

1 May 2019

**DISCLOSURE AND TRANSPARENCY RULES – HALF-YEARLY FINANCIAL REPORT  
SUBMISSION**

**Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZBGL" or "ANZ") together with its subsidiaries (the "Group") – Half-Yearly Financial Report submission under the Disclosure and Transparency Rules ("DTR") of the United Kingdom Financial Conduct Authority**

The following attached documents constitute ANZ's 2019 Half-Yearly Financial Report for the purposes of the disclosure requirements of DTR 4.2:

- The Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements for the half year ended 31 March 2019, Directors' Report (including matters included by reference) and Directors' Declaration (as set out on pages 80 to 120 of ANZ's Half Year 31 March 2019 Consolidated Financial Report, Dividend Announcement and Appendix 4D);
- A description of the principal risks and uncertainties for the remaining six months of the financial year provided in accordance with DTR 4.2.7 R (2); and
- A responsibility statement of the Directors of ANZBGL provided in accordance with DTR 4.2.10 R (3)(b).



**ANZ's Half Year 31 March 2019 Consolidated Financial Report, Dividend  
Announcement and Appendix 4D**

This document was separately lodged by ANZBGL with the applicable stock exchanges,  
including the London Stock Exchange and the Australian Securities Exchange on 1 May  
2019.

## **Principal risks and uncertainties for the remaining six months of the financial year (DTR 4.2.7 R (2))**

### **1. Introduction**

The Group's activities are subject to risks that can adversely impact its business, operations, results of operations, reputation, prospects, liquidity, capital resources, financial performance and financial condition (together, the "**Group's Position**"). The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the specified or unspecified risks actually occur, the Group's Position may be materially and adversely affected.

### **2. Changes in political and general business and economic conditions, including disruption in regional or global credit and capital markets, may adversely affect the Group's Position**

The Group's financial performance is primarily influenced by the political and economic conditions and the level of business activity in the major countries and regions in which the Group operates, trades or raises funding including, without limitation, Australia, New Zealand, the Asia Pacific, United Kingdom, Europe and the United States (the "**Relevant Jurisdictions**").

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

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

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

Changes in global political conditions have the potential to lead to extended periods of increased political and economic uncertainty and volatility in the global financial markets. For example, the "Brexit" (as defined below) referendum in the United Kingdom in June 2016 including the related ongoing negotiations with the European Union and within UK Parliament), the commencement of Donald Trump's presidency in January 2017, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries have resulted in increased political and economic uncertainty and volatility in the

global financial markets and may continue to do so. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets.

The Group's business in the United Kingdom and elsewhere may be negatively impacted by the uncertainty regarding the exit of the United Kingdom from the European Union (commonly referred to as "Brexit"), including from a deterioration of consumer and business activity in the United Kingdom and other countries and general uncertainty in the overall business environment in which the Group operates. The exit itself could negatively impact the United Kingdom and other economies, which may adversely affect the Group. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations in the United Kingdom and the European Union, and the Group may incur additional costs or need to make operational changes that reduce revenue as it adapts to potentially divergent regulatory frameworks. Any of these effects of Brexit, among others, may adversely affect the Group's Position. The Group has made changes to the structure of its business operations in Europe in anticipation of Brexit, although the financial, trade and legal implications of Brexit are still uncertain and may be more severe than expected given that the final terms upon which the United Kingdom will exit the EU are still not known and the lack of comparable precedent.

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

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

Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which may adversely affect the Group's Position. These conditions may also adversely affect the Group's ability to raise medium or long-term funding in the international capital markets.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in Ukraine, North Korea, Syria, Egypt, Afghanistan, Iraq, Nicaragua and elsewhere as well as the current high threat of terrorist activities, may also adversely affect global financial markets, general business and economic conditions and the Group's ability to continue operating or trading in an affected country or region, which in turn may adversely affect the Group's Position.

Should difficult economic conditions in the Group's markets eventuate, asset values in the housing, commercial or rural property markets could decline, unemployment

could rise and corporate and personal incomes could suffer. Deterioration in global markets, including equity, property, currency and other asset markets, may impact the Group's customers and the security the Group holds against loans and other credit exposures, which may impact the Group's ability to recover loans and other credit exposures.

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

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

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

Natural and biological disasters such as, but not restricted to, cyclones, floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may negatively affect general business and economic conditions in the countries or regions in which the Group operates and in turn adversely affect the Group's Position (see risk factor 16: "Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's Position").

All or any of the negative political, business, environmental or economic conditions described above may cause a reduction in demand for the Group's products and services and/or an increase in loan and other credit defaults and bad debts, which may adversely affect the Group's Position.

