3,288
Superannuation costs	258	266
Other	163	227
Personnel expenses	3,654	3,781
Premises		
Rent	395	409
Other	264	275
Premises expenses	659	684
Technology		
Depreciation and amortisation	682	662
Licences and outsourced services	457	413
Accelerated amortisation[2]	240	-
Other	204	216
Technology expenses	1,583	1,291
Restructuring	210	55
Other		
Advertising and public relations	160	192
Professional fees	497	397
Freight, stationery, postage and communication	179	204
Royal Commission legal costs	55	-
Other	1,124	1,019
Other expenses	2,015	1,812
Operating expenses[1]	8,121	7,623

1. Includes customers remediation of $255 million for the September 2018 year (2017: $79million).
2. Accelerated software amortisation charge relates to certain software assets in the Institutional and Australia divisions following the reassessment of useful lives.

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 created.

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

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

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 Company during the current and prior year is included in Note 27 Employee Share and Option Plans.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	2018 $m	2017 $m
Profit before income tax	10,332	8,297
Prima facie income tax expense at 30%	3,100	2,489
Tax effect of permanent differences:		
Share of associates' profit	-	(18)
Sale of Shanghai Rural Commercial Bank (SRCB)	(84)	172
Tax provisions no longer required	(39)	-
Interest on convertible instruments	67	69
Overseas tax rate differential	(6)	27
Rebatable and non-assessable dividends	(1,606)	(690)
Provision for foreign tax on dividend repatriation	28	8
Write down of investment in Wealth Australia	354	-
Other	13	24
Subtotal	1,827	2,081
Income tax over provided in previous years	(19)	(18)
Income tax expense	1,808	2,063
Current tax expense	2,037	1,997
Adjustments recognised in the current year in relation to the current tax of prior years	(19)	(18)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(210)	84
Income tax expense	1,808	2,063
Australia	1,695	1,975
Overseas	113	88
Income tax expense	1,808	2,063
Effective tax rate	17.5%	24.9%

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 $nil (2017: $nil). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $42 million (2017: $38 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 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.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Company 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 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
Financial Year 2018			
2017 final dividend paid		80.0 cents	2,350
2018 interim dividend paid		80.0 cents	2,317
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2018			4,585
Cash	91.5%		4,193
Dividend reinvestment plan	8.5%		392
Dividends paid during the year ended 30 September 2018			4,585

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2018 final dividend (fully franked at 30%, New Zealand imputation credit NZD 10 cents per share)	18 December 2018	80.0 cents	2,296

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 2018 final dividend, DRP participation will be satisfied by an on-market purchase of shares 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	2018 $m	2017 $m
Australian franking credits available at 30% (2017: 30%) tax rate	AUD	97	171
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	3,868	3,680

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.

5. DIVIDENDS (continued)

The proposed final 2018 dividend will utilise the entire balance of $97 million franking credits available at 30 September 2018. Instalment tax payments on account of the 2019 financial year which will be made after 30 September 2018 will generate sufficient franking credits to enable the final 2018 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 ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

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 2018 Group Annual Report located at https://shareholder.anz.com/annual-report-shareholder-review.

7. CASH AND CASH EQUIVALENTS

	2018 $m	2017 $m
Coins, notes and cash at bank	912	1,096
Securities purchased under agreements to resell in less than 3 months	27,631	20,818
Balances with central banks	32,009	22,389
Settlement balances owed to ANZ within 3 months	19,675	19,096
Cash and cash equivalents	80,227	63,399

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TRADING SECURITIES

	2018 $m	2017 $m
Government securities	21,545	25,647
Corporate and financial institution securities	4,302	5,060
Equity and other securities	3,672	4,899
Trading securities	29,519	35,606

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 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Derivative financial instruments - held for trading	62,813	(63,177)	55,261	(54,937)
Derivative financial instruments - designated in hedging relationships	1,635	(2,461)	1,775	(1,893)
Derivative financial instruments	64,448	(65,638)	57,036	(56,830)

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 following:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risk in the Company's positions that are not in 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 and currency 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 two parties 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 Company offers and uses the instruments described above to manage fluctuations in the following market factors:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Interest rate contracts				
Forward rate agreements	6	(7)	2	(1)
Futures contracts	48	(31)	97	(34)
Swap agreements	32,873	(33,510)	27,584	(27,720)
Options purchased	780	-	742	-
Options sold	-	(1,408)	-	(1,365)
Total	33,707	(34,956)	28,425	(29,120)
Foreign exchange contracts				
Spot and forward contracts	14,057	(13,221)	14,132	(13,731)
Swap agreements	12,276	(11,609)	10,070	(10,073)
Options purchased	461	-	475	-
Options sold	-	(649)	-	(439)
Total	26,794	(25,479)	24,677	(24,243)
Commodity contracts	2,258	(2,684)	1,991	(1,398)
Credit default swaps				
Structured credit derivative purchased	22	-	52	-
Other credit derivatives purchased	8	(29)	13	(110)
Credit derivatives purchased	30	(29)	65	(110)
Structured credit derivatives sold	-	(26)	-	(58)
Other credit derivatives sold	24	(3)	103	(8)
Credit derivatives sold	24	(29)	103	(66)
Total	54	(58)	168	(176)
Derivative financial instruments - held for trading	62,813	(63,177)	55,261	(54,937)

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 and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of 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 2018 $m	Liabilities 2018 $m	Assets 2017 $m	Liabilities 2017 $m
Foreign exchange swap agreements	Fair value	1	-	1	-
Foreign exchange spot and forward contracts	Fair value	1	-	-	-
Interest rate swap agreements	Fair value	1,211	(2,251)	1,287	(1,555)
Interest rate futures contracts	Fair value	47	(1)	80	-
Interest rate swap agreements	Cash flow	330	(148)	361	(278)
Foreign exchange swap agreements	Cash flow	44	(52)	35	(49)
Foreign exchange spot and forward contracts	Cash flow	1	-	-	(5)
Foreign exchange spot and forward contracts	Net investment	-	(9)	11	(6)
Derivative financial instruments - designated in hedging relationships		1,635	(2,461)	1,775	(1,893)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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	2018 $m	2017 $m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	934	(43)
Hedging instrument	Fair value	(949)	38
Ineffective portion of hedged instrument	Cash flow	13	(20)

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 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 held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 25 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

Period / Security type	2018 Government securities $m	2018 Corporate and financial institution securities $m	2018 Equity and other securities $m	2018 Total $m	2017 Government securities $m	2017 Corporate and financial institution securities $m	2017 Equity and other securities $m	2017 Total $m
Less than 3 months	5,725	850	-	6,575	5,424	768	-	6,192
Between 3 and 12 months	6,729	2,221	-	8,950	4,168	2,163	-	6,331
Between 1 and 5 years	24,455	10,364	159	34,978	15,656	10,726	403	26,785
Greater than 5 years	11,569	-	1,572	13,141	16,079	260	2,134	18,473
No maturity	-	-	1,084	1,084	-	-	725	725
Available-for-sale assets	48,478	13,435	2,815	64,728	41,327	13,917	3,262	58,506

During the year, the Company recognized a net gain (before tax) in respect of available-for-sale (AFS) assets of $70 million (2017: $15 million) was recognised in other operating income.

