



5 November 2018

Company Announcements
Australian Securities Exchange
Level 4
20 Bridge Street
SYDNEY NSW 2000

**Australia and New Zealand Banking Group Limited (ABN 11 005 357 522)
("ANZBGL") - Annual Financial Report submission under the Disclosure and
Transparency Rules of the United Kingdom Financial Conduct Authority ("UK
DTR Submission")**

The attached UK DTR Submission will be lodged by ANZBGL with the London Stock Exchange ("LSE") today, together with the Group's Annual Report and ANZBGL's 2018 Financial Statements for the year ended 30 September 2018. This UK DTR Submission has been prepared by ANZBGL in order to comply with the applicable periodic reporting requirements of DTR 4 of the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority in connection with certain debt securities issued by ANZBGL. For completeness, in addition to lodgement with the LSE, ANZBGL is lodging this UK DTR Submission with the Australian Securities Exchange ("ASX") and the New Zealand Stock Exchange today.

Yours faithfully

Simon Pordage
Company Secretary
Australia and New Zealand Banking Group Limited

Company Secretary's Office
ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands Vic 3008
GPO Box 254, MELBOURNE VIC 3001 AUSTRALIA
www.anz.com



5 November 2018

DISCLOSURE AND TRANSPARENCY RULES – ANNUAL FINANCIAL REPORT SUBMISSION

Australia and New Zealand Banking Group Limited (“ANZBGL” or the “Company”) together with its subsidiaries (“ANZ” or the “Group”) – Annual Financial Report submission under the Disclosure and Transparency Rules (“DTR”) of the United Kingdom Financial Conduct Authority

The following attached documents constitute ANZ’s 2018 Annual Financial Report for the purposes of the disclosure requirements of DTR 4.1:

- The Group’s 2018 Annual Report for the year ended 30 September 2018;
- The Company’s 2018 Financial Statements for the year ended 30 September 2018;
- A description of the principal risks and uncertainties for the Group provided in accordance with DTR 4.1.8 (2); and
- A responsibility statement of the Directors of ANZBGL provided in accordance with DTR 4.1.12 (3)(b).



ANZ's 2018 Annual Report and ANZBGL's 2018 Financial Statements

These documents were separately lodged by ANZ with applicable stock exchanges, including the London Stock Exchange and the Australian Securities Exchange, on 5 November 2018.

Principal risks and uncertainties faced by the Group (DTR 4.1.8 (2))

1. Introduction

The Group's activities are subject to risks that can adversely impact its business, operations and financial condition. The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the specified or unspecified risks actually occur, the Group's business, operations, financial condition, or reputation could be materially and adversely affected. In this section, where we refer to the impact on the Group's business, operations and financial condition and similar references, such references include the impact on the business prospects of the Group.

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

The Group's financial performance is primarily influenced by the political and economic conditions and the level of business activity in the major countries and regions in which the Group operates or trades namely Australia, New Zealand, the Asia Pacific, Europe and the United States.

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

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

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

Changes in global political conditions, such as the 'Brexit' referendum in the United Kingdom on June 23, 2016 (and the related negotiations with the European Union), the commencement of Donald Trump's presidency in January 2017, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries have resulted in increased political and economic uncertainty and volatility in the global financial markets and may continue to do so. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets.

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

Australian political conditions have progressively shifted over recent years. Shorter tenures for Prime Ministers appears to have become more entrenched, and the focus on the societal impacts

of the financial sector, and other business sectors as well, has sharpened. The banking tax and Royal Commission have been initiated in this environment. The Royal Commission process itself appears to have exacerbated this shift, suggesting a sustained period of focus on the financial sector in Australia.

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

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

Should difficult economic conditions in the Group's markets eventuate, asset values in the housing, commercial or rural property markets could decline, unemployment could rise and corporate and personal incomes could suffer. Deterioration in global markets, including equity, property, currency and other asset markets, could impact the Group's customers and the security the Group holds against loans and other credit exposures, which may impact the Group's ability to recover loans and other credit exposures.