### **3. Competition in the markets in which the Group operates may adversely affect the Group's Position**

The markets in which the Group operates are highly competitive and could become even more so. Factors that contribute to competition risk include mergers, acquisitions, divestments, joint ventures and alliances, changes in customers' needs, preferences and behaviours, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors and changes in regulation such as the rules governing the operations of banks and non-bank competitors. For example:

- changes in the financial services sector in Australia and New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks. Digital technologies and business models are changing customer behaviour and the competitive environment. Emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models in the financial services sector. Existing companies from outside of the traditional financial services sector may seek to directly compete with the Group by offering products and services traditionally provided by banks, including by obtaining banking licences and/or by partnering with existing providers;
- banks organised in jurisdictions outside Australia and New Zealand are subject to

different levels of regulation and some of these banks may have lower cost structures, lower capital requirements or a lower cost of capital that may make them more competitive in the markets where the Group operates;

- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the Group may choose not to provide financial services; and
- Open Banking (as described below) may lead to increased competition (see risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position").

Increasing competition for customers could also potentially lead to a compression in the Group's net interest margins or increased advertising and related expenses to attract and retain customers.

The Group relies on deposits to fund a significant portion of its balance sheet. The Group competes with banks and other financial services firms for such deposits. Increased competition for deposits may increase the Group's cost of funding. To the extent that the Group is not able to successfully compete for deposits, the Group would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This may adversely affect the Group's Position.

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

#### **4. Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position**

The Group's businesses and operations are highly regulated. The Group is subject to a substantial number of laws, regulations and policies in the Relevant Jurisdictions in which it carries on business and obtains funding and is supervised by a number of different authorities in each of these jurisdictions.

In Australia, these authorities include the Australian Prudential Regulation Authority ("APRA"), the Reserve Bank of Australia ("RBA"), the Australian Securities and Investments Commission ("ASIC"), the Australian Securities Exchange ("ASX"), the Australian Competition and Consumer Commission ("ACCC"), the Australian Transaction Reports and Analysis Centre ("AUSTRAC") the Australian Taxation Office ("ATO") and the Office of the Australian Information Commissioner ("OAIC"). In New Zealand, these authorities include the Reserve Bank of New Zealand ("RBNZ") and the Financial Markets Authority ("FMA") and the New Zealand Commerce Commission. Prudential authorities such as APRA and the RBNZ have extensive administrative, practical and investigative powers over the Group's businesses.

The regulation and supervision of financial services groups such as the Group is increasingly extensive and complex in Australia and across the Relevant Jurisdictions and such regulations continue to evolve. Regulatory developments are wide ranging and include consumer credit and consumer protection, the design and distribution of financial products, conduct, governance, funding, liquidity, derivatives, capital adequacy, provisioning, competition, mortgage pricing, remuneration, privacy, data protection, data access, prudential matters, anti-bribery and corruption, anti-money laundering and counter-terrorism financing, economic and trade sanctions and executive accountability. The resources allocated to the regulation and supervision of financial services groups, such as the Group, and the enforcement of laws against them, such as the Group, have increased in recent years.

Changes to laws, regulations, policies and enforcement activities in Australia and the

Relevant Jurisdictions may adversely affect the Group's Position. Such changes may impact the corporate structures, businesses, strategies, capital, liquidity, funding and profitability and the cost structures of the Group and the cost and access to credit for customers of the Group, and the wider economies of Australia and New Zealand.

Examples of recent changes to laws, regulations, practices and policies, or developments that may lead to future changes include the following:

#### *Prudential Developments*

Implementation of APRA's revisions to the capital and liquidity framework for Australian Authorised Deposit-taking Institutions ("**ADI**"), resulting from the Basel Committee on Banking Supervision ("**BCBS**") Basel 3 capital and liquidity reforms and the recommendations of the Financial System Inquiry ("**FSI**"), will continue over the coming years.

Consistent with the FSI's recommendation that the capital ratios of ADIs should be "unquestionably strong", effective from July 2016, APRA increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the Internal Ratings Based ("**IRB**") approach to credit risk (including the Group).

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

In February 2018, APRA released a discussion paper that commenced their consultation on the revisions to the capital framework that will produce "unquestionably strong" capital ratios. The discussion paper summarises APRA's proposal regarding risk-based capital approach for credit, market and operational risk following finalisation of these requirements by the BCBS in December 2017. While the final form of this proposal will only be determined later in 2020, the Group expects the implementation of any revisions to the current requirements will result in further changes to the risk weighting framework for certain asset classes and other risk types (such as market and operational risks). APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements.

