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.

FINANCIAL STATEMENTS (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2017 $m	2016 $m
Profit for the year	6,234	5,687
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	2	(98)
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve:		
Exchange differences taken to equity	(57)	(476)
Exchange differences transferred to Income Statement	-	(126)
Other reserve movements	(272)	(31)
Income tax attributable to the above items	8	33
Share of associates' other comprehensive income[1]	-	13
Other comprehensive income net of tax	(319)	(685)
Total comprehensive income for the year	5,915	5,002

[1] Share of associates' other comprehensive income includes an available-for-sale revaluation reserve gain of $nil million (2016: $13 million) that may be reclassified subsequently to profit or loss.

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2017 $m	2016 $m
Assets			
Cash and cash equivalents	7	63,399	61,994
Settlement balances owed to ANZ		5,006	3,983
Collateral paid		7,685	10,878
Trading securities	8	35,606	35,059
Derivative financial instruments	9	57,036	75,872
Available-for-sale assets	10	58,506	55,721
Net loans and advances	11	452,424	446,531
Regulatory deposits		495	671
Assets held for sale	25	1,748	-
Due from controlled entities		91,208	106,797
Shares in controlled entities	22	18,084	18,117
Investments in associates	23	20	1,974
Current tax assets		23	116
Deferred tax assets		932	887
Goodwill and other intangible assets	19	1,852	2,214
Premises and equipment		928	967
Other assets		2,427	2,181
Total assets		797,379	823,962
Liabilities			
Settlement balances owed by ANZ		8,219	9,079
Collateral received		5,238	5,882
Deposits and other borrowings	13	494,235	479,963
Derivative financial instruments	9	56,830	76,243
Due to controlled entities		88,882	103,416
Current tax liabilities		94	62
Deferred tax liabilities		71	78
Payables and other liabilities		5,683	5,566
Employee entitlements		394	397
Other provisions		390	435
Debt issuances	14	85,495	92,582
Total liabilities		745,531	773,703
Net assets		51,848	50,259
Shareholders' equity			
Ordinary share capital	20	29,416	29,162
Reserves	20	36	344
Retained earnings	20	22,396	20,753
Total shareholders' equity		51,848	50,259

The notes appearing on pages 8 to 68 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 30 September	2017 $m	2016 $m
Profit after income tax	6,234	5,687
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Provision for credit impairment	881	1,539
Depreciation and amortisation	775	1,177
Loss on sale of premises and equipment	-	12
Net derivatives/foreign exchange adjustment	(2,099)	(1,420)
Profit on Esanda Dealer Finance divestment	-	(66)
Reclassification of Shanghai Rural Commercial Bank to held for sale	231	-
Sale of Asia Retail and Wealth businesses	248	-
Other non-cash movements	(114)	(214)
Net(increase)/decrease in operating assets:		
Collateral paid	3,045	(3,157)
Trading securities	(1,696)	203
Net loans and advances	(13,772)	(9,503)
Net intra-group loans and advances	1,111	2,053
Other assets	(270)	(779)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	29,131	14,708
Settlement balances owed by ANZ	(837)	(794)
Collateral received	(505)	(554)
Other liabilities	657	690
Total adjustments	16,786	3,895
Net cash provided by operating activities[1]	23,020	9,582
Cash flows from investing activities		
Available-for-sale assets:		
Purchases	(15,151)	(26,035)
Proceeds from sale or maturity	11,512	8,771
Esanda Dealer Finance divestment	-	6,682
Sale of Asia Retail and Wealth businesses	(5,472)	-
Other assets	(353)	(531)
Net cash (used in) investing activities	(9,464)	(11,113)
Cash flows from financing activities		
Debt issuances:		
Issue proceeds	16,210	28,506
Redemptions	(21,462)	(24,289)
Dividends paid	(4,235)	(4,589)
Share buy-back	(176)	-
Net cash (used in) financing activities	(9,663)	(372)
Net increase/(decrease) in cash and cash equivalents	3,893	(1,903)
Cash and cash equivalents at beginning of year	61,994	64,836
Effects of exchange rate changes on cash and cash equivalents	(2,488)	(939)
Cash and cash equivalents at end of year	63,399	61,994

1. Net cash provided by operating activities includes income taxes paid of $2,155 million (2016: $2,104 million).

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves[1] $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 2015	28,611	939	20,138	49,688
Profit or loss	-	-	5,687	5,687
Other comprehensive income for the year		(606)	(79)	(685)
Total comprehensive income for the year	-	(606)	5,608	5,002
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(5,001)	(5,001)
Dividend reinvestment plan	413	-	-	413
Other equity movements:				
Share-based payments/(exercises)	-	19	-	19
Group employee share acquisition scheme	138	-	-	138
Transfer of options/rights lapsed	-	(8)	8	-
As at 30 September 2016	29,162	344	20,753	50,259
Profit or loss	-	-	6,234	6,234
Other comprehensive income for the year	-	(316)	(3)	(319)
Total comprehensive income for the year	-	(316)	6,231	5,915
Transactions with equity holders in their capacity as equity holders:				-
Dividends paid	-	-	(4,609)	(4,609)
Dividend reinvestment plan	374	-	-	374
Group share buy-back[2]	(176)	-	-	(176)
Other equity movements:				-
Group employee share acquisition scheme	56	-	-	56
Other items	-	8	21	29
As at 30 September 2017	29,416	36	22,396	51,848

1. Further information on individual reserves is disclosed in Note 20 Shareholders' Equity to the financial statements.
2. Following the issue of $176 million shares under the Dividend Reinvestment Plan for the 2017 interim dividend, the Company repurchased $176 million of shares via an on-market share buy-back.