The carrying value of AFS equity securities is $1,084 million (2017: $725 million). This includes the Company's $1,025 million (2017: $676 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 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 their 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. NET LOANS AND ADVANCES

	2018 $m	2017 $m
Overdrafts	6,047	6,155
Credit cards	8,379	8,639
Commercial bills[1]	6,861	8,386
Term loans – housing	273,908	268,416
Term loans – non-housing[1]	180,965	161,610
Other	1,494	1,578
Subtotal	477,654	454,784
Unearned income	(165)	(149)
Capitalised brokerage/mortgage origination fees	710	751
Gross loans and advances (including assets classified as held for sale)	478,199	455,386
Provision for credit impairment (refer to Note 12)	(2,780)	(2,962)
Net loans and advances	475,419	452,424
Residual contractual maturity:		
Within one year	76,744	67,609
After more than one year	398,675	384,815
Net loans and advances	475,419	452,424
Carried on Balance Sheet at:		
Amortised cost	475,418	452,408
Fair value through profit or loss (designated on initial recognition)	1	16
Net loans and advances	475,419	452,424

1. Some of the loans previously shown in Commercial bills outstanding have been reclassified to Term Loans – non-housing. Restatement impact of $2,597 million for 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 which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any 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, 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	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Individual provision						
Balance at start of year	887	942	16	15	903	957
New and increased provisions	1,175	1,467	12	1	1,187	1,468
Write-backs	(337)	(348)	-	-	(337)	(348)
Bad debts written off (excluding recoveries)	(1,031)	(1,138)	-	-	(1,031)	(1,138)
Other[1]	1	(36)	(10)	-	(9)	(36)
Total individual provision	695	887	18	16	713	903
Collective provision						
Balance at start of year	1,625	1,678	434	493	2,059	2,171
Charge/(release) to profit or loss	14	(24)	(27)	(42)	(13)	(66)
Other[2]	14	(29)	7	(17)	21	(46)
Total collective provision	1,653	1,625	414	434	2,067	2,059
Total provision for credit impairment	2,348	2,512	432	450	2,780	2,962

1. Other individual provision includes an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the Asia Retail and Wealth business divestment and an adjustment for exchange rate fluctuations.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge	2018 $m	2017 $m
New and increased provisions	1,187	1,468
Write-backs	(337)	(348)
Recoveries of amounts previously written-off	(208)	(173)
Individual credit impairment charge	642	947
Collective credit impairment release	(13)	(66)
Total credit impairment charge	629	881

NOTES TO THE FINANCIAL STATEMENTS (continued)

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).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics 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:

	2018 $m	2017 $m
Certificates of deposit	41,867	53,597
Term deposits	164,182	146,445
On demand and short term deposits	206,415	209,260
Deposits not bearing interest	13,794	12,389
Deposits from banks and securities sold under repurchase agreements	70,992	57,945
Commercial paper	14,742	14,599
Deposits and other borrowings	511,992	494,235
Residual contractual maturity:		
- to be settled within 1 year	504,182	479,809
- to be settled after 1 year	7,810	14,426
Deposits and other borrowings	511,992	494,235
Carried on Balance Sheet at:		
Amortised cost	511,937	494,162
Fair value through profit or loss (designated on initial recognition)	55	73
Deposits and other borrowings	511,992	494,235

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

	2018 $m	2017 $m
Senior debt	68,951	54,046
Covered bonds	14,221	14,959
Total unsubordinated debt	83,172	69,005
Subordinated debt		
- Additional Tier 1 capital	7,461	7,995
- Tier 2 capital	7,993	8,495
Total subordinated debt	15,454	16,490
Total debt issued	98,626	85,495

For further information relating to debt issuances, refer to the ANZ 2018 Group Annual Report (Note 15 Debt Issuances) available at https://shareholder.anz.com/annual-report-shareholder-review.

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 2018 Group 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 exposure
Liquidity and funding risk Liquidity 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 overview, management and control responsibilities • Key areas of measurement for liquidity risk • Funding position • Residual contractual maturity analysis of the Company's liabilities

15. 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 Our Approach to Risk Management section of the Directors' Report in the ANZ 2018 Group 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Company can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business 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 earnings 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 – B1	BB+ – B+
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.	B2 - 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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
On-balance sheet positions						
Net loans and advances[2]	475,419	452,424	(432)	(450)	475,851	452,874
Other financial assets:						
Cash and cash equivalents	80,227	63,399	912	1,096	79,315	62,303
Settlement balances owed to ANZ[3]	1,666	5,006	1,666	5,006	-	-
Collateral paid	9,184	7,685	-	-	9,184	7,685
Trading securities	29,519	35,606	3,486	4,653	26,033	30,953
Derivative financial instruments	64,448	57,036	-	-	64,448	57,036
Available-for-sale assets	64,728	58,506	1,084	725	63,644	57,781
Regulatory deposits	264	495	-	-	264	495
Due from controlled enties	90,170	91,208	-	-	90,170	91,208
Other financial assets[4]	2,177	2,040	-	-	2,177	2,040
Total other financial assets	342,383	320,981	7,148	11,480	335,235	309,501
Subtotal	817,802	773,405	6,716	11,030	811,086	762,375
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	203,483	187,291	432	450	203,051	186,841
Total	1,021,285	960,696	7,148	11,480	1,014,137	949,216

1. Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents, and equity securities within available-for-sale financial assets. Equity securities and precious metal exposures recognised as trading securities have been excluded as they do not have credit exposure.
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 and acceptances.
5. Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Neither past due nor impaired								
Strong credit profile[1]	350,031	323,613	333,962	308,116	173,688	154,941	857,681	786,670
Satisfactory risk[2]	98,222	101,510	1,185	1,285	27,996	30,361	127,403	133,156
Sub-standard but not past due or impaired[3]	13,348	14,160	88	100	1,337	1,471	14,773	15,731
Sub-total	461,601	439,283	335,235	309,501	203,021	186,773	999,857	935,557
Past due but not impaired								
≥ 1 < 30 days	7,456	7,231	-	-	-	-	7,456	7,231
≥ 30 < 60 days	2,067	1,841	-	-	-	-	2,067	1,841
≥ 60 < 90 days	1,138	1,005	-	-	-	-	1,138	1,005
≥ 90 days	2,780	2,706	-	-	-	-	2,780	2,706
Sub-total	13,441	12,783	-	-	-	-	13,441	12,783
Restructured and impaired								
Impaired loans	1,256	1,624	-	-	-	-	1,256	1,624
Restructured items[4]	248	71	-	-	-	-	248	71
Non-performing commitments and contingencies	-	-	-	-	48	84	48	84
Gross impaired financial assets	1,504	1,695	-	-	48	84	1,552	1,779
Individual provisions	(695)	(887)	-	-	(18)	(16)	(713)	(903)
Sub-total restructured and net impaired	809	808	-	-	30	68	839	876
Total	475,851	452,874	335,235	309,501	203,051	186,841	1,014,137	949,216

1. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly.
2. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly (Sep 17: Net loans and advances $438 million, Credit related commitments $139 million).
3. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly (Sep 17: Net loans and advances $438 million, Credit related commitments $61 million).
4. 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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Agriculture, forestry, fishing and mining	19,658	17,346	538	528	15,317	13,450	35,513	31,324
Business services	7,158	7,044	82	137	5,989	6,319	13,229	13,500
Construction	5,101	5,273	32	37	5,379	5,209	10,512	10,519
Electricity, gas and water supply	4,916	4,800	534	752	4,508	4,537	9,958	10,089
Entertainment, leisure and tourism	10,652	10,679	305	317	3,118	3,151	14,075	14,147
Financial, investment and insurance	43,245	34,256	262,203	236,975	35,326	27,690	340,774	298,921
Government and official institutions	748	846	63,225	61,440	2,043	2,016	66,016	64,302
Manufacturing	16,926	14,838	1,815	1,902	33,298	29,926	52,039	46,666
Personal lending	288,127	282,823	1,070	1,038	42,982	45,856	332,179	329,717
Property services	33,576	30,595	484	559	13,584	11,065	47,644	42,219
Retail trade	10,959	11,150	105	187	5,458	4,974	16,522	16,311
Transport and storage	10,204	9,805	459	959	6,606	5,598	17,269	16,362
Wholesale trade	11,946	11,013	2,644	2,225	17,725	16,542	32,315	29,780
Other	14,438	14,316	1,739	2,445	12,150	10,958	28,327	27,719
Gross total	477,654	454,784	335,235	309,501	203,483	187,291	1,016,372	951,576
Provision for credit impairment	(2,348)	(2,512)	-	-	(432)	(450)	(2,780)	(2,962)
Subtotal	475,306	452,272	335,235	309,501	203,051	186,841	1,013,592	948,614
Unearned income	(165)	(149)	-	-	-	-	(165)	(149)
Capitalised brokerage/mortgage origination fees	710	751	-	-	-	-	710	751
Maximum exposure to credit risk	475,851	452,874	335,235	309,501	203,051	186,841	1,014,137	949,216

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

Net loans and advances	
Loans – housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans – business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
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).
Off-balance sheet positions	
Undrawn and contingent liabilities.	Collateral for off balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Net loans and advances	475,851	452,874	372,996	364,745	102,855	88,129
Other financial assets	335,235	309,501	30,166	22,705	305,069	286,796
Off-balance sheet positions	203,051	186,841	34,072	31,696	168,979	155,145
Total	1,014,137	949,216	437,234	419,146	576,903	530,070