Further to the above, APRA released a discussion paper in August 2018 on adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility of the ADI capital framework. The focus of the proposals is on the presentation of the capital ratios to facilitate comparability whilst recognising the relative capital strength of ADIs and measures to enhance supervisory flexibility in times of financial stress. APRA's consultation for the above is currently taking place with final prudential standards planned to be made available by 2020.

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

- Total loss absorbing capacity: On November 8, 2018, APRA released a discussion paper titled "Increasing the loss-absorbing capacity of ADIs to support orderly resolution". The paper is in response to recommendation three of the final report



of the FSI. The paper proposes an increase in total capital requirements of between 4% and 5% of RWA for domestic systemically important banks ("D-SIBs"), such as ANZ. Based on the Group's RWA of \$396 billion as at March 31, 2019, this represents an incremental increase in the total capital requirement of approximately \$16 billion to \$20 billion, with an equivalent decrease in other senior funding. APRA anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. D-SIBs will need to satisfy the new requirement by 2023. ANZ intends to consult with APRA and provide a response. In addition to the proposals outlined in the paper, APRA noted that it is in process of developing a formalised framework for resolution planning and will consult further on this in 2019; and

- Minimum leverage ratio: In November 2018, APRA released draft prudential standards proposing to set the leverage ratio minimum for internal ratings-based ADIs at 3.5%, in addition to other changes to the calculation of the exposure measure.

Given the number of items that are currently open for consultation with APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains uncertain. Further changes to APRA's prudential standards and the final outcome of the FSI could increase the level of regulatory capital that the Group is required to maintain, restrict the Group's flexibility, require it to incur substantial costs and impact the profitability of one or more business lines, which may adversely affect the Group's Position.

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

#### *Banking Executive Accountability Regime ("BEAR")*

BEAR became effective on 1 July 2018. It is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Potential risks to the Group from the BEAR legislation include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.

#### *Design and Distribution Obligations and Product Intervention Powers*

The Australian Government has passed new legislation intended to enhance the regulation of the design and distribution of financial and credit products in Australia and to provide ASIC with product intervention powers.

#### *Anti-Money Laundering and Counter Terror Financing Compliance*

Scrutiny of banks has increased following the commencement by the AUSTRAC of civil penalty proceedings in 2017 against another major Australian bank relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth) (see risk factor 5 "Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's Position").

#### *Bank Levies*

The Australian Government imposed a levy on liabilities for certain large banks, including the Group, with effect from 1 July 2017 ("**Major Bank Levy**"). There is a risk that the Australian Government could increase the Major Bank Levy or introduce new levies on banks. Australian State and Territory governments may introduce similar levies which may adversely affect the Group's Position.



### *Responsible Consumer Lending*

Regulatory policy development and monitoring of responsible consumer lending has increased significantly in recent years, and continues to drive the review of, and changes to, business practices. If any additional changes in law, regulation or policy are implemented, as a result of the development and monitoring of responsible consumer lending, such changes may impact the manner in which the Group provides consumer lending services in the future which may adversely affect the Group's operations in this area and consequently, the Group's Position.

### *Parliamentary Inquiries*

There are several on-going Australian Government inquiries into Australia's banks. The inquiries could lead to legislative or regulatory changes or measures that may adversely affect the Group Position.

### *Australian Consumer Law*

The Australian Parliament passed amendments to the Australian Consumer Law on August 23, 2018. Amongst other things, the amendments increased penalties for breaches of consumer law from 1 September 2018. The increased penalties relate to unconscionable conduct, false or misleading representations about goods or services, unfair practices, the safety of consumer goods and product-related services and information standards.

### *Increased ASIC and APRA Funding*

The Australian Government announced in March 2019 that ASIC would be provided with more than \$400 million and APRA more than \$150 million in additional funding to support enforcement, regulation and supervision.

### *Corporate and Financial Sector Penalties*

The Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019 significantly increases the sanctions applicable to the contravention of a range of corporate and financial sector obligations.

### *ASX Governance Principles and Recommendations*

In February 2019, the ASX published a fourth edition of Corporate Governance Principles and Recommendations. The proposed amendments are extensive, and are expected to have a significant change to corporate governance of listed entities such as the Group.

