



Australia and New Zealand Banking Group Limited

Australian Business Number 11 005 357 522
(Incorporated with limited liability in Australia)

Index Linked Notes

This Supplement

This supplement (this “**Supplement**”) to the base prospectus of Australia and New Zealand Banking Group Limited (the “**Issuer**” or “**ANZ**”) dated 12 February 2016 allowing for the issue of index linked notes by ANZ (the “**Original Base Prospectus**”), as supplemented by the supplementary prospectuses dated 8 April 2016 and 7 June 2016 (the “**Base Prospectus**”), constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”). It should be read alongside the base prospectus relating to ANZ’s Global Market Issuance Programme (the “**Programme Prospectus**”), which was published on 12 February 2016 and supplemented by supplementary prospectuses dated 8 April 2016, 7 June 2016 and 15 August 2016 (the latter, the “**Programme Prospectus Supplement**”), and parts of which are incorporated by reference in the Base Prospectus.

Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

ANZ accepts responsibility for the information contained in this Supplement and to the best of the knowledge of ANZ (which has taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this Supplement has been filed with the National Storage Mechanism and will be available for inspection at www.morningstar.co.uk/uk/nsm.

Purpose

The purpose of this Supplement is to:

1. incorporate the Programme Prospectus Supplement by reference into the Base Prospectus;
2. supplement the Base Prospectus with information regarding an announcement by ANZ relating to S&P’s outlook change;
3. supplement the Base Prospectus with information contained in ANZ’s trading update for the nine months to 30 June 2016;
4. incorporate by reference into the Base Prospectus ANZ’s Basel III Pillar 3 Disclosure as at 30 June 2016; and
5. supplement the Base Prospectus with information regarding an announcement by ANZ relating to the Australian Prudential Regulation Authority’s revised mortgage risk weight target.

1. Programme Prospectus Supplement

On 15 August 2016, the Programme Prospectus Supplement was published and a copy of the Programme Prospectus Supplement has been filed with the National Storage Mechanism, and will be available for inspection at www.morningstar.co.uk/uk/nsm.

By virtue of this Supplement, the Programme Prospectus Supplement shall be deemed to be incorporated into, and form part of, the Base Prospectus.

2. ANZ comments on S&P outlook change

ANZ has confirmed Standard & Poor's decision to revise the outlook on the Commonwealth of Australia has resulted in a change in the credit rating outlook of ANZ and its strategically important entities* along with the other major Australian banks from stable to negative.

S&P reaffirmed ANZ's 'AA-' long-term and 'A-1+' short term issuer credit ratings and stated the stand-alone credit profile of ANZ remains unchanged.

The ratings outlook change has not impacted the ratings of hybrid or subordinated debt issued by ANZ.

***S&P Outlook Changes for ANZ entities**

Entity	To	From
ANZ Wealth Australia Ltd. Counterparty Credit Rating Local Currency	A+/Negative/A-1	A+/Stable/A-1
Australia and New Zealand Banking Group Ltd. ANZ Bank New Zealand Ltd. Counterparty Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
OnePath Life (NZ) Ltd. OnePath Life Ltd. Counterparty Credit Rating Local Currency Financial Strength Rating Local Currency	AA-/Negative/ AA-/Negative/	AA-/Stable/ AA-/Stable/
ANZ Bank (Taiwan) Ltd. Counterparty Credit Rating Taiwan National Scale	A+/Negative/A-1 twAAA/Negative/twA-1+	A+/Stable/A-1 twAAA/Stable/twA-1+
Australia and New Zealand Bank (China) Co. Ltd. Counterparty Credit Rating	A+/Negative/A-1	A+/Stable/A-1

A credit rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

3. ANZ Trading Update – Nine Months Ended 30 June 2016

On 9 August 2016, ANZ released a Trading Update for the nine months to 30 June 2016 which included the following information.