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 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 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 for the relevant holding period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2018				30 September 2017			
	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	2.9	9.8	1.7	4.0	4.3	10.0	2.6	5.1
Interest rate	8.2	14.9	4.8	7.4	5.6	18.9	4.7	7.2
Credit	2.0	6.2	2.0	3.7	4.1	5.1	1.6	3.2
Commodity	3.5	4.4	1.1	2.9	2.2	3.8	1.4	2.1
Equity	-	-	-	-	-	0.5	-	0.2
Diversification benefit[1]	(9.1)	n/a	n/a	(7.8)	(6.1)	n/a	n/a	(7.6)
Total VaR	7.5	16.9	5.8	10.2	10.1	20.8	6.3	10.2

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 2018				30 September 2017			
	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	21.9	32.7	20.3	23.6	31.6	37.5	25.9	31.3
New Zealand	-	0.2	-	-	-	0.1	-	0.1
APEA	15.5	15.5	12.5	14.0	13.7	18.6	13.5	15.3
Diversification benefit[1]	(11.8)	n/a	n/a	(9.6)	(13.3)	n/a	n/a	(9.3)
Total VaR	25.6	35.2	22.3	28.0	32.0	43.7	31.3	37.4

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

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2018	2017
Impact of 1% rate shock		
As at period end	0.15%	0.14%
Maximum exposure	0.76%	1.20%
Minimum exposure	0.02%	0.13%
Average exposure (in absolute terms)	0.30%	0.53%

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK AND FUNDING POSITION

For information related to the liquidity risk and funding position refer to the ANZ 2018 Group Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

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. The table below excludes "Due to controlled entities" liabilities of $88.4 billion (2017: $88.9 billion) as the contractual maturity is linked to the repayment of underlying assets which are managed on a pool basis which is continuously reviewed. 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 ANZ 2018 Group Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

2018	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	9,867	-	-	-	9,867
Collateral received	6,002	-	-	-	6,002
Deposits and other borrowings	440,725	65,446	7,918	116	514,205
Liability for acceptances	316	-	-	-	316
Debt issuances[1]	4,563	17,946	67,787	19,826	110,122
Derivative liabilities (trading)[2]	58,784	-	-	-	58,784
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(13,221)	(26,116)	(66,671)	(30,071)	(136,079)
Pay leg	13,193	25,122	64,316	30,005	132,636
- Other balance sheet management					
Receive leg	(50,237)	(13,492)	(10,249)	(1,469)	(75,447)
Pay leg	50,479	13,626	10,763	1,634	76,502

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]	3,030	12,242	59,673	20,751	95,696
Derivative liabilities (trading)[2]	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

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
2. The full mark-to-market of derivative liabilities held for trading purposes is included in the 'less than 3 months' category.

At 30 September 2018 $164,944 million (2017: $150,339 million) of the Company's undrawn facilities and $38,539 million (2017: $36,952 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 is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

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

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

If the 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 designation

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

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises 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.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

		2018			2017		
	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	7	80,227	-	80,227	63,399	-	63,399
Settlement balances owed to ANZ		1,666	-	1,666	5,006	-	5,006
Collateral paid		9,184	-	9,184	7,685	-	7,685
Trading securities	8	-	29,519	29,519	-	35,606	35,606
Derivative financial instruments	9	-	64,448	64,448	-	57,036	57,036
Available-for-sale assets	10	-	64,728	64,728	-	58,506	58,506
Net loans and advances	11	475,418	1	475,419	452,408	16	452,424
Regulatory deposits		264	-	264	495	-	495
Due from controlled entities		90,170	-	90,170	91,208	-	91,208
Other financial assets		2,023	-	2,023	1,917	-	1,917
Assets held for sale		-	-	-	-	1,748	1,748
Total		658,952	158,696	817,648	622,118	152,912	775,030
Financial liabilities							
Settlement balances owed by ANZ		9,867	-	9,867	8,219	-	8,219
Collateral received		6,002	-	6,002	5,238	-	5,238
Deposits and other borrowings	13	511,937	55	511,992	494,162	73	494,235
Derivative financial instruments	9	-	65,638	65,638	-	56,830	56,830
Due to controlled entities		88,383	-	88,383	88,882	-	88,882
Payables and other liabilities		3,942	1,060	5,002	3,930	1,753	5,683
Debt issuances	14	97,184	1,442	98,626	83,743	1,752	85,495
Total		717,315	68,195	785,510	684,174	60,408	744,582

FAIR VALUE HIERARCHY

The Company categorises 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 where significant unobservable inputs are used to measure the fair value of the asset or liability.

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

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Assets								
Trading securities[1]	**23,969**	32,998	**5,550**	2,608	**-**	-	**29,519**	35,606
Derivative financial instruments	**630**	424	**63,764**	56,527	**54**	85	**64,448**	57,036
Available-for-sale assets[1]	**61,655**	53,958	**1,996**	4,504	**1,077**	44	**64,728**	58,506
Net loans and advances (measured at fair value)	**-**	-	**1**	16	**-**	-	**1**	16
Assets held for sale	**-**	-	**-**	1,748	**-**	-	**-**	1,748
Total	**86,254**	87,380	**71,311**	65,403	**1,131**	129	**158,696**	152,912
Liabilities								
Deposits and other borrowings (designated at fair value)	**-**	-	**55**	73	**-**	-	**55**	73
Derivative financial instruments	**1,666**	250	**63,929**	56,504	**43**	76	**65,638**	56,830
Payables and other liabilities[2]	**1,048**	1,587	**12**	166	**-**	-	**1,060**	1,753
Debt issuances (designated at fair value)	**-**	-	**1,442**	1,752	**-**	-	**1,442**	1,752
Total	**2,714**	1,837	**65,438**	58,495	**43**	76	**68,195**	60,408

1. Of the assets and liabilities held at the end of 2018, during the year, we transferred:
   - $676 million (2017: nil) from Level 1 to Level 3 following a change in the valuation approach used to measure the investment in Bank of Tianjin;
   - $783 million (2017: nil) from Level 2 to Level 1 following increased trading activity to support the quoted prices;
   - There was no material transfer from Level 1 to Level 2 (2017: $408 million).

   Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $1,088 million (2017: $53 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in the Level 3 balance is due to transfer of our available-for-sale investment in Bank of Tianjin to Level 3 following a change in the valuation approach used to measure the asset.

There were no other material transfers in or out of Level 3 during the period.

Bank of Tianjin (BoT)

A revised valuation technique was applied to the investment in BoT as the Company considers that, in light of persistent illiquidity, the share price of BoT is not representative of fair value. The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification. The application of this valuation approach resulted in a $349 million increase in the carrying value of the investment during the period to $1,025 million. The increase has been recognised as an unrealised gain in the available-for-sale revaluation reserve within shareholders' equity and accordingly, there is no impact from this revaluation on the Income Statement for the year ended 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Sensitivity to Level 3 data inputs

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

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $102 million increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Company.

Deferred fair value gains and losses

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

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Company's basis of estimating fair values of 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 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 the Company for that instrument.

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)			
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Financial assets										
Net loans and advances[1]	475,418	452,408	-	-	28,352	25,172	447,259	427,282	475,611	452,454
Due from controlled entities[2]	90,170	91,208	-	-	-	-	90,170	91,208	90,170	91,208
Total	565,588	543,616	-	-	28,352	25,172	537,429	518,490	565,781	543,662
Financial liabilities										
Deposits and other borrowings	511,937	494,162	-	-	512,049	494,291	-	-	512,049	494,291
Debt issuances	97,184	83,743	31,365	30,841	66,529	53,969	-	-	97,894	84,810
Due to controlled entities[2]	88,383	88,882	-	-	-	-	88,383	88,882	88,383	88,882
Total	697,504	666,787	31,365	30,841	578,578	548,260	88,383	88,882	698,326	667,983

1. We have reviewed the fair value of Net loans and advances previously presented as Level 2. In line with broader industry practice Net loans and advances other than Loans to Banks are now presented as Level 3
2. Carrying value assumed to approximate fair value for balances with controlled entities.