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

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

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

Natural and biological disasters such as, but not restricted to, cyclones (for example, Cyclone Debbie in March 2017 and Cyclone Marcus in March 2018), floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may negatively affect general business and economic conditions in the countries or regions in which the Group operates and in turn adversely affect the Group's business, operations and financial condition (see risk factor 16: "Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's business, operations and financial condition").

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

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

The markets in which the Group operates are highly competitive and could become even more so. Factors that contribute to competition risk include mergers and acquisitions, changes in customers' needs, preferences and 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, such as payments, home loans, and credit cards. 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 licenses 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 that may make them more competitive in the markets where the Group operates;
- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the Group may choose not to provide financial services; and
- Open Banking (as defined below) may lead to increased competition (see risk factor 4 “Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group’s business, operations, financial condition and reputation”).

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

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

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

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

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

In Australia, these regulatory and supervisory authorities include, among others, 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, the Reserve Bank of New Zealand (“RBNZ”) and the Financial Markets Authority (“FMA”) have supervisory oversight of the Group’s New Zealand businesses. Prudential regulatory and supervisory authorities such as APRA and RBNZ have extensive administrative, practical and investigative powers over the Group’s businesses. The Group is also subject to regulation and supervision by a number of bodies outside of Australia and New Zealand.

The regulation and supervision of financial services groups such as the Group is increasingly extensive and complex in Australia and the other jurisdictions where the Group conducts business and raises funds. This is particularly the case in the areas of consumer credit and consumer protection (including in the design and distribution of financial products), conduct, funding, liquidity, derivatives, capital adequacy, provisioning, competition, mortgage pricing, remuneration, privacy, data protection, data access, prudential regulation, anti-bribery and corruption, anti-

money laundering and counter-terrorism financing, economic and trade sanctions and executive accountability. The resources allocated to the regulation and supervision of financial services groups, such as the Group has also increased in recent years.

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

- *Prudential Developments:* Implementation of APRA's revisions to the capital and liquidity framework for 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). Subsequently, on 19 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 1 January 2020 at the latest.

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

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

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

APRA's prudential standards may also be further supplemented by yet to be released proposals to implement other key FSI recommendations including to implement a minimum total loss absorbing capacity requirement where certain senior debt could be "bailed in" to recapitalise a stressed financial institution.

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

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

- *Banking Executive Accountability Regime ("BEAR")*: BEAR which became effective on 1 July 2018, is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Potential risks to the Group from the BEAR legislation include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.
- *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018*: The Australian Government has proposed new legislation intended to enhance the regulation of the design and distribution of financial products in Australia and to provide ASIC with product intervention powers.
- *The Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 ("Crisis Management Act")* passed into law in March 2018. The Crisis Management Act amended the Banking Act (among other statutes applicable to financial institutions in Australia) to further enhance APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group, include greater oversight, management and directions powers in relation to the Group entities which were previously not regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments.
- *Anti-Money Laundering and Counter Terror Financing Compliance*: Scrutiny of banks has increased following the commencement by the AUSTRAC of civil penalty proceedings in 2017 against another major Australian bank relating to alleged past and ongoing contraventions of the **Anti-Money Laundering and Counter-Terrorism Financing Act 2006** (Commonwealth) (see risk factor 5 "Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's business, operations, financial condition and reputation").
- *Bank Levies*: The Australian Government imposed a levy on liabilities for certain large banks, including the Group, with effect from 1 July 2017 ("**Major Bank Levy**"). There is a risk that the Australian Government could increase the Major Bank Levy or Australian State and Territory Governments may introduce similar levies which could adversely affect the Group's business operations and financial condition.
- *Responsible consumer lending*: Regulatory policy development and monitoring of responsible consumer lending has increased significantly in recent years, and continues to drive the review of, and changes to, business practices. If any additional changes in law, regulation or policy are implemented, as a result of the development and monitoring of responsible consumer lending, such reviews and changes could adversely affect the Group's business, reputation and financial condition.
- *Parliamentary Enquiries*: There are several on-going Australian Government inquiries into Australia's four major banks. The inquiries could lead to legislative or regulatory changes or other regulatory or other measures that may adversely affect the Group.
- *Financial System Inquiry Report*: The final report of the FSI (released on 7 December 2014) concluded a comprehensive inquiry into Australia's financial system, which was established by the Australian Government in late 2013. The final report of the FSI included