### *Open Banking*

Open Banking is part of a proposed new consumer data right in Australia. The Government has introduced the Treasury Laws Amendment (Consumer Data Right) Bill 2019 into Parliament. If passed, this could give consumers (both individuals and businesses) an entitlement to access, and have transferred to accredited third parties, Ministerially designated data sets that relate to them (the actual entitlement is subject to the ACCC promulgating rules enlivening the entitlement). The ACCC has proposed that the major Australian banks (including the Group) would need to make available generic product data about credit and debit cards, deposit accounts and transaction accounts. Banks would then need to share consumer data about these products no later than February 2020. In February 2020, product and consumer data for mortgage accounts will need to be made available. Consumer and product data concerning certain other products (for example, personal and business loans and certain other accounts) will need to be made available from 1 July 2020. The implementation of Open Banking as proposed is contingent upon the passage of the Bill through the Australian Parliament. Open Banking may lead to increased competition, which may adversely affect the Group's Position.

### *"2 Strikes" Rule*

Under Australia's "2 strikes" rule applicable to public companies listed on ASX, 2 successive votes of 25% or more against the adoption of the Company's remuneration report would require the Company to put an ordinary resolution to shareholders to determine whether to hold a "spill meeting" where all non-executive Directors who approved the most recent remuneration report would need to stand for re-election by shareholders (by ordinary resolution). It should be noted that under the ASX rules and the Company's Constitution, non-executive Directors must normally stand for re-election every 3 years and under the Corporations Act 2001 and the Company's Constitution, shareholders with sufficient standing can seek to remove or appoint non-executive Directors (by ordinary resolution) at any time (via general meeting) or at an Annual General Meeting.

While the adoption of the remuneration report was approved by shareholders at the 2018 AGM, there were sufficient votes against the adoption of it for ANZ to receive its "first strike" under the "2 strikes" rule.

### *New Zealand Developments*

The New Zealand Government and its agencies, including the RBNZ, the FMA and the New Zealand Commerce Commission, have supervisory oversight of the Group's New Zealand businesses. There have been a series of regulatory releases from these and other authorities that have proposed significant regulatory changes for financial institutions. These changes include, among other things:

- RBNZ revised outsourcing policy in September 2017 and ANZ New Zealand's revised conditions of registration;
- Discussion Paper on RBNZ's review of capital requirements;
- the enactment of the Financial Services Legislation Amendment Act 2019 and replacement of the Financial Advisers Act 2008;
- the New Zealand Government review of the Reserve Bank Act; and
- proposed amendments to the Credit Contracts and Consumer Finance Act 2003.

### *Other Offshore Developments*

In addition to the various legal, regulatory and prudential developments described above, there have been a series of other regulatory developments in Relevant Jurisdictions other than Australia and New Zealand. These include, by way of example:

- proposals for changes to financial regulations in the United States (including potential legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule);
- changes to senior executive accountability in Singapore and Hong Kong;
- changes to English and European law following Brexit;
- introduction of greater data protection regulations in Europe, including the General Data Protection Regulations which came into effect in May 2018;
- the Markets in Financial Instruments Directive 2 in the European Economic Area; and
- implementation of phases 4 and 5 of the initial margin requirements for uncleared OTC derivatives in a number of the Relevant Jurisdictions. These rules are commonly referred to as the Uncleared Margin Rules (nUMR), and margin collected and posted under UMR is referred to as "regulatory margin." As agreed in the revised implementation timeline with the Basel Committee on Bank

Supervision and International Organization of Securities Commissions, UMR began to be phased-in in September 2016 for the largest market participants. Broader implementation of variation margin (“**VM**”) requirements occurred in March 2017, while initial margin (“**IM**”) requirements continue to phase-in annually through 2020. For example, in the United States, U.S. prudential regulators and the CFTC have implemented UMR and, for certain swap dealers, including ANZ, through guidance issued by the regulators the VM compliance date was extended to 1 September 2017. The final phases of UMR will occur on 1 September 2019 and 2020, when a large number of additional counterparties will be brought into scope for IM requirements. The significant number of counterparties coming into scope in the final phases will create a significant demand on market resources across participants and service providers in a relatively short time period. This transition requires significant operational and technology builds that must be undertaken to meet the new demand. In addition, there are a large number of contractual agreements to be negotiated between and among counterparties and collateral custody agents.

Examples of recent heightened scrutiny from authorities in Australia include the following:

#### *Royal Commission*

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established in December 2017. The Government released the final report of the Commission in February 2019. The Commission has made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA. The Government and the opposition Australian Labor Party have released their intended responses to the recommendations. Depending on how the recommendations are implemented by Government post the upcoming elections, and followed by regulatory agencies, they could result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The recommendations may also lead to adjustments in the competitive environment of the Group. The outcomes and total costs associated with these possible exposures and changes remain uncertain.