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 carrying amount of assets pledged as security are as follows:

	2018 $m	2017 $m
Securities sold under arrangements to repurchase[1]	39,332	35,454
Residential mortgages provided as security for covered bonds	19,612	19,604
Other	1,191	1,487

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:

	2018 $m	2017 $m
Fair value of assets which can be sold or repledged	35,360	29,418
Fair value of assets sold or repledged	23,270	19,787

18. OFFSETTING

We offset financial assets and financial 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			
2018	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	64,448	(2,423)	62,025	(52,723)	(5,042)	4,260
Reverse repurchase, securities borrowing and similar agreements[1]	34,623	(4,337)	30,286	(398)	(29,888)	-
Total financial assets	99,071	(6,760)	92,311	(53,121)	(34,930)	4,260
Derivative financial liabilities	(65,638)	2,706	(62,932)	52,723	7,037	(3,172)
Repurchase, securities borrowing and similar agreements[2]	(37,581)	11,997	(25,584)	398	25,186	-
Total financial liabilities	(103,219)	14,703	(88,516)	53,121	32,223	(3,172)

			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	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)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Balance at start of year	69	102	1,783	2,110	-	2	1,852	2,214
Additions	-	-	386	396	-	-	386	396
Amortisation expense[2]	-	-	(787)	(541)	-	(2)	(787)	(543)
Impairment expense	-	-	(17)	(17)	-	-	(17)	(17)
Impairment on reclassification to held for sale[3]	-	(32)	-	(153)	-	-	-	(185)
Foreign currency exchange difference	4	(1)	8	(12)	-	-	12	(13)
Balance at end of year	73	69	1,373	1,783	-	-	1,446	1,852
Cost	73	69	6,289	5,883	39	39	6,401	5,991
Accumulated amortisation/impairment	n/a	n/a	(4,916)	(4,100)	(39)	(39)	(4,955)	(4,139)
Carrying amount	73	69	1,373	1,783	-	-	1,446	1,852

1. Goodwill excludes notional goodwill in equity accounted investments.
2. ANZ has accelerated the amortisation of certain software assets predominately relating to its International business. This follows a recent review of the International business along with a number of divestments announced or completed this year. Accelerated amortisation expense of $240 million ($195 million post-tax) attributable to these assets has been recorded in the 2018 financial year.
3. In 2017 this relates to the sale of the Retail Asia business.

RECOGNITION AND MEASUREMENT

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

Intangible	Goodwill	Software
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 are capitalized as assets. Those less than $20 million are expensed in the year in which the costs are incurred.
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.
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.
Depreciation method	Not applicable.	Straight-line method.

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset (or 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, including those not ready for use, are assessed for indicators of 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.

In addition, the expected useful economic life of intangible assets, including software assets, are assessed on an annual basis. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected economic useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change. In the current year, the assessment of useful economic life of software assets resulted in accelerated amortisation of certain software assets in the Institutional and Australia divisions of $240 million.

20. OTHER PROVISIONS

	2018 $m	2017 $m
Customer remediation	556	115
Restructuring costs	94	61
Non-lending losses, frauds and forgeries	75	73
Other	113	141
Total other provisions	**838**	**390**

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m	Total $m
Balance at start of year	115	61	73	141	**390**
New and increased provisions made during the year	525	146	11	99	**781**
Provisions used during the year	(60)	(98)	(8)	(65)	**(231)**
Unused amounts reversed during the year	(24)	(15)	(1)	(62)	**(102)**
Balance at end of year	**556**	**94**	**75**	**113**	**838**

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER PROVISIONS (continued)

Customer remediation

Customer remediation refers to the Company's activities in relation to compensating customers for past matters associated with products and services provided.

Restructuring costs

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

Non-lending losses, frauds and forgeries

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

Other

Other provisions comprise various other provisions including loyalty programs, workers compensation, make-good provisions associated with leased premises and contingent liabilities recognised as part of a business combination.

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

The Company holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These 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.

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

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2018 $m	2017 $m
Ordinary share capital	27,533	29,416
Reserves:		
Foreign currency translation reserve	(230)	(75)
Share option reserve	92	87
Available-for-sale revaluation reserve	(24)	(66)
Cash flow hedge reserve	106	90
Total reserves	(56)	36
Retained earnings	26,377	22,396
Total shareholders' equity	**53,854**	**51,848**

ORDINARY SHARE CAPITAL

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

	2018		2017	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,937,415,327	29,416	2,927,476,660	29,162
Bonus option plan[1]	2,891,060	-	2,880,009	-
Dividend reinvestment plan[2]	-	-	7,058,658	198
Group employee share acquisition scheme	-	(3)	-	56
Share buy-back[3]	(66,688,269)	(1,880)	-	-
Balance at end of year	**2,873,618,118**	**27,533**	2,937,415,327	29,416

1. The Company issued 1.4 million shares under the Bonus Option Plan (BOP) for the 2018 interim dividend (1.5 million shares for the 2017 final dividend; 1.4 million shares for the 2017 interim dividend; 1.5 million shares for the 2016 final dividend).
2. No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2018 interim dividend (nil shares for the 2017 final dividend; nil shares for the 2017 interim dividend; 7.1 million shares for the 2016 final dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market purchases for the DRP in the September 2018 financial year were $392 million (September 17 full year: $176 million).
3. On 22 June 2018, the Company announced that it had increased its existing on-market buy-back of shares from $1.5 billion to $3.0 billion. The Company bought back $1,880 million worth of shares during the 2018 financial year resulting in 66.7 million shares being cancelled during the year.

NOTES TO THE 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. 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 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.

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 material 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 2018 Annual Report, Capital Adequacy Ratios are presented for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 23 Capital Management in the ANZ 2018 Group Annual Report for details of the Capital Adequacy Ratios, which can be found at https://shareholder.anz.com/annual-report-shareholders-review.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. SHARES IN CONTROLLED ENTITIES

	Incorporated in	Nature of business	2018 $m	2017 $m
ANZ Bank (Lao) Ltd	Laos	Banking	51	51
ANZ Bank (Taiwan) Ltd	Taiwan	Banking	849	849
ANZ Bank (Vietnam) Ltd	Vietnam	Banking	205	205
ANZ Capel Court Ltd	Australia	Securitisation Manager	18	18
ANZ Capital Hedging Pty Ltd	Australia	In liquidation	200	200
ANZ Centre Chattels Trust	Australia	Property	167	167
ANZ Centre Trust	Australia	Property	550	550
ANZ Equities (Nominees) Pty Ltd	Australia	Custodial Services	10	10
ANZ Funds Pty Ltd	Australia	Holding Company	12,053	9,698
ANZ Guam, Inc	Guam	Banking	17	17
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance	398	398
ANZ Properties (Australia) Pty Ltd	Australia	Property	6	6
ANZ Rewards No.2 Pty Ltd	Australia	Credit Card Loyalty Program	40	40
ANZ Securities (Holdings) Pty Ltd	Australia	Holding Company	36	36
ANZ Support Services India Private Ltd	India	IT Services	25	25
ANZ Wealth Australia Ltd[1]	Australia	Holding Company	2,563	4,034
Australia and New Zealand Bank (China) Company Ltd	China	Banking	1,121	1,121
Australia and New Zealand Banking Group (PNG) Ltd	Papua New Guinea	Banking	40	40
Chongqing Liangping ANZ Rural Bank Company Ltd	China	Banking	5	5
Citizens Bancorp	Guam	Holding Company	24	24
E S & A Holdings Pty Ltd	Australia	Non-operating	43	43
Esanda Finance Corporation Ltd	Australia	Non-operating	5	15
Looking Together Pty Ltd	Australia	Non-operating	6	5
ACN 003 042 082 Ltd	Australia	Holding Company	158	258
PT Bank ANZ Indonesia (99% ownership)	Indonesia	Banking	262	269
Shares in controlled entities			18,852	18,084

1. During the year ended 30 September 2018, the carrying amount was impaired by $597 million following the calculation of the fair value of ANZ Wealth Australia Ltd's subsidiaries being sold, and a net $874 million of capital was returned to the Company.

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.

At least at each reporting date, the Company reviews investments in controlled entities for any indication of impairment. If an indication of impairment exists, then the Company determines the recoverable amount of the controlled entity using the higher of:

- the controlled entity'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. 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 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.

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	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Current carrying amount of assets transferred	**64,765**	65,030	**19,612**	19,604	**39,332**	35,454
Carrying amount of associated liabilities	**64,765**	65,030	**19,612**	19,604	**37,581**	33,768

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. ASSETS AND LIABILITIES HELD FOR SALE

At 30 September 2018, there were no assets or liabilities that have been reclassified to held for sale. The assets held for sale balance in 2017 comprised Investments in associates (SRCB) of $1,748 million. This sale was completed in the 2018 financial year.

- Shanghai Rural Commercial Bank (SRCB)

  On 3 January 2017, the Company announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). The sale was completed in the 2018 financial year.