The notes appearing on pages 8 to 68 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT THE FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company or ANZ) for the year ended 30 September 2017. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 2 November 2017, the Directors resolved to authorise the issue of these financial statements.

In the prior financial years, disclosures pertaining to the Company were presented in the consolidated financial statements of the Group as part of the Annual Report. In 2017 we have made the following changes:

- presenting these financial statements separately from the consolidated financial statements of the Group;
- re-organising disclosures into common themes that are aligned with how we manage our business;
- relocating information about the Company's recognition and measurement policies and key judgements and estimates to be disclosed within the relevant notes to the financial statements;
- removing certain immaterial disclosures; and
- aggregating prior year numbers in certain disclosures.

All material information relevant to the understanding of users is included in these financial statements.

This section of the financial statements:

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

BASIS OF PREPARATION

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

The Company is a reporting entity under the Corporations Act 2001, and is not exempt from preparing consolidated financial statements. The financial statements for the Company have been prepared for the purpose of the Company fulfilling its financial reporting obligations under part 7.8 of the Corporations Act 2001, as required for Australian Financial Services Licensees.

The consolidated financial statements of the Group can be found as part of the 2017 Annual Report at https//shareholder.anz.com/annual-report-shareholder-review and copies are available from the Company's registered office and principal place of business.

We present these financial statements in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors Report) Instrument 2016/191.

BASIS OF MEASUREMENT

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

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

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

1. ABOUT THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars, being the functional currency, at the relevant spot rate. Any foreign currency translation gains or losses are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity.

KEY JUDGEMENTS AND ESTIMATES

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

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2017, and have not been applied by the Company in preparing these financial statements.

We have identified four standards where this applies to the Company and further details are set out below.

AASB 9 *Financial Instruments* (AASB 9)

AASB 9 was issued in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) and includes requirements for impairment, classification and measurement and general hedge accounting.

Impairment

AASB 9 replaces the incurred loss model under AASB 139 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees. Under AASB 9, a three-stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under AASB 9 are largely consistent with AASB 139 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Company from 1 October 2013.

General hedge accounting

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

1. ABOUT THE FINANCIAL STATEMENTS (continued)

Transition and impact

Other than noted above under c*lassification and measurement*, AASB 9 has a date of initial application for the Company of 1 October 2018.

The classification and measurement, and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives.

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

The Company is in the process of the assessing the impact of application of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 15 *Revenue from Contracts with Customers* (AASB 15)
AASB 15 was issued in December 2014 and is not effective for the Company until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue.

The standard requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

Although a significant proportion of the Company's revenue is outside the scope of AASB 15, certain revenue streams are in the scope of the standard. The Company is in the process of assessing the impact of the application of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Company has not yet determined which transition approach it will adopt.

AASB 16 *Leases* (AASB 16)
The final version of AASB 16 was issued in February 2016 and is not effective for the Company until 1 October 2019. AASB 16 requires a lessee to recognise its:

- right to use the underlying leased asset, as a right-of-use asset; and
- obligation to make lease payments as a lease liability.

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

The Company is in the process of the assessing the impact of application of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 17 Insurance Contracts (AASB 17)
The final version of AASB 17 was issued in July 2017 and is not effective for the Company until 1 October 2021. It will replace AASB 4, *Insurance Contracts*, AASB 1023, *General Insurance Contracts,* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

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

The Company is not yet able to reasonably estimate the impact of AASB 17 on its financial statements.

2. OPERATING INCOME

	2017 $m	2016 $m
Net interest income		
Interest income by type of financial asset		
Financial assets not at fair value through profit or loss	20,546	21,102
Trading securities	739	851
Available-for-sale assets	985	842
Financial assets designated at fair value through profit or loss	-	3
Interest income - external	22,270	22,798
Interest income - controlled entities	3,343	3,589
Interest income	25,613	26,387
Interest income by type of financial liability		
Financial liabilities not classified at fair value through profit or loss	(10,961)	(11,339)
Securities sold short	(111)	(146)
Financial liabilities designated at fair value through profit or loss	(78)	(100)
Interest expense - external	(11,150)	(11,585)
Interest expense - controlled entities	(3,781)	(4,037)
Major bank levy	(86)	-
Interest expense	(15,017)	(15,622)
Net interest income	10,596	10,765
Other operating income		
i) Fee and commission income		
Lending fees[1]	652	670
Non-lending fees and commissions[2]	2,211	2,125
Fee and commission income - external	2,863	2,795
Fee and commission income - controlled entities	1,197	1,252
Fee and commission income	4,060	4,047
Fee and commission expense	(1,019)	(936)
Net fee and commission income	3,041	3,111
ii) Other income		
Net foreign exchange earnings and other financial instruments income	852	671
Dividends received from controlled entities	2,299	2,010
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	-	29
Gain on the Esanda Dealer Finance divestment	-	66
Derivative Credit Valuation Adjustment (CVA) methodology change	-	(196)
Derivative valuation adjustments	201	(51)
Loss on sale of Asia Retail and Wealth businesses	(219)	-
Reclassification of Shanghai Rural Commercial Bank to held for sale	(231)	-
Other	44	37
Other income	2,946	2,566
Other operating income[3]	5,987	5,677
Net funds management and insurance income		
Funds management income	74	75
Insurance premium income	43	48
Commission income	41	75
Net funds management and insurance income	158	198
Share of associates' profit	60	347
Operating income	16,801	16,987