Performance Highlights	
Basis of comparison: Comparisons are based on the 9 months to 30 June 2016 with the same 9 month period for the previous financial year unless otherwise stated. The results are unaudited.	
Group	<ul style="list-style-type: none"> • Statutory net profit \$4.3 billion. Cash Profit ("Adjusted Proforma"¹) \$5.2 billion, down 3%. • Profit before Provisions was up 5%², with income increasing at a faster rate than expenses. Increased technology, D&A and project costs were offset by productivity savings including lower employee (FTE) numbers. FTE reduction continued at a steady rate through the period. • Group Net Interest Margin (NIM)³ was stable assisted by portfolio rebalancing in Institutional offset by increased funding costs and asset pricing competition.
Retail & Commercial	<ul style="list-style-type: none"> • The Retail businesses in both Australia and New Zealand performed well. Retail experienced modest asset growth and margin pressure in a competitive market for mortgages and deposits. Small Business Banking

	remains an area of good growth in both markets, while conditions in Corporate and Business Banking remained highly competitive.
Institutional	<ul style="list-style-type: none"> • The rebalancing of the Institutional business continued with further reductions in lower yielding assets supported by business restructuring. • The ongoing focus on reducing and improving the quality of Risk Weighted Assets (RWA) has delivered a \$15 billion decrease in Credit Risk Weighted Assets (CRWA) on a constant currency basis. Momentum has been consistent throughout the year to date with approximately a third of that total reduction in CRWA occurring in the third quarter. • Divisional revenue decreased by a lower percentage than the reduction in RWAs. At period end cost growth was in the low single digits benefitting from prior period productivity initiatives.⁴ • The rebalancing of the business had a positive impact on the Division's margins of approximately 5 bps (excl Global Markets). Including Global Markets margins declined 5 bps. • Global Markets income was \$1.5 billion, 90% of which came from Customer Sales flows.
Credit Quality Including June Quarter APS 330	<ul style="list-style-type: none"> • The total provision charge was \$1.4 billion comprised of individual provisions of \$1.34 billion and collective provisions of \$60 million. • The third quarter individual provision charge was in line with the average of the First Half.
Capital	<ul style="list-style-type: none"> • APRA Level 2 Common Equity Tier 1 (CET1) ratio was 9.7% at 30 June. • Excluding the payment of the 2016 interim dividend (net of the dividend reinvestment plan), CET1 increased 44 bps in the third quarter, primarily driven by cash earnings generation and capital benefits from the continued reduction of lower return assets in Institutional. • As announced yesterday, further changes are expected to the average credit risk weighting of the Group's Australian residential mortgage lending book, resulting in a likely increase above those previously announced. The possible impact of this is set out in an ASX announcement made yesterday by ANZ.⁵

Specified Items – Capitalised Software

The ANZ 1H16 results outlined the impact of a number of items referred to as "Specified Items" which included changes to the application of the Group's software capitalisation policy effective from 1 October 2015. These Specified Items are excluded from Adjusted Proforma.

As outlined, the higher capitalisation threshold and direct expensing of more project costs will result in higher software expense in the second half (Year to Date FY16 \$126 million pre-tax which includes 1H16 \$73 million pre-tax).

Footnotes:

1. Adjusted Proforma refers to Cash Profit adjusted to remove the impact of Specified Items (please refer to 1H16 Results disclosures including Page 16 of the Consolidated Financial Report & Dividend Announcement). In the nine months to 30 June 2016 there have been approximately \$780 million of Specified Items impacts. Cash profit excludes non-core items included in Statutory Profit. These non-core adjustments mainly relate to accounting timing differences that will reverse through earnings in future periods. In the nine months to 30 June 2016 there have been approximately \$100 million of after tax non-core adjustments.
2. On an Adjusted Proforma basis.
3. All NIM commentary is 30 June 2016 compared to 31 March 2016. Group NIM at 31 March was 201 bps.
4. On an Adjusted Proforma basis. Page 60 of the Consolidated Financial Report & Dividend Announcement for 1H16 for Half Year outlines the impact of Specified Items on the Institutional Division.
5. ASX announcement 8 August 2016 "ANZ comments on APRA revised mortgage risk weight target".

4. ANZ Basel III Pillar 3 Disclosure – As at 30 June 2016

On 9 August 2016, ANZ released its Basel III Pillar 3 Disclosure as at 30 June 2016 (the "**Basel III Disclosure**"). A copy of the Basel III Disclosure and a copy of this Supplement have been filed with the National Storage Mechanism and will be available for inspection at www.morningstar.co.uk/uk/nsm and, by virtue of this Supplement, the Basel III Disclosure shall be deemed to be incorporated into, and form part of, the Base Prospectus.

A copy of the Basel III Disclosure which is incorporated into, and forms part of, this Supplement is also available at <http://www.shareholder.anz.com/pages/regulatory-disclosure>.