- Asia Retail and Wealth Business

  ANZ 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. 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.

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During 2018, the Company recognised the following impacts in relation to assets and liabilities held for sale:

- $13 million gain relating to the completion of the sale related activities of the Asia Retail and Wealth business.
- $247 million net gain relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million adjustment for tax.

During 2017, the Company recognised the following impacts in relation to assets and liabilities held for sale:

- $219 million loss relating to the reclassification of the Asia Retail and Wealth business to held for sale comprising of $185 million of software and goodwill impairment charges and $34 million of various other charges.
- $333 million loss relating to reclassification of SRCB to held for sale, 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 (refer to Note 2 Operating Income).

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.

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

	2018 $m	2017 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,246)	(1,225)
Fair value of scheme assets	1,385	1,328
Net defined benefit asset	139	103
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(15)	(19)
Net assets arising from defined benefit obligations included in other assets	154	122
Net defined benefit asset	139	103
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 surplus of net market value of assets over the value of accrued benefits on a funding basis was $10 million (2017: deficit of $16 million). In 2018, the Company made defined benefit contributions totaling $2 million (2017: $1 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 and ANZ UK Staff Pension Scheme are the two largest defined benefit plans and have been closed to new members since 1987 and 2004 respectively. These plans did not have a material deficit, or surplus, at the last funding valuations. The Company has no present liability under the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Company may arise if any of these schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

For the Company's defined benefit schemes, an independent actuary calculates 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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Assumptions	2018	2017	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2018 $m	Increase/(decrease) in defined benefit obligation 2017 $m
Discount rate (% p.a.)	2.65 - 3.7	2.5 - 3.8	0.5% increase	(131)	(104)
Future salary increases (% p.a.)	3.75	3.7			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	2.0 - 3.0/ 2.25	2.0 - 3.0/ 2.2	0.5% increase	109	86
Life expectancy at age 60 for current pensioners			1 year increase	56	44
– Males (years)	25.5 - 29.0	25.4 - 28.9			
– Females (years)	28.7 - 31.0	28.6 - 30.9			

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 2017 and 2018 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 2018	541,982 shares were granted on 1 December 2017 at an issue price of $28.67.
FY 2017	Zero shares were granted in the 2017 financial year.

27. 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 Incentive Plan (ANZIP) and Business Unit Incentive Plans (BUIPs) – for grants from 1 October 2017	
Eligibility	Employees participating in ANZ's standard VR arrangements.
Grant	If VR is at or exceeds AUD150,000, then 60% of incentive amounts exceeding AUD80,000 (subject to a minimum deferral amount of AUD42,000) is deferred as deferred shares.
Conditions	Deferred evenly over three years from grant date.
iii) ANZ Employee Reward Scheme (ANZERS) and BUIPs – for grants up to 30 September 2017	
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.
iv) Total Incentives Performance Plan (TIPP) – for grants up to 30 September 2017	
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.
v) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
vi) 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.
vii) Further information	
Downward adjustment	Deferred shares remain at risk and the Board has the discretion to 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 4.3.4 of the 2018 Remuneration Report in the ANZ 2018 Group 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 2018 grants	2,232,563 deferred shares were granted with a weighted average grant price of $29.31. 2,632 deferred shares were adjusted downward to zero, based on Board discretion.
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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. 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 2018 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $80.9 million (2017: $56.7 million) based on 2,774,545 shares (2017: 2,016,835) at VWAP of $29.17 (2017: $28.09).

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's 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 2018 Remuneration Report in the ANZ 2018 Group Annual Report.
Downward adjustment	The Company's downward adjustment provisions are detailed in section 4.3.4 of the 2018 Remuneration Report in the ANZ 2018 Group Annual Report.

Option Plans that operated during 2018 and 2017

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. Further details on the performance hurdles are in section 4.3.3 of the 2018 Remuneration Report in the ANZ 2018 Group Annual Report.
FY 2018 and FY 2017 grants	During the 2018 year, we granted 1,023,239 performance rights (2017: 944,419). No performance rights were adjusted downward to zero in 2018 and 2017, based on Board discretion.

27. 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 108,783 deferred share rights (2017: 67,573) for which Board discretion was exercised.
Downward adjustment	Board discretion was also exercised to adjust downward 1,638 deferred share rights to zero in 2018 and 3,835 in 2017.
FY 2018 and FY 2017 grants	During the 2018 year 2,546,333 deferred share rights (no performance hurdles) were granted (2017: 2,547,377).

Options, Deferred Share Rights and Performance Rights on Issue

As at 30 October 2018, there were 657 holders of 4,204,281 deferred share rights on issue and 159 holders of 2,865,941 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 2018 and the movements during 2018:

Number of options/rights	Opening balance 1 Oct 2017	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2018
	7,113,784	3,569,572	(2,043,209)	(1,558)	(1,490,016)	7,148,573
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$28.43
WA remaining contractual life						2.1 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						67,666

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

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment and performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2017 and 2018, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 30 October 2018:

- no options/rights over ordinary shares have been granted since the end of 2018; and
- no shares have been issued as a result of the exercise of options/rights since the end of 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. 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.

	2018		2017	
	Deferred Share Rights	Performance Rights	Deferred Share Rights	Performance Rights
Exercise price ($)	**0.0**	**0.0**	0.00	0.00
Share closing price at grant date ($)	**29.24**	**29.21**	27.95	28.18
Expected volatility of ANZ share price (%)[1]	**20.0**	**20.0**	24.9	25.0
Equity term (years)	**2.4**	**5.0**	2.3	5.0
Vesting period (years)	**2.1**	**3.0**	2.1	3.0
Expected life (years)	**2.1**	**3.0**	2.1	3.0
Expected dividend yield (%)	**5.75**	**5.75**	6.49	6.46
Risk free interest rate (%)	**1.65**	**1.95**	1.76	1.86
Fair value ($)	**26.03**	**12.24**	24.59	13.73

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 2018 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 3,936,773 shares at an average price of $29.00 per share (2017: 2,704,206 shares at an average price of $27.83 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:

	2018[1] $000	2017[1] $000
Short-term benefits	19,484	21,002
Post-employment benefits	333	1,046
Other long-term benefits	150	169
Termination benefits	454	563
Share-based payments	8,910	14,926
Total	29,331	37,706

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

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2018 $000	2017 $000
Loans advanced[1]	12,710	14,497
Interest charged[2]	477	550

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP who ceased employment during the year).
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:

	2018 Number[1]	2017 Number[1]
Shares, options and rights	2,293,271	2,233,182
Subordinated debt	13,152	17,152

- For KMP who ceased employment during the year, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES (continued)

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:

	2018 $000	2017 $000
Amounts receivable from associates	34,364	76,247
Amounts payable to associates	608	587
Interest income from associates	1,704	2,728
Interest expense to associates	-	18
Other expenses paid to associates	6,735	8,424
Costs recovered from associates	-	748

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 23 Shares in 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 2018, 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

	2018 $m	2017 $m
Lease rentals		
Land and buildings	1,533	1,818
Furniture and equipment	112	145
Total lease rental commitments[1]	1,645	1,963
Due within 1 year	321	394
Due later than 1 year but not later than 5 years	769	908
Due later than 5 years	555	661
Total lease rental commitments[1]	1,645	1,963

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2018 is $81 million (2017: $91 million). During the year, we received sublease payments of $29 million (2017: $28 million) and netted them against rent expense.

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

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 $m	2017 $m
Contract amount of:		
Undrawn facilities	164,944	150,339
Guarantees and letters of credit	16,363	18,062
Performance related contingencies	22,176	18,890
Total	203,483	187,291

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 $164,944 million (2017: $150,339 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 contingents 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 $16,363 million (2017: $18,062 million) and total performance related contingencies of $22,176 million (2017: $18,890 million) mature within 12 months.

OTHER CONTINGENT LIABILITIES

As at 30 September 2018, 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. In 2017, a new claim was added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

FRANCHISEE LITIGATION

In February 2018, two related class actions were brought against the Company. The primary action alleges that the Company breached contractual obligations and acted unconscionably when it lent to the applicant, and other 7-Eleven franchisees. The action seeks to set aside the loans to those franchisees and claims unspecified damages. The second action seeks to set aside related mortgages and guarantees given to the Company. The matters are at an early stage.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which ANZ engages with its regulators. 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 Company also instigates engagement with its regulators. The nature of these interactions 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 and product disclosure documentation. The Company has received various notices and requests for information from its regulators as part of both industry-wide and Company-specific reviews and has also made disclosures to its regulators at its own instigation. 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.