1. Lending fees excludes fees treated as part of the effective yield calculation in interest income.
2. In 2017, a change was made to the classification of certain fees payable. These items have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).
3. Total other operating income includes external dividend income from BoT of $26.4 million (2016: $26.3 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

Net Interest Income

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, available-for-sale assets or designated at fair value, in profit or loss using the effective interest rate method. This method uses the effective interest rate of a financial asset or financial liability to calculate its amortised cost.

The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

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

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major Bank Levy') was introduced in 2017 and is effective from 1 July 2017. The Levy applies a rate of 0.06% to certain liabilities of the Company. The Company has determined that the levy represents a finance cost for the Company and is included as a component of net interest income. This is presented within interest expense in the Income Statement.

Other Operating Income

Fee and Commission Income

We recognise fees or commissions:

- that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) when the significant act has been completed; and
- charged for providing ongoing services (for example, maintaining and administering existing facilities) as income over the period the service is provided.

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

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

Dividends Received from Controlled Entities

Dividends are recognised as revenue when the right to receive payment is established.

Gain or Loss on Disposal of Non-Financial Assets

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

Net Funds Management and Insurance Income

Funds Management Income

We recognise the fees we charge to policyholders in connection with life insurance and life investment contracts when we have provided the service.

Insurance Premium Income

We recognise:

- premiums with a regular due date as income on an accruals basis;
- unpaid premiums as income and include them as receivables in the balance sheet only during the grace periods in the contract, or for longer only where secured by the surrender value of the policy; and
- premiums with no due date (such as one off premiums) in income when the premiums are received.

We show these insurance premiums net of any reinsurance premium, which we account for on the same basis as the underlying direct insurance premium.

Share of Associates' Profit

The equity method is applied to accounting for associates in the financial statements. Under the equity method the Company's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

3. OPERATING EXPENSES

	2017 $m	2016 $m
i) Personnel		
Salaries and related costs	3,288	3,580
Superannuation costs	266	279
Other	227	236
Personnel expenses	3,781	4,095
ii) Premises		
Rent	409	387
Other	275	301
Premises expenses	684	688
iii) Technology		
Depreciation and amortisation	662	1,041
Licences and outsourced services[1]	413	417
Other	216	253
Technology expenses	1,291	1,711
iv) Restructuring	55	249
v) Other		
Advertising and public relations	192	199
Professional fees	397	364
Freight, stationery, postage and telephone	204	211
Other	1,019	840
Other expenses	1,812	1,614
Operating expenses	7,623	8,357

1. In 2017, certain fees payable have been reclassified from other operating income to operating expenses to more accurately reflect the nature of these items. Comparatives have been restated accordingly (2016: $17 million).

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

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

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

Further information on share-based payment schemes operated by the Company during the current and prior year is included in Note 27 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in the profit or loss:

	2017 $m	2016 $m
Profit before income tax	8,297	7,091
Prima facie income tax expense at 30%	2,489	2,127
Tax effect of permanent differences:		
Share of associates' profit	(18)	(104)
Reclassification of SRCB to held for sale	172	-
Tax provisions no longer required	-	(73)
Interest on convertible instruments	69	70
Overseas tax differential	27	10
Rebatable and non-assessable dividends	(690)	(603)
Gain on cessation of equity accounting for BoT	-	(9)
Other	32	3
Subtotal	2,081	1,421
Income tax over provided in previous years	(18)	(17)
Income tax expense	2,063	1,404
Current tax expense	1,997	1,630
Adjustments recognised in the current year in relation to the current tax of prior years	(18)	(17)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	84	(209)
Income tax expense	2,063	1,404
Australia	1,975	1,332
Overseas	88	72
Income tax expense	2,063	1,404
Effective tax rate	24.9%	19.8%

TAX CONSOLIDATION

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

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

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

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $nil million (2016: $nil million). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $38 million (2016: $67 million).