5. ANZ comments on APRA revised mortgage risk weight target

Following the announcement on Friday 5 August 2016 by the Australian Prudential Regulation Authority (APRA) reaffirming its revised average mortgage risk weight targets, ANZ advises that the average credit risk weighting of the Group's Australian residential mortgage lending book will increase.

The announcement by APRA provided an update on discussions and reviews it is conducting with the authorised deposit taking institutions (ADIs) accredited to use an internal ratings-based (IRB) approach to credit risk, regarding refinements to risk models as part of its routine supervisory process. APRA announced that it is recalibrating the impact of refinements to risk models on the required risk weighting for residential mortgages.

The exact increase for ANZ will not be confirmed until ANZ has submitted and had approved its new mortgage capital model, and APRA has completed its recalibration, but is expected to be within the 25% - 30% range recommended by the Financial Services Inquiry. This is expected to be effective in the First Quarter of FY2017.

This follows APRA's announcement of 20 July 2015 which advised changes to capital requirements for Australian residential mortgage exposures for IRB ADIs in response to a recommendation from the Financial Services Inquiry. The outcome of those changes was, from 1 July 2016 an increase in the average credit risk weighting applied to ANZ's Australian residential mortgage lending from approximately 15% to approximately 25%.

APRA has, since 2008, sought to strengthen major bank capital ratios through a number of adjustments to Risk Weighted Assets (RWA) across a variety of asset classes and risk types. This has the effect of the reported capital ratio remaining broadly unchanged despite ADIs increasing the absolute amount of capital held.

While the exact increase for ANZ remains uncertain, the table below sets out the impact of APRA's previously announced changes and the possible impact of additional risk model changes, on ANZ's Common Equity Tier-1 position (CET1), based on a credit risk weighting at the mid-point of the 25%-30% range recommended by the Financial Services Inquiry.

Credit Risk Weighting	Common Equity \$bn (at 9% CET1)	CET1 ratio Impact
Increase from 15% to 25% (effective 1 July 2016)	2.5	-0.60%
25% to 27.5%	0.6	-0.14%
Total	3.1	-0.74%
Capital raisings Aug and Sept 15	3.2	0.76%

On a proforma basis as at 30 June 2016, based on a credit risk weighting at the mid-point of the 25%-30% range, ANZ's CET1 ratio would be approximately 9.0% and the aggregate capital impact would be offset by the equity raising undertaken by ANZ in August and September 2015.

Any 1% increase or decrease from the mid-point would have an impact on the proforma CET1 ratio of approximately 0.06% and on Common Equity of approximately \$250 million.

ANZ believes that while the size of any increase in the RWA charge on Australian residential mortgages remains uncertain, it has the ability to meet its current stated capital objectives, including an internationally comparable capital position within the top quartile of international peers and an APRA CET1 ratio of approximately 9%.

ANZ's previously announced capital plan includes:

- Rebalancing the Group's capital allocation by continuing to reduce the amount of capital allocated to its Institutional Banking business and reviewing certain assets in the portfolio. In 9 months to

30 June 2016, Institutional Banking's Credit Risk Weighted Assets have declined by \$15 billion (on an FX adjusted basis) and ANZ has completed the sale of its Esanda dealer finance business.

- Gradually reverting to the historical Dividend Payout Ratio range of 60-65% of annual Cash Profit as announced at the 1H16 Financial Results.

Over time, ANZ expects that these and other initiatives will allow the Group to target a stronger balance sheet and capital structure. However alternatives such as providing a discount to the Dividend Reinvestment Plan (DRP) and/or DRP underwriting could provide additional flexibility if required.

This Supplement is supplemental to, and should be read and construed together with, the Base Prospectus.

For the purposes of the Prospectus Directive 2003/71/EC (as amended) and this Supplement, any documents or information incorporated by reference, either expressly or implicitly, into the Basel III Disclosure do not form part of this Supplement. Information in the Basel III Disclosure which is not incorporated by reference into the Base Prospectus is either not relevant for investors or is covered elsewhere in the Base Prospectus.

To the extent that there is any inconsistency between any statement contained in this Supplement or in any information or document incorporated by reference into, and forming part of, this Supplement and any other statement contained in the Base Prospectus or in any information or in the document incorporated by reference into, and forming part of, the Base Prospectus, the statements contained in this Supplement or in any information or in the document incorporated by reference into, and forming part of, this Supplement will prevail.

Save as disclosed in this Supplement or in any information or in the document incorporated by reference into, and forming part of, this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.