a wide-ranging set of recommendations. In Australia, APRA is responsible for implementing the final recommendations of the FSI that are aimed at strengthening the resilience of Australia's financial system including (among other things) setting capital standards to ensure that capital ratios of Australian ADIs are "unquestionably strong".

- *Australian Consumer Law*: The Australian Parliament passed amendments to the Australian Consumer Law on 23 August 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 Funding*: On 7 August 2018, the Australian Government announced it would inject a further \$70.1 million into the ASIC to ensure it has the resources and powers needed to combat misconduct in the financial services industry and across all corporations for the protection of Australian consumers.
- *ASIC Enforcement Bill*: On 26 September 2018, the Australian Treasury released the Treasury Laws Amendment (ASIC Enforcement) Bill 2018, which proposes to strengthen penalties for corporate and financial sector misconduct consistent with the ASIC Enforcement Review Taskforce recommendations
- *ASX Governance Principles and Recommendations*: On 2 May 2018, the ASX published their Corporate Governance Council consultation draft of a proposed fourth edition of the *Principles and Recommendations*. The proposed amendments are extensive, and if implemented, would have a significant change to corporate governance of listed entities. Submissions to the ASX proposed changes have closed, however the debate on these proposals will likely be ongoing throughout the remainder of 2018. The Council plans to release the final version in early 2019, with the new *Principles and Recommendations* coming in from 1 July 2019.
- *Treasury Laws Amendment (Consumer Data Right) Bill 2018 (to implement "Open Banking")*: Open Banking is part of a new consumer data right in Australia and a key recommendation of a Productivity Commission Inquiry into data availability and use that provides consumers with access and control over their data on all products recommended by the Open Banking Review. Under Open Banking, all major Australian banks (including the Group) will need to make data available on various products including credit and debit cards, deposit and transaction accounts by 1 July 2019 and mortgages by 1 February 2020. Data on all products recommended by the Open Banking Review will be available by 1 July 2020. On 15 August 2018, Treasury released draft legislation and explanatory materials for consultation. The ACCC will be releasing a framework paper on the rules for Open Banking in the second half of the 2018 calendar year. Open Banking may lead to increased competition, which could adversely affect the Group's business, operations and financial condition.
- *Offshore Developments*: In addition to the BCBS reforms described above, there have been a series of other regulatory releases from authorities in various jurisdictions outside of Australia where the Group operates and raises funds that have proposed significant regulatory changes for financial institutions. These changes include, among other things:
 - proposals for changes to financial regulations in the United States (including potential legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule);
 - changes to senior executive accountability in Singapore and Hong Kong;
 - introduction of greater data protection regulations in Europe, including the General Data Protection Regulations which came into effect on 25 May 2018;
 - the Markets in Financial Instruments Directive 2 in the European Economic Area;
 - amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach); and
 - implementation of phases 4 and 5 of the initial margin requirements for uncleared OTC derivatives in various jurisdictions.

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

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

- *Royal Commission:* The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The Commission has been asked to submit its final report by 1 February 2019 (an interim report was released on 28 September 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.
- *Productivity Commission:* The Productivity Commission, an independent research and advisory body to the Australian Government, has undertaken an inquiry into competition in Australia's financial system. The final report of the Productivity Commission was released on 3 August 2018. The Australian Government's response to the final report may lead to regulatory change, which could adversely affect the Group's business, operations and financial condition.
- *Mortgage Price Inquiry:* On 9 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. An interim report was published on 15 March 2018. On 21 June 2018, the Federal Treasurer announced, an extension to the reporting period for the ACCC's inquiry and requested delivery of the final report by no later than 19 November 2018.
- *Foreign Exchange Inquiry:* On 2 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 the jurisdictions in which it operates and obtains funds may adversely affect the Group's business, operations, financial condition and reputation. This may include regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licenses or other enforcement or administrative action or agreements (such as enforceable undertakings). Such failures also may result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For information in relation to the Group's litigation and contingent liabilities, see risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's business, operations, financial condition and reputation" and Note 33 of consolidated financial statements for the financial year ended 30 September 2018 as set out in the Group's 2018 Annual Report ("2018 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 business, operations, financial condition and reputation