4. INCOME TAX (continued)

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

We offset current and deferred tax assets and liabilities only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2016			
2015 final dividend paid		95.0 cents	2,758
2016 interim dividend paid		80.0 cents	2,334
Bonus option plan adjustment			(91)
Dividends paid during the year ended 30 September 2016			**5,001**
Cash	91.7%		4,588
Dividend reinvestment plan	8.3%		413
Dividends paid during the year ended 30 September 2016			**5,001**
Financial Year 2017			
2016 final dividend paid		80.0 cents	2,342
2017 interim dividend paid		80.0 cents	2,349
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2017			**4,609**
Cash	91.9%		4,235
Dividend reinvestment plan	8.1%		374
Dividends paid during the year ended 30 September 2017			**4,609**

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2017 final dividend (fully franked at 30%, New Zealand imputation credits NZD 10 cents per share)	**18 December 2017**	**80.0 cents**	**2,350**

5. DIVIDENDS (continued)

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2017 final dividend, DRP participation will be satisfied by an on-market purchase of shares (as approved by APRA) and BOP participation will be satisfied by an issue of ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 20 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2017 $m	2016 $m
Australian franking credits available at 30% (2016: 30%) tax rate	AUD	171	118
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	3,680	3,494

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

The final proposed 2017 dividend will utilise the entire balance of $171 million franking credits available at 30 September 2017. Instalment tax payments on account of the 2018 financial year which will be made after 30 September 2017 will generate sufficient franking credits to enable the final 2017 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Company that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends:

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

The terms of the ANZ Convertible Preference Shares limit payments of dividends on those securities if as a result of the payment the Company becomes, or is likely to become, insolvent or breaches specified capital ratios or if APRA objects to the payment.

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

6. SEGMENT REPORTING

No operating segment disclosures have been presented in these Company financial statements. Disaggregated information for the Company's segments is not information which is regularly provided to the Chief Executive Officer, who is the Chief Operating Decision Maker (CODM) of the Company.

Full details of the operating segments of the Group are provided in Note 7 Segment Reporting in the ANZ 2017 Annual Report located at https://shareholder.anz.com/annual-report-shareholder-review.

7. CASH AND CASH EQUIVALENTS

	2017 $m	2016 $m
Coins, notes and cash at bank	1,096	1,008
Securities purchased under agreements to resell in less than 3 months	20,818	20,950
Balances with central banks	22,389	24,114
Settlement balances owed to ANZ within 3 months	19,096	15,922
Cash and cash equivalents	63,399	61,994

8. TRADING SECURITIES

	2017 $m	2016 $m
Government securities	25,647	22,557
Corporate and financial institution securities	5,060	5,502
Equity and other securities	4,899	7,000
Trading securities	35,606	35,059

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

- initially, we measure them at fair value through the profit and loss; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Derivative financial instruments - held for trading	55,261	(54,937)	72,446	(73,139)
Derivative financial instruments - designated in hedging relationships	1,775	(1,893)	3,426	(3,104)
Derivative financial instruments	57,036	(56,830)	75,872	(76,243)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

The Company's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risk in the Company's positions that are not part of a designated hedge accounting relationship. • Undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • Hedges of the Company's exposures to interest rate risk, currency risk and credit risk. • Hedges of other exposures relating to non-trading positions.

TYPES

The Company offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal obligation at a future date.
Futures	An exchange traded contract in which the parties agree to buy and sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which one party exchanges one series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell, or to buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair Value	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Interest rate contracts				
Forward rate agreements	2	(1)	13	(14)
Futures contracts	97	(34)	25	(64)
Swap agreements	27,584	(27,720)	46,665	(45,454)
Options purchased	742	-	1,095	-
Options sold	-	(1,365)	-	(2,077)
Total	28,425	(29,120)	47,798	(47,609)
Foreign exchange contracts				
Spot and forward contracts	14,132	(13,731)	10,410	(9,936)
Swap agreements	10,070	(10,073)	10,916	(13,251)
Options purchased	475	-	854	-
Options sold	-	(439)	-	(748)
Total	24,677	(24,243)	22,180	(23,935)
Commodity contracts	1,991	(1,398)	2,291	(1,393)
Credit default swaps				
Structured credit derivative purchased	52	-	40	-
Other credit derivatives purchased	13	(110)	117	(125)
Credit derivatives purchased	65	(110)	157	(125)
Structured credit derivatives sold	-	(58)	-	(50)
Other credit derivatives sold	103	(8)	20	(27)
Credit derivatives sold	103	(66)	20	(77)
Total	168	(176)	177	(202)
Derivative financial instruments - held for trading	**55,261**	**(54,937)**	72,446	(73,139)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

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

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

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

Fair Value	Hedge accounting type	Assets 2017 $m	Liabilities 2017 $m	Assets 2016 $m	Liabilities 2016 $m
Foreign exchange swap agreements	Fair value	1	-	2	-
Interest rate swap agreements	Fair value	1,287	(1,555)	2,522	(2,464)
Interest rate futures contracts	Fair value	80	-	5	(12)
Interest rate swap agreements	Cash flow	361	(278)	897	(625)
Foreign exchange swap agreements	Cash flow	35	(49)	-	-
Foreign exchange spot and forward contracts	Cash flow	-	(5)		
Foreign exchange spot and forward contracts	Net investment	11	(6)	-	(3)
Derivative financial instruments - designated in hedging relationships		1,775	(1,893)	3,426	(3,104)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, is as follows:

	Hedge accounting type	2017 $m	2016 $m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	(43)	463
Hedging instrument	Fair value	38	(424)
Ineffective portion of hedged instrument	Cash flow	(20)	5

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a derivative CVA to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Company's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is trading or is designated into a hedging relationship.
Trading	We recognise gains or losses from the change in the fair value of trading securities in profit or loss as other operating income in the period in which they occur. Contracted interest payments are included in interest income and expense.
Hedging	For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 20 for profit or loss treatment depending on the hedge type.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Company monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

10. AVAILABLE-FOR-SALE ASSETS

AVAILABLE-FOR-SALE ASSETS BY SECURITY TYPE AND CONTRACTUAL MATURITY AT 30 SEPTEMBER

	2017				2016			
Period / Security type	Government securities $m	Corporate and Financial institution securities $m	Equity and other securities $m	Total $m	Government securities $m	Corporate and Financial institution securities $m	Equity and other securities $m	Total $m
Less than 3 months	5,424	768	-	6,192	2,487	372	-	2,859
Between 3 and 12 months	4,168	2,163	-	6,331	1,021	2,539	-	3,560
Between 1 and 5 years	15,656	10,726	403	26,785	8,197	12,757	566	21,520
Greater than 5 years	16,079	260	2,134	18,473	23,124	867	2,960	26,951
No maturity	-	-	725	725	-	-	831	831
Available-for-sale assets	41,327	13,917	3,262	58,506	34,829	16,535	4,357	55,721

During the year, a net gain (before tax) in respect of available-for-sale (AFS) assets of $15 million (2016: $4 million) was recognised in other operating income.

The carrying value of AFS equity securities is $725 million (2016: $831 million). This includes the Company's $676 million (2016: $795 million) investment in the Bank of Tianjin (BoT) that ceased being classified as an associate in March 2016.

RECOGNITION AND MEASUREMENT

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain, or loss, from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of AFS assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

11. NET LOANS AND ADVANCES

	2017 $m	2016 $m
Overdrafts	6,155	6,805
Credit cards	8,639	9,340
Commercial bills	10,983	12,397
Term loans – housing	268,416	256,004
Term loans – non-housing	159,013	162,577
Other	1,578	1,779
Subtotal	454,784	448,902
Unearned income	(149)	(261)
Capitalised brokerage/mortgage origination fees	751	697
Customer liability for acceptances[1]	-	321
Gross loans and advances	455,386	449,659
Provision for credit impairment (refer to Note 12)	(2,962)	(3,128)
Net loans and advances	452,424	446,531
Residual contractual maturity:		
Within one year	67,609	64,623
After more than one year	384,815	381,908
Net loans and advances	452,424	446,531
Carried on Balance Sheet at:		
Amortised cost	452,408	446,479
Fair value through profit or loss (designated on initial recognition)	16	37
Fair value through profit or loss (held for trading)	-	15
Net loans and advances	452,424	446,531

1. Customer liability for acceptances has been recognised in other assets from 30 September 2017.

RECOGNITION AND MEASUREMENT

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

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees. These costs are amortised over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

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

The Company enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Company retains substantially all of the risks and rewards of the transferred assets then the transferred assets remain on the Company's balance sheet, however, if substantially all the risks and rewards are transferred then the Company derecognises the asset.

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

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

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT - BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Individual provision						
Balance at start of year	942	740	15	19	957	759
New and increased provisions	1,467	1,958	1	-	1,468	1,958
Write-backs	(348)	(200)	-	-	(348)	(200)
Bad debts written off (excluding recoveries)	(1,138)	(1,416)	-	-	(1,138)	(1,416)
Other[1]	(36)	(140)	-	(4)	(36)	(144)
Total individual provision	887	942	16	15	903	957
Collective provision						
Balance at start of year	1,678	1,765	493	557	2,171	2,322
Charge/(release) to profit or loss	(24)	5	(42)	(48)	(66)	(43)
Other[2]	(29)	(92)	(17)	(16)	(46)	(108)
Total collective provision	1,625	1,678	434	493	2,059	2,171
Total provision for credit impairment	2,512	2,620	450	508	2,962	3,128

1. Other individual provision includes the Esanda Dealer Finance divestment, an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the Esanda Dealer Finance divestment, Asia Retail and Wealth business divestment and an adjustment for exchange rate fluctuations.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge	2017 $m	2016 $m
New and increased provisions	1,468	1,958
Write-backs	(348)	(200)
Recoveries of amounts previously written-off	(173)	(176)
Individual credit impairment charge	947	1,582
Collective credit impairment charge/(release)	(66)	(43)
Total credit impairment charge	881	1,539

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

The Company recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred) and we can reliably measure the impairment.	We estimate the provision on the basis of historical loss experience for assets with credit risk characteristics similar to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

KEY JUDGEMENTS AND ESTIMATES

When we measure impairment of loans and advances, we use management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• Estimated future cash flows • Business prospects for the customer • Realisable value of any collateral • Company's position relative to other claimants • Reliability of customer information • Likely cost and duration of recovering loans	• Estimated future cash flows • Historical loss experience of assets with similar risk characteristics • Impact of large concentrated losses inherent in the portfolio • Assessment of the economic cycle

We regularly review our key judgements and update them to reflect actual loss experience.