#### *Productivity Commission*

The Productivity Commission, an independent research and advisory body to the Australian Government, has undertaken an inquiry into competition in Australia’s financial system. The final report of the Productivity Commission was released in August 2018. The Australian Government’s response to the final report may lead to regulatory change, which may adversely affect the Group’s Position.

#### *Mortgage Price Inquiry*

In May 2017, the Federal Treasurer directed the ACCC to conduct an inquiry into prices charged or proposed to be charged by ADIs affected by the Major Bank Levy in relation to residential mortgage products. A final report was published on 11 December 2018. Findings in the report may lead to competition related policy changes or increased regulatory scrutiny.

#### *Foreign Exchange Inquiry*

In October 2018, the ACCC commenced an inquiry into foreign currency conversion services. The ACCC will examine price competition amongst suppliers of foreign currency conversion services and consider whether there are impediments to effective competition. The ACCC is expected to provide its final report to the Federal Treasurer in May 2019.

Any failure by the Group to comply with laws, regulations and policies in any Relevant Jurisdiction may adversely affect the Group's Position. This may include regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action or agreements (such as enforceable undertakings).

Such failures also may result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For information in relation to the Group's litigation and contingent liabilities, see risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's Position" and Note 19 of condensed consolidated financial statements for the period ended 31 March 2019 as set out in the Group's 2019 Half Year Results Announcement "**2019 Interim Financial Statements**".

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

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums mean that these risks continue to be an area of focus for the Group. Following the AUSTRAC civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the AML Act, there may be increased regulatory scrutiny of other Australian banks, including the Group, and significant changes to the anti-money laundering regulatory framework. While the full scope of any changes, if any, is not known, the Group may incur additional costs associated with regulatory compliance that may adversely affect the Group's Position. The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of the Group. For example, emerging technologies, such as cryptocurrencies, may limit the Group's ability to track the movement of funds. A failure to operate a robust programme to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions may have serious financial, legal and reputational consequences for the Group and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively may adversely affect the Group's Position. The Group's foreign operations may place the Group under increased scrutiny by regulatory authorities, and subject the Group to increased compliance costs.

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

Residential and commercial property lending, together with real estate development and investment property finance, constitute important businesses of the Group. Major sub-segments within the Group's lending portfolio include:

- residential housing loans (owner occupier and investment); and

- commercial real estate loans.

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to drive underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). Values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, have steadily risen until 2018. The fall in Australian house prices in 2018 was the largest since the GFC. Nationally house prices are approximately 7% below their late 2017 peak, although they are still almost 30% higher since the start of 2013<sup>1</sup>.

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

The Group's portfolio of commercial property loans may be particularly susceptible to asset price deflation, tenancy risk and delivery risk, which may result in higher credit losses, refinancing risk and deteriorating security values. A significant decrease in commercial property valuations or a significant slowdown in the commercial real estate markets in the Relevant Jurisdictions could result in a decrease in new lending opportunities or lower recovery rates which may in turn materially and adversely impact the Group's Position.

## **7. Credit risk may adversely affect the Group's Position**

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to honour its contractual obligations. Credit losses can and have resulted in financial services organisations realising significant losses and in some cases failing altogether. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which may result in credit losses. Should material credit losses occur to the Group's credit exposures, this may adversely affect the Group's Position.

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1 Source: RBA Financial Stability Review, April 2019

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, or natural disasters, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms.

For example, the Group's customers and counterparties in or with exposure to:

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

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

The risk of credit-related losses may also be increased by a number of factors, including deterioration in the financial condition of the economies in which the Group operates, a sustained high level of unemployment in the markets in which the Group operates, more expensive imports into Australia and New Zealand due to the reduced strength of the Australian and New Zealand dollars relative to other currencies, a deterioration of the financial condition of the Group's counterparties, a reduction in the value of assets the Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

In addition, in assessing whether to extend credit or enter into other transactions with customers and/or counterparties, the Group relies on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. The Group may also rely on representations of customers and independent consultants as to the accuracy and completeness of that information. The Group's financial performance could be negatively impacted to the extent that it relies on information that is inaccurate or materially misleading.

The Group holds provisions for credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within the Group's lending portfolio, based on current information. This process, which is critical to the Group's Position, requires subjective and complex judgements, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if the Group fails to analyse the information correctly, the provisions made for credit impairment may be insufficient, which may adversely affect the Group's Position.



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

The Group's capital base is critical to the management of its businesses and access to funding. Prudential regulators of the Group include, but are not limited to, APRA, RBNZ and various regulators in the United States, the United Kingdom and the countries in the Asia Pacific region. The Group is required by its primary regulator, APRA, to maintain adequate regulatory capital.