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The Commission has been asked to submit its final report by 1 February 2019 (an interim report was released on 28 September 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

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

WARRANTIES AND INDEMNITIES

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

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

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 Nework 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. COMPENSATION OF AUDITORS

	2018 $'000	2017 $'000
KPMG Australia		
Audit or review of financial reports	6,674	6,318
Audit-related services[1]	4,152	3,668
Non-audit services[2]	100	220
Total[3]	10,926	10,206
Overseas related practices of KPMG Australia		
Audit or review of financial reports	1,642	1,645
Audit-related services[1]	545	523
Non-audit services[2]	2	-
Total	2,189	2,168
Total compensation of auditors	13,115	12,374

1. Comprises prudential and regulatory services of $2.41 million (2017: $3.11 million), comfort letters $0.45 million (2017: $0.55 million) and other $1.84 million (2017: $0.53 million).
2. The nature of the non-audit services includes general market insights, controls related assessments and training.
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

There have been no significant events from 30 September 2018 to the date of signing this report.

DIRECTORS' 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 2018 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

30 October 2018

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 2018 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

30 October 2018

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).

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 Company's financial position as at 30 September 2018 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 2018;
- 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 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 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 and disclosures for the expected impact of AASB 9 *Financial Instruments* applicable on 1 October 2018;
- Valuation of Financial Instruments held at Fair Value;
- Provision for Customer Remediation; and
- IT Systems and Controls.

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

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

KEY AUDIT MATTERS (continued)

PROVISION FOR CREDIT IMPAIRMENT ($2,780M) AND DISCLOSURES FOR THE EXPECTED IMPACT OF AASB 9 *FINANCIAL INSTRUMENTS* APPLICABLE ON 1 OCTOBER 2018

Refer to the critical accounting estimates and judgements and disclosures in relation to credit impairment provisioning in Note 12, and to the disclosures in relation to accounting standards not yet early adopted for the expected impact of AASB 9 Financial Instruments in Note 1 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.

In preparation for adoption of AASB 9 Financial Instruments on 1 October 2018, the Company disclosed the expected impact of adoption. This added effort to our FY18 audit given the complexity of the accounting standard and its expected pervasive impact on the industry. We focused on the Company's disclosure of the expected impact of measuring expected credit losses (ECLs) on loans and advances and the significant judgement exercised by the Company. The Company's models to calculate ECLs are inherently complex and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Company in applying the accounting standard requirements to the models, including the selection and input of forward-looking information.

How the matter was addressed in our audit

Our audit procedures for the provision for credit impairment and disclosures for the expected impact of AASB 9 *Financial Instruments* applicable on 1 October 2018 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.

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.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

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.

AASB 9 Financial Instruments

We assessed the Company's disclosures for the expected impact of AASB 9 *Financial Instruments* which is applicable on 1 October 2018. Together with KPMG credit risk and economics specialists, our procedures included:

- Assessing the Company's significant accounting policies against the requirements of the accounting standard;
- Assessing the Company's ECL modelling methodology and for a sample of models testing key credit modelling assumptions incorporated in the ECL models against the requirements of the standard and underlying accounting records;
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information, and the application into the ECL models ;
- Testing data reconciliation controls between the ECL models and source systems;
- Testing the accuracy of the modelled calculations by re-performing the ECL calculations on a sample basis;
- Assessing the disclosures in the financial report against the requirements of Australian accounting standards.

VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:
- ASSETS HELD AT FAIR VALUE $158,696M
- LIABILITIES HELD AT FAIR VALUE $68,195M

Refer to the critical accounting estimates, 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, investments backing policy liabilities, certain 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 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 9% 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.

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;

KEY AUDIT MATTERS (continued)

- 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 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.

PROVISION FOR CUSTOMER REMEDIATION ($556M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 20 and 29 to the Financial Report.

The Key Audit Matter

The Company has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews.

The provision for customer remediation activities is a Key Audit Matter due to the judgements required by us in assessing the Company's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- The number of investigations and the quantum of amounts being paid arising from the present obligation;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs;
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Company's processes for identifying and assessing the potential impact of the investigations into customer remediation activities;
- Enquiring with the Company regarding ongoing legal, regulatory and investigation into other remediation activities;
- Reading the minutes and other relevant documentation of the Company's Board of Directors, Board Committees, various management committees, and attending the Company's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies and the Company's key submissions to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry;
- For a sample of individual customer remediation matters, assessing the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Company's documentation and the current regulatory environment. We also checked these features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- Assessing the appropriateness of the Company's conclusions against the requirements of Australian Accounting Standards where estimates were unable to be reliably made for a provision to be recognised;
- Evaluating the related disclosures against the requirements of Australian Accounting Standards.

IT SYSTEMS AND CONTROLS

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 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.

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
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Alison Kitchen
Partner
Melbourne
30 October 2018

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.

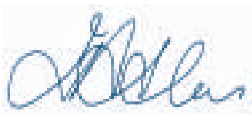
Changes to this year's Remuneration Report

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:

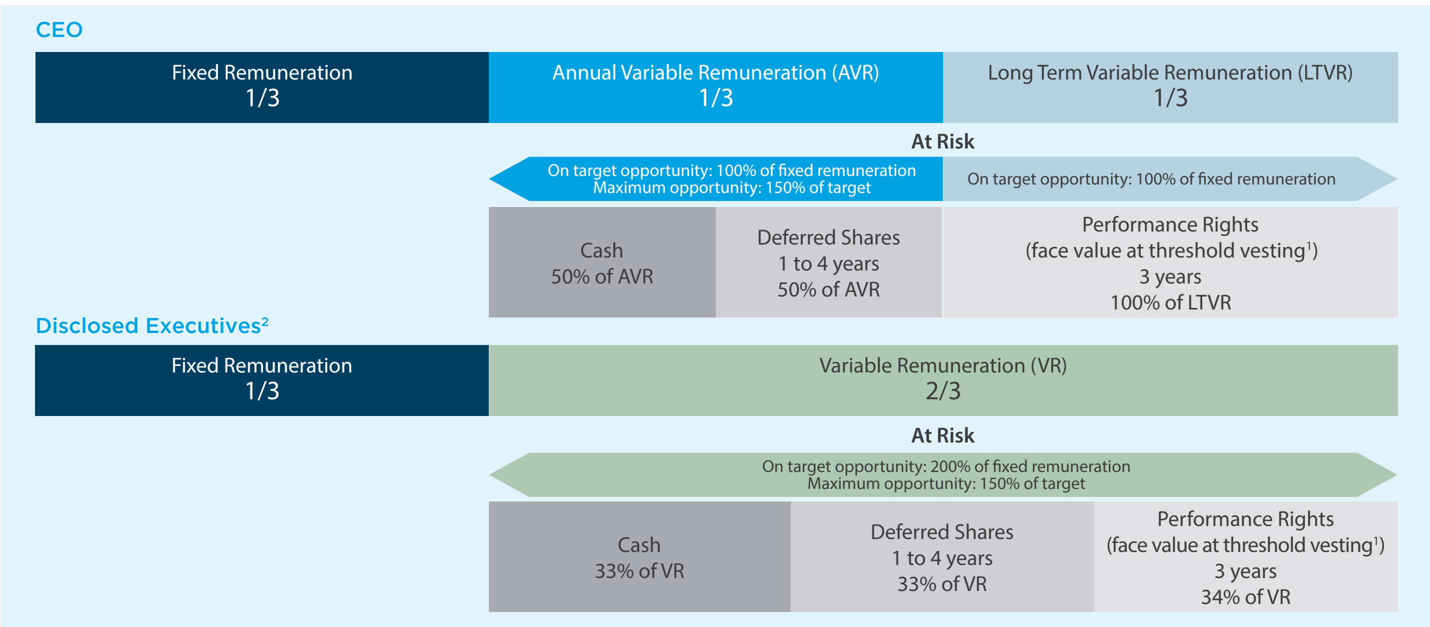
- **CEO** We reward the CEO on separate Annual Variable Remuneration (AVR) and Long Term Variable Remuneration (LTVR) frameworks, in accordance with his employment contract (as disclosed to the market at the time of his appointment) and this is also more consistent with external market practice. LTVR 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).