13. DEPOSITS AND OTHER BORROWINGS

The table below shows our total deposits and other borrowings by type:

	2017 $m	2016 $m
Certificates of deposit	53,597	59,626
Term deposits	146,445	147,754
On demand and short term deposits	209,260	190,621
Deposits not bearing interest	12,389	11,095
Deposits from banks and securities sold under repurchase agreements	57,945	56,631
Commercial paper	14,599	14,236
Deposits and other borrowings	494,235	479,963
Residual contractual maturity:		
- to be settled within 1 year	479,809	462,870
- to be settled after 1 year	14,426	17,093
Deposits and other borrowings	494,235	479,963
Carried on Balance Sheet at:		
Amortised cost	494,162	479,885
Fair value through profit or loss (designated on initial recognition)	73	78
Deposits and other borrowings	494,235	479,963

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

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

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

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

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

14. DEBT ISSUANCES

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

	2017 $m	2016 $m
Senior debt	54,046	56,766
Covered bonds	14,959	15,109
Total unsubordinated debt	69,005	71,875
Subordinated debt		
- Additional Tier 1 capital	7,995	9,020
- Tier 2 capital	8,495	11,687
Total subordinated debt	16,490	20,707
Total debt issued	85,495	92,582

14. DEBT ISSUANCES (continued)

TOTAL DEBT ISSUED BY CURRENCY

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

		2017 $m	2016 $m
USD	United States dollars	37,503	37,894
EUR	Euro	16,364	18,000
AUD	Australian dollars	21,609	24,055
NZD	New Zealand dollars	1,570	1,773
JPY	Japanese yen	3,199	4,043
CHF	Swiss francs	710	749
GBP	Pounds Sterling	854	1,744
HKD	Hong Kong dollars	1,136	1,188
Other	Chinese yuan, Norwegian kroner, Turkish lira, Singapore dollars, Canadian dollars, Mexican peso and South African rand	2,550	3,136
Total debt issued		85,495	92,582
Residual contractual maturity:			
	- to be settled within 1 year	10,493	18,798
	- to be settled after 1 year	73,414	72,061
	- no maturity date (instruments in perpetuity)	1,588	1,723
Total debt issued		85,495	92,582

SUBORDINATED DEBT

Subordinated debt qualifies as regulatory capital for the Company and is classified as either Additional Tier 1 (AT1) capital or Tier 2 capital for APRA's capital adequacy purposes depending on their terms and conditions:

- AT1 capital - perpetual capital instruments such as:
  - ANZ Convertible Preference Shares (ANZ CPS);
  - ANZ Capital Notes (ANZ CN);
  - ANZ Capital Securities (ANZ CS).
- Tier 2 capital - all other perpetual or term subordinated notes.

AT1 CAPITAL

All outstanding AT1 capital instruments (other than CPS3) are Basel III fully compliant instruments (refer to Note 21 Capital Management for further information about Basel III). For CPS3, APRA has granted the Company transitional Basel III capital treatment until 1 September 2019. CPS3, and notes issued under the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on CPS3 and ANZ CN are franked in line with the franking applied to ANZ ordinary shares.

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

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

- The Company and its consolidated subsidiaries Common Equity Tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable – known as a Non-Viability Trigger Event.

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

- on a specified date; or
- on an earlier date under certain circumstances.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

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.

	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.

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 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	4.3	10.0	2.6	5.1	4.4	11.4	2.5	5.3
Interest rate	5.6	18.9	4.7	7.2	4.7	17.6	3.9	8.3
Credit	4.1	5.1	1.6	3.2	3.0	4.0	2.0	2.9
Commodity	2.2	3.8	1.4	2.1	2.5	2.8	1.1	1.7
Equity	-	0.5	-	0.2	0.5	2.0	0.1	0.2
Diversification benefit[1]	(6.1)	n/a	n/a	(7.6)	(6.3)	n/a	n/a	(6.2)
Total VaR	10.1	20.8	6.3	10.2	8.8	23.2	5.7	12.2

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

NON-TRADED MARKET RISK

Balance sheet risk management

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

Interest rate risk management

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

	30 September 2017				30 September 2016			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	31.6	37.5	25.9	31.3	38.4	40.6	28.0	33.7
New Zealand	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.1
APEA	13.7	18.6	13.5	15.3	14.6	16.8	14.0	15.3
Diversification benefit[1]	(13.3)	n/a	n/a	(9.3)	(9.2)	n/a	n/a	(13.2)
Total VaR	32.0	43.7	31.3	37.4	43.9	43.9	29.4	35.9

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

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2017	2016
Impact of 1% rate shock		
As at period end	0.14%	0.85%
Maximum exposure	1.20%	0.91%
Minimum exposure	0.13%	0.01%
Average exposure (in absolute terms)	0.53%	0.40%

Equity Securities Classified as Available-for-Sale

Our available-for-sale financial assets contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Company's VaR processes for traded and non-traded market risks. Therefore, the Company regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are impaired based on the recognition and measurement policies set out in Note 10 Available-for-sale Assets.