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

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

APRA has now implemented prudential standards to accommodate Basel 3. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, which seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations have had or will have their intended effect. These regulations, together with any risks arising from any regulatory changes (including those arising from APRA's response to the remaining FSI recommendations, further changes from APRA's "unquestionably strong" requirements or the requirements of the BCBS), are described in risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position".

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

The Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. They may also be important to customers or counterparties when evaluating the Group's products and services. Credit ratings and rating outlooks may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies used by ratings agencies to determine credit ratings and rating outlooks may be revised in response to legal or regulatory changes, market developments or for any other reason.

The Group's credit ratings or rating outlooks could be affected by a change in the credit rating of the Commonwealth of Australia, the occurrence of one or more of the other risks identified in this document, a change in the ratings methodologies or by other events. As a result, downgrades in the Group's credit ratings could occur that do not reflect changes in the general economic conditions or the Group's financial condition.

In addition, the ratings of individual securities (including, but not limited to, certain



Tier 1 capital and Tier 2 capital securities and covered bonds) issued by the Group (and other banks globally) could be impacted from time to time by changes in the regulatory requirements for those instruments as well as the ratings methodologies used by rating agencies.

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

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

#### **10. Operational risk events may adversely affect the Group's Position**

Operational risk is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people, and/or systems, but excludes strategic risk.

Operational risk is typically classified into risk event type categories to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- internal fraud: fraud involving employees, contractors or any internal party to the Group who acts by deception or with dishonesty to obtain property belonging to another or obtain financial advantage for themselves or cause any financial disadvantage to the Group or others. This includes financial planners and/or authorised representatives (and their employees) of dealer groups owned or controlled by ANZ;
- external fraud: fraudulent acts or attempts which originate from outside the Group more commonly associated with digital banking, lending, and cards products. Specific threats include ATM skimming, malware and phishing attacks and fraudulent applications and transactions, where financial advantage is obtained;
- employment practices and workplace safety: employee relations, diversity and discrimination, and health and safety risks to the Group's employees;
- loss of key staff or inadequate management of human resources including the Chief Executive Officer ("CEO") and the management team of the CEO;
- clients, products and business practices: risk of market manipulation or anti-competitive behaviour, failure to comply with disclosure obligations, product defects, incorrect advice, money laundering and misuse or unauthorised disclosure of customer information;
- business disruption (including systems failures): risk that the Group's banking operating systems are disrupted or fail;
- damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages the Group's buildings or property; and
- execution, delivery and process management: is associated with losses resulting from, among other things, process errors made by the Group's employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider errors, failures in the management of data and data integrity or failed mandatory reporting errors.

Loss from operational risk events may adversely affect the Group's Position. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs,

customer compensation, loss of shareholder value, reputation loss, loss of life or injury to people, and loss of property and/or information.

**11. Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk which may adversely affect the Group's Position**

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

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

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

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

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

**12. Conduct-related risk events or behaviours may adversely affect the Group's Position**

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

Conduct-related risks can result from:

- the provision of unsuitable or inappropriate advice (for example, advice that is not commensurate with a customer's needs and objectives or appetite for risk);
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- sales and/or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice);
- the provision of credit, outside of the Group's policies and standards; and
- trading activities in financial markets, outside of the Group's policies and standards.

The Group is regulated under various legislative regimes in the countries in which it operates that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorised to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes.

There has been an increasing regulatory and community focus on conduct-related risk globally. For further discussion, see risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position" and risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's Position".

Conduct-related risk events may expose the Group to regulatory actions, restrictions or conditions on banking licences and/or reputational consequences which may adversely affect the Group's Position.

### **13. Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the Group's business, which may adversely affect the Group's Position**

The Group and its service offerings (including digital banking) are highly dependent on information technology systems. Therefore, there is a risk that these information technology systems, or the services the Group uses or is dependent upon, might be disrupted, due to hardware or software or third party service provider failure, as well as cyber-attacks, such as a distributed denial of service.

Most of the Group's daily operations are computer-based and information technology systems are essential to providing effective services to customers. The Group is also conscious that threats to information technology systems are continuously evolving and that cyber threats and risk of attacks are increasing. The Group may not be able to anticipate or implement effective measures to prevent or minimise disruptions caused by cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well-resourced. Service disruption risks include the complete or partial failure of platform software or hardware components, including internal data centre or cloud based infrastructure, due to among other things, third party misperformance, capacity constraints to accommodate growth, asset obsolescence, architectural complexity or failed system changes.