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

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

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

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

- residential housing loans (owner occupier and investment); and
- commercial real estate loans.

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to drive underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). Values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, have steadily risen until 2018 and began to fall in the recent months.

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

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

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

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to 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 could result in credit losses. Should material credit losses occur to the Group's credit exposures, this may adversely affect the Group's business, operations and financial condition.

Less 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 financial condition and results, requires subjective and complex judgements, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if the Group fails to analyse the information correctly, the provisions made for credit impairment may be insufficient, which could adversely affect the Group's business, operations and financial condition.

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

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

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These regulatory capital requirements are likely to compound

the impact of any reduction in capital resulting from lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require the Group to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

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

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

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

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

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

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

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

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

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

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

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

- internal fraud: fraud involving employees, contractors or any internal party to the Group who acts by deception or with dishonesty to obtain property belonging to another or obtain financial advantage for themselves or cause any financial disadvantage to the Group or others. This includes financial planners and/or 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 or failed mandatory reporting errors.

Loss from operational risk events could adversely affect the Group's business, operations and financial condition. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputation loss, loss of life or injury to people, and loss of property and/or information.

11. Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk which may adversely affect the Group's business, operations and financial condition

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

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

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

- failures in customer on-boarding where customer identification obligations are not fulfilled;
- 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 could adversely affect the Group's business, operations and financial condition.

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

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

Conduct-related risks can result from:

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

The Group is regulated under various legislative regimes in the countries in which it operates that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff 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 example, in Australia the Royal Commission has been established to inquire into misconduct by financial services entities (see risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation" and risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's business, operations, financial condition and reputation").

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

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

The Group and its service offerings (including digital banking) are highly dependent on information technology systems. Therefore, there is a risk that these information technology systems, or the services the Group uses or is dependent upon, might fail, due to hardware or software failure, as well as unauthorised access or use.

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

developments and the inability of the existing systems to effectively accommodate growth, prevent unauthorised access and integrate existing and future acquisitions and alliances.

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

In addition, the Group has an ongoing need to update and implement new information technology systems, in part to assist the Group in satisfying regulatory demands, ensuring information security, enhancing digital banking services for the Group's customers and integrating the various segments of the Group's business. For example, the Group has recently implemented voice biometrics for customer transactions on mobile devices, implemented the industry New Payments Platform and working towards implementing the new Open Banking regime. The Group may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Group's information security controls or a decrease in the Group's ability to service its customers. ANZ New Zealand relies on the Group to provide a number of information technology systems, and any failure of the Group's systems could directly affect ANZ New Zealand.

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

Information security means protecting information and information technology systems from 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.

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. The Group also uses third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the Group's business.

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

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

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

During 2016 and 2017, there have been various events in Australia that have affected retail, commercial and industrial electricity and gas users. These events include the closure of the Hazelwood coal power station in Victoria, black-outs in South Australia and export demand for Queensland liquefied natural gas.

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

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

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

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

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

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

17. Liquidity and funding risk events may adversely affect the Group's financial performance, liquidity, capital resources, business, operations and financial condition

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that the Group has insufficient capacity to fund increases in assets. Liquidity risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of the Group's borrowings and constrain the volume of new lending, which could adversely affect the Group's profitability. Deterioration in investor confidence in the Group could materially impact the Group's cost of borrowing, and the Group's ongoing operations and funding.