Foreign Currency Risk – Structural Exposures

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

Where it is considered appropriate, the Company takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US dollar and US dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates. During the current and prior years, we had selective hedges in place. Further detail on the Company's hedging relationships is disclosed in Note 9 Derivative Financial Instruments.

LIQUIDITY AND FUNDING RISK

Liquidity Risk and Funding Position

For information related to the liquidity risk and funding position refer to the 2017 ANZ Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE COMPANY'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Company may be required to pay. All at-call liabilities are reported in the "Less than 3 month" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. It should be noted that this is not how the Company manages its liquidity risk. The management of this risk is detailed in the 2017 ANZ Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

2017	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	8,219	-	-	-	8,219
Collateral received	5,238	-	-	-	5,238
Deposits and other borrowings	410,672	70,910	14,819	145	496,546
Liability for acceptances	312	-	-	-	312
Debt issuances[1,2]	3,030	12,242	59,673	20,751	95,696
Derivative liabilities (trading)[3]	48,561	-	-	-	48,561
Derivative assets and liabilities (balance sheet management)					
- funding					
Receive leg	(12,433)	(14,536)	(66,440)	(24,247)	(117,656)
Pay leg	12,174	14,254	66,670	24,579	117,677
- other balance sheet management					
Receive leg	(24,186)	(6,277)	(10,876)	(4,368)	(45,707)
Pay leg	24,312	6,522	12,587	4,868	48,289

2016	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,079	-	-	-	9,079
Collateral received	5,882	-	-	-	5,882
Deposits and other borrowings	402,611	61,517	17,542	463	482,133
Liability for acceptances	321	-	-	-	321
Debt issuances[1,2]	8,596	18,425	54,493	22,191	103,705
Derivative liabilities (trading)[3]	65,086	-	-	-	65,086
Derivative assets and liabilities (balance sheet management)					
- funding					
Receive leg	(26,326)	(21,615)	(70,816)	(25,136)	(143,893)
Pay leg	26,417	20,898	69,047	25,038	141,400
- other balance sheet management					
Receive leg[4]	(18,913)	(6,951)	(9,980)	(5,833)	(41,677)
Pay leg[4]	18,991	7,307	11,581	7,386	45,265

1. Any callable wholesale debt instruments have been included at their next call date.
2. Includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
3. The full mark-to-market of derivative liabilities held for trading purposes is included in the 'less than 3 months' category.
4. Prior year's profile has been restated to ensure comparability.

At 30 September 2017 $150,339 million (2016: $161,178 million) of the Company's undrawn facilities and $36,952 million (2016: $33,343 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Company may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company carries a significant number of financial instruments on the balance sheet at fair value. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION OF FINANCIAL INSTRUMENTS

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

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- when using quoted market prices to value an instrument, these are independently verified from external sources;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as FVA, CVA and bid-offer) are independently validated and monitored.

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of financial assets and liabilities for recognition, measurement and disclosure purposes where no quoted price for the instrument exists. For those purposes, we use the following approaches:

Financial Asset or Liability	Fair Value Approach
Financial instruments classified as: – trading securities – securities short sold – derivative financial assets and liabilities, and – available-for-sale assets	In instances where there is no quoted market price, modelled valuation techniques are used that incorporate observable market inputs for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
Net loans and advances, deposits and other borrowings and debt issuances	Discounted cash flow techniques in which contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates, or market borrowing rates, for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity.
Non-financial instrument component of assets held for sale	Valuation based on the agreed foreign currency sales price combined with the applicable foreign exchange rate less an estimate of the costs to dispose of the assets.

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2017			2016		
	Fair value details refer Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents		63,399	-	63,399	61,994	-	61,994
Settlement balances owed to ANZ		5,006	-	5,006	3,983	-	3,983
Collateral paid		7,685	-	7,685	10,878	-	10,878
Trading securities	8	-	35,606	35,606	-	35,059	35,059
Derivative financial instruments	9	-	57,036	57,036	-	75,872	75,872
Available-for-sale assets	10	-	58,506	58,506	-	55,721	55,721
Net loans and advances	11	452,408	16	452,424	446,479	52	446,531
Regulatory deposits		495	-	495	671	-	671
Due from controlled entities		91,208	-	91,208	106,797	-	106,797
Other financial assets		1,917	-	1,917	1,606	-	1,606
Total		622,118	151,164	773,282	632,408	166,704	799,112
Financial liabilities							
Settlement balances owed by ANZ		8,219	-	8,219	9,079	-	9,079
Collateral received		5,238	-	5,238	5,882	-	5,882
Deposits and other borrowings	13	494,162	73	494,235	479,885	78	479,963
Derivative financial instruments	9	-	56,830	56,830	-	76,243	76,243
Due to controlled entities		88,882	-	88,882	103,416	-	103,416
Payables and other liabilities		3,930	1,753	5,683	3,498	2,068	5,566
Debt issuances		83,743	1,752	85,495	90,390	2,192	92,582
Total		684,174	60,408	744,582	692,150	80,581	772,731

FINANCIAL ASSETS AND FINANCIAL LIABILITIES CARRIED AT FAIR VALUE ON THE BALANCE SHEET

The Company categorises financial assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2017	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

18. OFFSETTING

We offset financial assets and liabilities in the balance sheet (in accordance with AASB 132 – *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and liabilities are presented on a gross basis.