To manage these risks, the Group has system resilience, disaster recovery, asset lifecycle, cyber protection and change management measures in place. However,

there can be no guarantee that the steps the Group is taking in this regard will be effective and any failure of systems could result in business interruption, customer dissatisfaction and turnover, legal or regulatory breaches and fines and ultimately damage to reputation and/or a weakening of the Group's competitive position, which may adversely affect the Group's Position.

In addition, the Group has an ongoing obligation to refresh, update and implement new information technology systems, to ensure currency and information security resiliency and to enhance business capabilities and digital banking services for the Group's customers. For example, the Group is working towards implementing the new Open Banking regime and simplified architectures for its core banking applications. The Group may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in complying with regulatory requirements, unstable or insecure systems or a decrease in the Group's ability to service its customers. ANZ New Zealand relies on the Group to provide a number of information technology systems, and any failure of the Group's systems may directly affect ANZ New Zealand.

#### **14. Risks associated with information security including cyber-attacks, may adversely affect the Group's Position**

Information security means protecting information and information technology systems from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, including in Australia, New Zealand, India, the United States, Europe, Singapore and China. This information is processed and stored on both internal and third party hosted environments, hence security controls need to be operated effectively by the Group and its vendors to ensure information is safeguarded.

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

The Group employs a team of information security experts who are responsible for the development and implementation of the Group's Information Security Policy and Controls.

The Group is conscious that cyber threats, such as advanced persistent threats, distributed denial of service, malware and ransomware, are continuously evolving, becoming more sophisticated and increasing in volume and that it may be unable to anticipate and implement control measures effectively and timely to adequately mitigate such risks. Accordingly, information about the Group and/or its customers may be inadvertently or illegally accessed, stolen and inappropriately distributed which could result in breaches of privacy laws, regulatory sanctions and fines, legal action and claims for compensation, or erosion of the Group's competitive market position and loss of reputation.

#### **15. Impact of future climate events, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's Position**

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

Depending on their severity, events such as these may temporarily interrupt or

restrict the provision of some local services such as ANZ branch or business centers or Group services, and may also adversely affect the Group's financial condition or collateral position in relation to credit facilities extended to customers, which may adversely affect the Group's business, operations and financial condition.

**16. Risks associated with lending to customers that could be directly or indirectly impacted by climate risk may adversely affect the Group's Position**

The Group's most material climate-related risks result from its lending to business and retail customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or impacting the value and liquidity of collateral.

The Group's Risk Management Framework incorporates the risks associated with lending to customers that could be directly or indirectly impacted by climate risk, under our material risk category of Credit Risk. The risk could be directly from climate related events, and indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may impact the customer's supply chain or to their own customer's ability to purchase. This may result in credit related losses as a result of the customer being unable or unwilling to repay debt, which may adversely affect the Group's Position.

**17. Liquidity and funding risk events may adversely affect the Group's Position**

Liquidity and funding risk is the risk that the Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that the Group has insufficient capacity to fund increases in assets. Liquidity and funding risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows. Reduced liquidity could lead to an increase in the cost of the Group's borrowings and constrain the volume of new lending, which may adversely affect the Group's Position.

Deterioration in market conditions and/or investor confidence in the Group may materially impact the Group's ability to replace maturing liabilities and access funding (in a timely and cost effective manner), which may adversely impact the Group's Position.

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

**18. Changes in monetary policies may adversely affect the Group's Position**

Central monetary authorities (including the RBA, the RBNZ, the United States Federal Reserve, the Bank of England and the monetary authorities in the Asian jurisdictions in which the Group operates) set official interest rates or take other measures to affect the demand for money and credit in their Relevant Jurisdictions. In addition, in some jurisdictions, currency policy is also used to influence general

business conditions and the demand for money and credit. These measures and policies can significantly affect the Group's cost of funds for lending and investing and the return that the Group will earn on those loans and investments. These factors impact the Group's net interest margin and can affect the value of financial instruments it holds, such as debt securities and hedging instruments. The measures and policies of the central monetary authorities can also affect the Group's borrowers, potentially increasing the risk that they may fail to repay loans. Changes in interest rates and monetary policy are difficult to predict and may adversely affect the Group's Position.

#### **19. Acquisitions and/or divestments may adversely affect the Group's Position**

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

Divestments that the Group has previously announced but not yet completed include:

- OnePath Pensions and Investments in Australia;
- One Path life insurance business in Australia;
- ANZ's 55% interest in Cambodian joint venture ANZ Royal Bank; and
- ANZ's retail, commercial, small-medium sized enterprise banking businesses in Papua New Guinea.