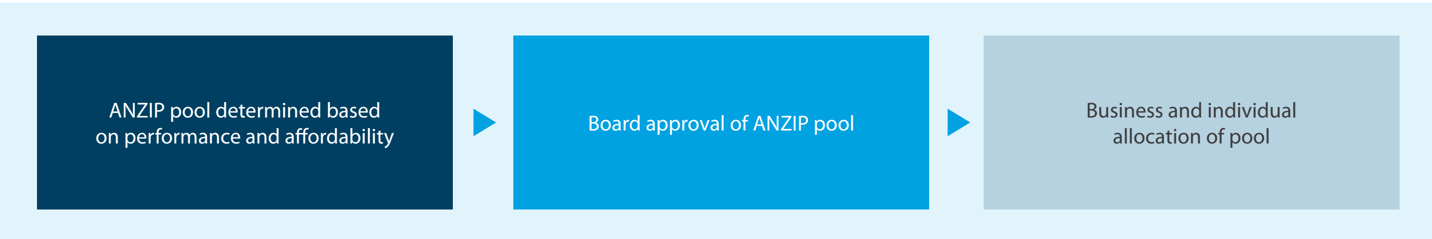
3.2 FIXED REMUNERATION

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)

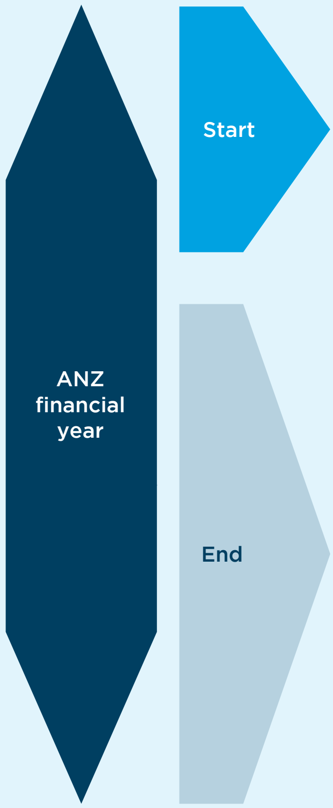
Determination of ANZIP Pool for Allocation

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

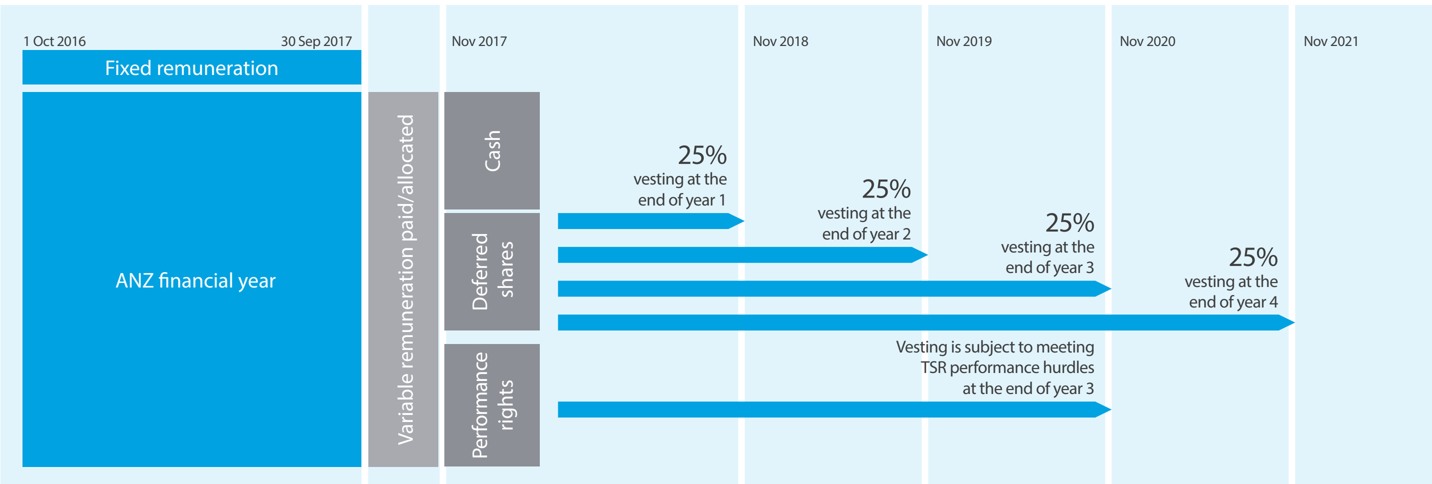
- The performance of the CEO and each Disclosed Executive is assessed against their objectives, ANZ's Values and ANZ's risk and compliance standards.
- The HR Committee seeks input from the CEO, CRO (on risk management), CFO (on financial performance) and Group General Manager Internal Audit (on internal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

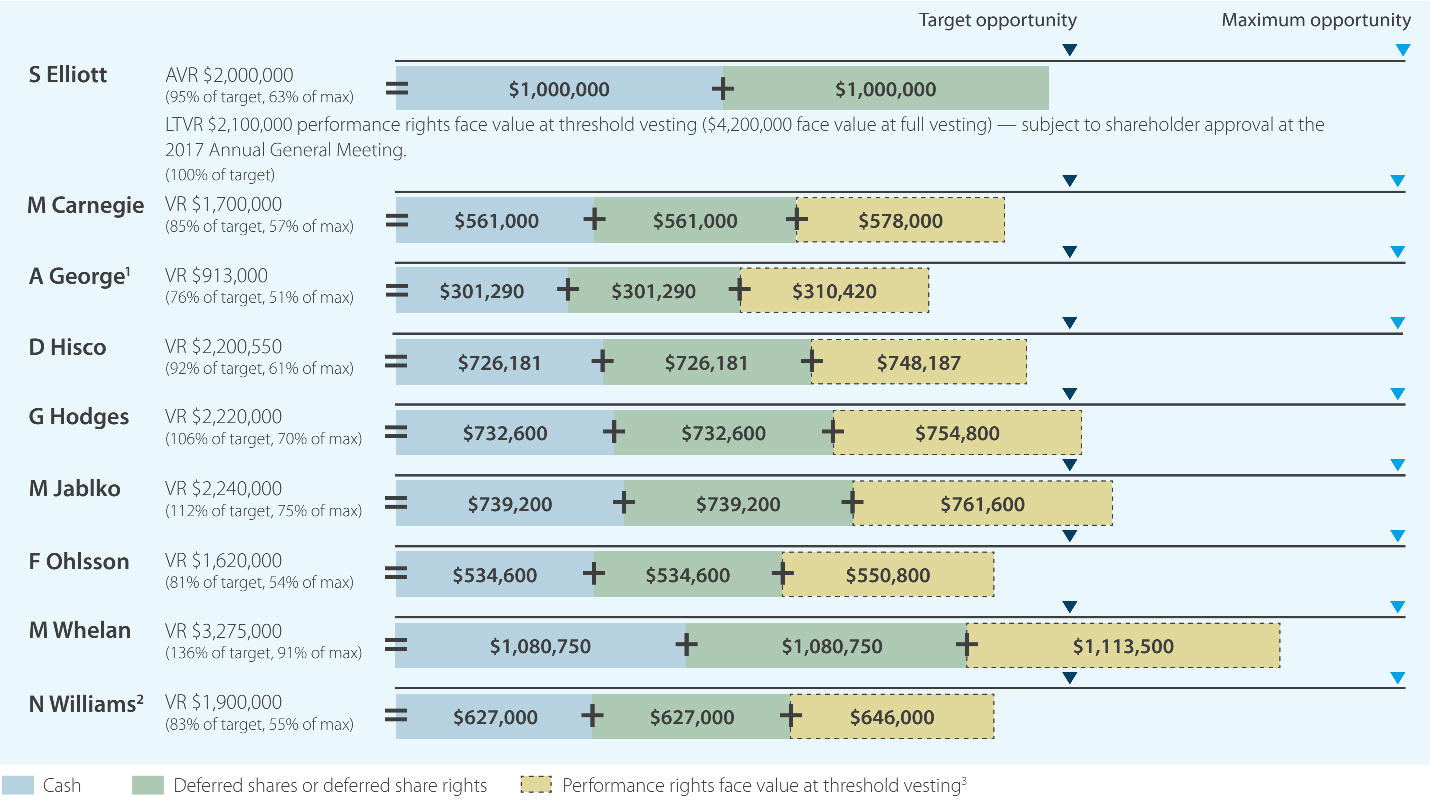
5. 2017 OUTCOMES (continued)

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.