The Company does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over collateralisation.

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement of similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	57,036	(2,138)	54,898	(46,268)	(4,598)	4,032
Reverse repurchase, securities borrowing and similar agreements[1]	28,305	(4,652)	23,653	(819)	(22,834)	-
Total financial assets	85,341	(6,790)	78,551	(47,087)	(27,432)	4,032
Derivative financial liabilities	(56,830)	2,238	(54,592)	46,268	5,774	(2,550)
Repurchase, securities borrowing and similar agreements[2]	(33,768)	8,822	(24,946)	819	24,127	-
Total financial liabilities	(90,598)	11,060	(79,538)	47,087	29,901	(2,550)

			Amount subject to master netting agreement or similar			
2016	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	75,872	(2,376)	73,496	(62,296)	(5,143)	6,057
Reverse repurchase, securities borrowing and similar agreements[1]	29,713	(10,873)	18,840	(707)	(18,133)	-
Total financial assets	105,585	(13,249)	92,336	(63,003)	(23,276)	6,057
Derivative financial liabilities	(76,243)	2,010	(74,233)	62,296	8,244	(3,693)
Repurchase, securities borrowing and similar agreements[2]	(24,646)	11,258	(13,388)	707	12,681	-
Total financial liabilities	(100,889)	13,268	(87,621)	63,003	20,925	(3,693)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented in the Balance Sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at start of year	102	109	2,110	2,711	2	10	2,214	2,830
Additions	-	-	396	400	-	-	396	400
Amortisation expense	-	-	(541)	(937)	(2)	(8)	(543)	(945)
Impairment expense	-	-	(17)	(23)	-	-	(17)	(23)
Impairment on reclassification of Retail Asia and Wealth businesses to held for sale	(32)	-	(153)	-	-	-	(185)	-
Foreign currency exchange difference	(1)	(7)	(12)	(41)	-	-	(13)	(48)
Balance at end of year	69	102	1,783	2,110	-	2	1,852	2,214
Cost	69	102	5,883	5,806	39	66	5,991	5,974
Accumulated amortisation/impairment	n/a	n/a	(4,100)	(3,696)	(39)	(64)	(4,139)	(3,760)
Carrying amount	69	102	1,783	2,110	-	2	1,852	2,214

[1] Goodwill excludes notional goodwill in equity accounted investments.

RECOGNITION AND MEASUREMENT

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

Intangible	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Company has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of off the shelf software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million. Those less than $20 million are expensed in the year in which the costs are incurred.	Customer list of acquired business.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at fair value less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.	Customer list amortised over 10 years.
Depreciation method	Not applicable.	Straight-line method.	Straight-line method.

KEY JUDGEMENTS AND ESTIMATES

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

At each balance date, software and other intangible assets are assessed for indicators of impairment. In addition, software and intangible assets not ready for use are tested annually for impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

20. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY - SUMMARY

	2017 $m	2016 $m
Ordinary share capital	29,416	29,162
Reserves		
Foreign currency translation reserve	(75)	(18)
Share option reserve	87	79
Available-for-sale revaluation reserve	(66)	13
Cash flow hedge reserve	90	270
Total reserves	36	344
Retained earnings	22,396	20,753
Total shareholders' equity	51,848	50,259

ORDINARY SHARE CAPITAL

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

	2017		2016	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,927,476,660	29,162	2,902,714,361	28,611
Bonus option plan	2,880,009	-	3,516,214	-
Dividend reinvestment plan	13,159,331	374	15,916,983	413
Group share option scheme	-	-	18,062	-
Group employee share acquisition scheme[1]	-	56	5,311,040	138
Share buy-back	(6,100,673)	(176)	-	-
Balance at end of year	2,937,415,327	29,416	2,927,476,660	29,162

1. The Company issued 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend (8.6 million shares for the 2016 final dividend;9.7 million shares for the 2016 interim dividend) and nil shares to satisfy obligations under the Company's Employee Share acquisition plans during 2017 (2016: 5.3 million shares). Following the provision of 7.5 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 interim dividend, the Company repurchased 6.1 million of shares via an on-market share buy-back resulting in 6.1 million shares being cancelled. As at 30 September 2017, there were 7,312,763 Treasury Shares outstanding (2016; 10,806,633).

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.

20. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT (continued)

Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.
Available-for-sale revaluation reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.

21. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

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

REGULATORY ENVIRONMENT

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

For reporting purposes as part of the ANZ 2017 Annual Report, Capital Adequacy Ratios are presented only for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 22 Capital Management in the 2017 ANZ Annual Report for details of the Capital Adequacy Ratios, which can be found at https://shareholder.anz.com/annual-report-shareholders-review.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 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.

INDEPENDENT AUDITOR'S REPORT

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