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

There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for the Group's securities. Additionally, there are risks relating to the completion of any particular transaction occurring, including counterparty and settlement risk, or the non-satisfaction of any completion conditions (for example, relevant regulatory or third party approvals). The Group's operating performance, risk profile and capital structure may be affected by these corporate opportunities and there is a risk that the Group's credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. This may adversely affect the Group's ability to conduct its business successfully and impact the Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post - divestment), and the loss of employees, customers, counterparties, suppliers and other business partners may adversely affect the Group's operations or results. Further, there is a risk that completion of an agreed transaction may not occur, including due to failure of the counterparty to satisfy its completion conditions or because other completion conditions such as obtaining relevant regulatory or other approvals are not satisfied.



**20. Sovereign risk events may destabilise global financial markets and may adversely affect the Group's Position**

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

Such events could destabilise global financial markets and adversely affect the Group's Position.

**21. Market risk events may adversely affect the Group's Position**

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For purposes of financial risk management, the Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded market risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations and non-traded equity risk.

**22. Changes in exchange rates may adversely affect the Group's Position**

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

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

**23. Unexpected changes to the Group's licence to operate in any jurisdiction may adversely affect the Group's Position**

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

**24. Insurance risk events may adversely affect the Group's Position**

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. The Group is exposed to insurance risk events, predominantly in the Group's life insurance business in Australia which is a Discontinued Operation, the sale of which is expected prior to the end of financial year 2019. In the Group's life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. If the Group incurs losses due to insurance risk events, such losses may adversely affect the Group's Position.



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

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

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

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

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

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

The Group is also reliant upon Intergovernmental Agreements ("**IGAs**") between the United States and the applicable jurisdictions in which the Group's related entities and subsidiaries are organised continuing to be in effect (in order to overcome any local law impediments). Otherwise the Group may also be subject to broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts.

The CRS provides for the Automatic Exchange of (financial account) Information in tax matters. Over 100 jurisdictions have committed to implement the CRS which now impacts the vast majority of the Group's business globally. Early implementation phases are progressing in many countries in which the Group has operations, for

example, Australia, New Zealand, Cayman Islands, Hong Kong, Japan, Singapore and the United Kingdom.

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

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

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

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

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

## **26. Changes in the valuation of some of the Group's assets and liabilities may adversely affect the Group's earnings and/or equity**

The Group applies accounting standards which require that various financial instruments, including derivative instruments, assets and liabilities classified as fair value through other comprehensive income, and certain other assets and liabilities (as per Note 14 of the 2019 Interim Financial Statements) are measured at fair value with changes in fair value recognised in earnings or equity.

Generally, in order to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other valuation techniques which incorporate the impact of factors that would influence the fair value as determined by a market participant. The fair value of these instruments is impacted by changes in market prices or valuation inputs which may have a material adverse effect on the Group's earnings and/or equity.

In addition, the Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments which are recognised in earnings. The Group is required to assess the recoverability of goodwill balances at least annually and other non-lending related assets including premises and equipment, investment in associates, capitalised software and other intangible assets (including acquired portfolio of insurance and investment business and deferred acquisition costs) where there are indicators of impairment.

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

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

## **27. Changes to accounting policies may adversely affect the Group's financial position and results of operations**

The accounting policies that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the Group's financial position and results of operations. In addition, the application of new or revised accounting standards or interpretations may adversely affect the Group's financial position and results of operations. The impact of new accounting standards effective for the first time in the Group's 2019 financial year is outlined in Note 1 of the 2019 Interim Financial Statements.

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

## **28. Litigation and contingent liabilities may adversely affect the Group's Position**

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

The Group had contingent liabilities as at March 31, 2019 in respect of the matters outlined in Note 19 of the 2019 Interim Financial Statements.

Note 19 includes, among other things, descriptions of:

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

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal 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 interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability and distribution, interest and fees and the entitlement to charge them, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and capital market transactions, reporting and disclosure obligations and product disclosure documentation. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

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

**Responsibility statement of the Directors of ANZBGL in accordance with DTR 4.2.10 R (3)(b) of the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority**

The Directors of Australia and New Zealand Banking Group Limited confirm to the best of their knowledge that:

ANZ's 2019 Half-Yearly Financial Report (as defined on page 1 of this DTR half-yearly financial report submission) includes a fair review of:

- (i) an indication of the important events that have occurred during the first six months of the financial year, and their impact on the Condensed Consolidated Financial Statements; and
- (ii) a description of the principal risks and uncertainties for the remaining six months of the financial year.

Signed in accordance with a resolution of the Directors.



David M Gonski, AC  
*Chairman*



Shayne C Elliott  
*Director*

30 April 2019