ANZ Centre foyer

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	Shayne Elliott
Chairman	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.

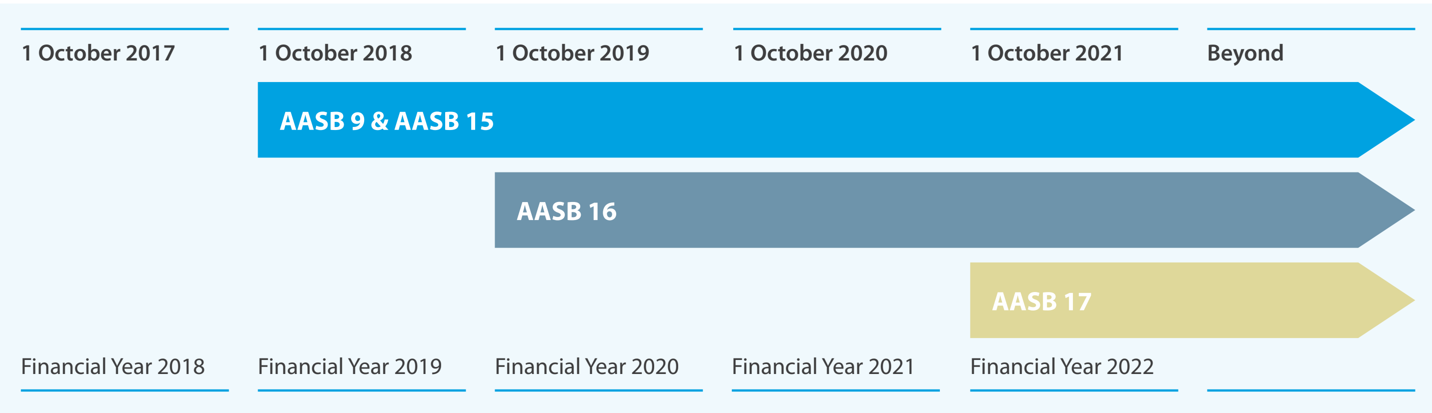
AASB 17 *Insurance Contracts* (AASB 17)

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	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	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.

Item	Related segment	Profit after tax 2017 $m	Profit after tax 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

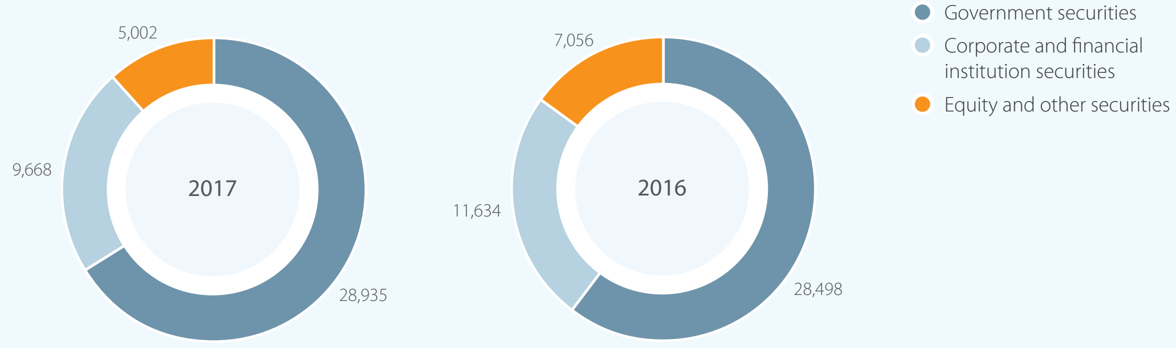
8. CASH AND CASH EQUIVALENTS

	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

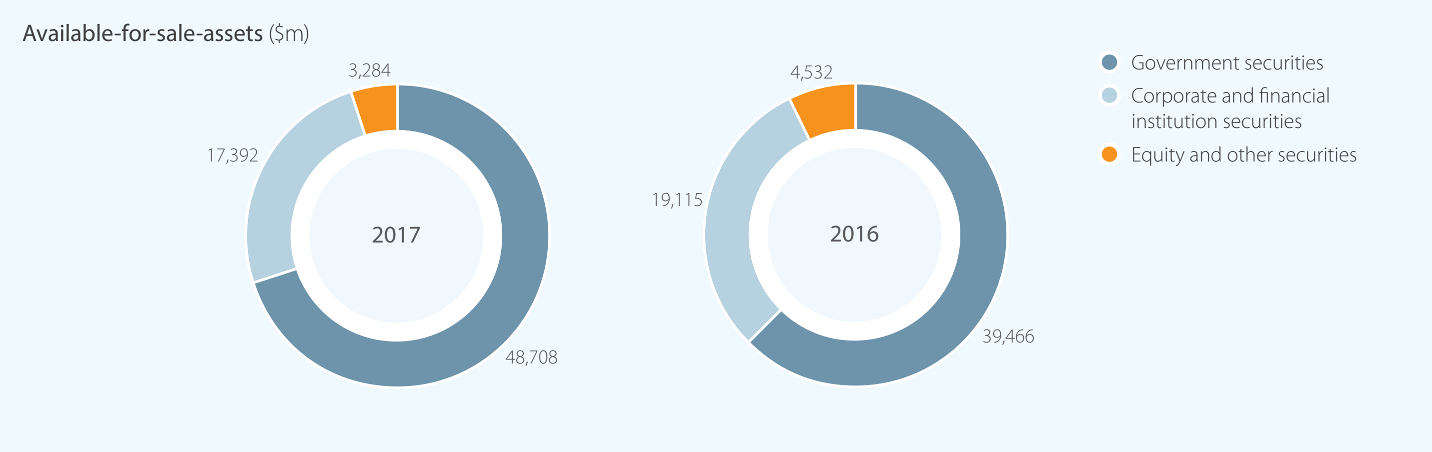
RECOGNITION AND MEASUREMENT

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



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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

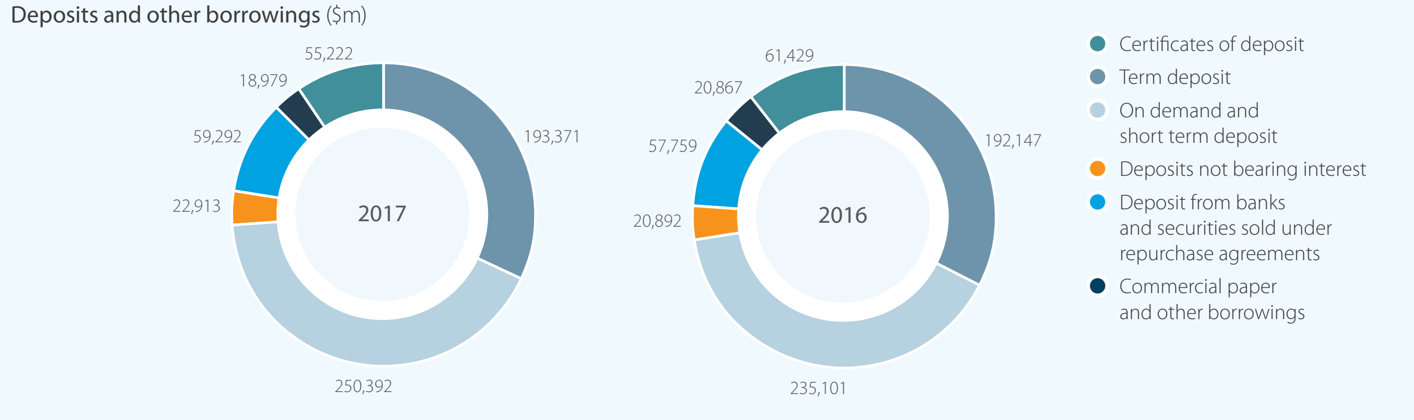
When we measure impairment of loans and advances, we use management's judgement of the extent of losses at reporting date.

	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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	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:

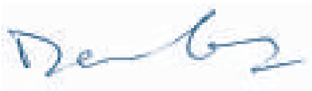
a) in the Directors' opinion, the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the Corporations Regulations 2001; and
   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

shareholder.anz.com

ANZ

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.

FINANCIAL STATEMENTS (continued)

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.

FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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)

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)

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.

	Fair value details refer 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		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	2016	2017	2016	2017	2016	2017	2016
	$m	$m	$m	$m	$m	$m	$m	$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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $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:

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						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