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

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

More recently, the provision of significant amounts of liquidity by major central banks globally has helped mitigate near term liquidity concerns, although no assurance can be given that such liquidity concerns will not return, particularly when this liquidity is incrementally withdrawn by central banks. The manner in which this process unfolds over the coming years will be a major determinant of market conditions and a deterioration in market conditions may limit the Group's ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow the Group's businesses.

18. Changes in monetary policies may adversely affect the Group's business, operations and financial condition

Central monetary authorities (including the RBA, the RBNZ, the United States Federal Reserve, the Bank of England and the monetary authorities in the Asian jurisdictions in which the Group operates) set official interest rates or take other measures to affect the demand for money and credit in their relevant jurisdictions. For instance, the U.S. Federal Reserve increased interest rates in December 2016, March, June and December 2017, and March, June and September 2018, though the Australian Reserve Bank lowered interest rates in May 2016 and August 2016 and has since kept the interest rates on hold. In addition in some jurisdictions, currency policy is also used to influence general business conditions and the demand for money and credit. These measures and policies can significantly affect the Group's cost of funds for lending and investing and the return that the Group will earn on those loans and investments. These factors impact the Group's net interest margin and can affect the value of financial instruments it holds, such as debt securities and hedging instruments. The measures and policies of the central monetary authorities can also affect the Group's borrowers, potentially increasing the risk that they may fail to repay loans. Changes in interest rates and monetary policy are difficult to predict and may adversely affect the Group's business, operations and financial condition.

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

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

Divestments that the Group has announced from 30 September 2017 to the date of this Principal Risk and Uncertainties document include:

- OnePath Pensions and Investments (“P&I”) and aligned dealer group businesses (“ADGs”) in Australia;
- ANZ's interest in Metrobank Card Corporation;
- One Path life insurance business in Australia;
- One Path life insurance business in New Zealand;
- ANZ's 55% interest in Cambodian joint venture ANZ Royal Bank; and
- ANZ's retail, commercial, small-medium sized enterprise banking businesses in Papua New Guinea.

In relation to sale of P&I and ADGs to IOOF, on 1 October 2018 ANZ completed the divestment of ADGs to IOOF and entered into a debt note to transfer a partial economic interest in the expected economics of its P&I business to IOOF from 2 October 2018. Legal completion of the P&I business is expected to occur during the 2019 calendar year.

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

During the fiscal year ended 30 September 2018:

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

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

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

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

Sovereign risk is the risk that foreign governments will default on their debt obligations, be unable to refinance their debts as and when they fall due or 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 liquidity, business, operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group applies accounting standards which require that various financial instruments, including derivative instruments, assets and liabilities classified as held for sale (where fair value is lower than the carrying values) and certain other assets and liabilities (as per Note 17 of the 2018 Financial Statements) are recognised 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 accepted valuation techniques which incorporate the impact of factors that would influence the fair value as determined by a market participant. The fair value of these instruments is impacted by changes in market prices or valuation inputs which could have a material adverse effect on the Group's earnings and/or equity.

In addition, the Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments which are recognised in earnings. The Group is required to assess the recoverability of goodwill balances at least annually and other non-financial assets including premises and equipment, investment in associates, 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, could materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balances.

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

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

The accounting policies that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the Group's financial position and results of operations. In addition, the application of new or revised accounting standards or interpretations could adversely affect the Group's financial position and results of operations. The impact of new accounting standards effective for the Group's 2019 financial year is outlined in Note 1 of the 2018 Financial Statements.

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

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

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

The Group had contingent liabilities as at September 30, 2018 in respect of the matters outlined in Note 33 of the 2018 Financial Statements.

Note 33 includes, among other things, descriptions of:

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

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

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



Responsibility statement of the Directors of ANZBGL in accordance with Rule 4.1.12 (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 2018 Annual Financial Report (as defined on page 1 of this DTR Annual Financial Report submission) includes:

- (i) a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole; together with
- (ii) a description of the principal risks and uncertainties faced by the Group.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'D Gonski'.

David M Gonski, AC
Chairman

A handwritten signature in black ink, appearing to read 'S C Elliott'.

Shayne C Elliott
Director

30 October 2018