3 November 2021

Market Announcements Office
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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 for the year ended 30 September 2021. 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 applicable exchanges, including the Australian Securities Exchange and the New Zealand Stock Exchange today.

Yours faithfully

Simon Pordage
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Approved for distribution by ANZ's Board of Directors

3 November 2021

DISCLOSURE AND TRANSPARENCY RULES – ANNUAL FINANCIAL REPORT SUBMISSION

Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZBGL") 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 2021 Annual Financial Report for the purposes of the disclosure requirements of DTR 4.1:

- The Group's 2021 Annual Report for the year ended 30 September 2021;
- 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 2021 Annual Report

This document was separately lodged by ANZ with applicable stock exchanges, including the London Stock Exchange and the Australian Securities Exchange, on 3 November 2021.

Principal risks and uncertainties faced by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZBGL") and its subsidiaries (ANZBGL together with its subsidiaries, the "Group") (DTR 4.1.8 R (2)) ("Principal Risk and Uncertainties")

Introduction

The Group's activities are subject to risks, including risks arising from the coronavirus ("COVID-19") pandemic, 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, with the result that the trading price of the Group's equity or debt securities could decline, and investors could lose all or part of their investments.

Risks related to the Issuer's business activities and industry

1. The COVID-19 pandemic and future outbreaks of other communicable diseases or pandemics may materially and adversely affect the Group's Position

The outbreak of the novel strain of coronavirus in late 2019, specifically identified as SARS-CoV-2, with the disease referred to as 'COVID-19', has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Governments, including those in Australia and New Zealand, have imposed wide ranging restrictions on, suspensions of, or advice against, regional and international travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions designed to stabilise sovereign nations and financial markets. While certain restrictions have been lifted or modified, governments may in the foreseeable future reintroduce prior restrictions or implement and introduce further measures to contain the spread of COVID-19, for example, in July 2021, the Greater Sydney region of NSW was placed into a protracted lockdown. In addition, although globally and domestically COVID-19 vaccines are being deployed, there are uncertainties associated with the long-term effectiveness of such vaccines and the success of nationwide vaccination programmes. The uncertainties of the COVID-19 pandemic have also increased as a result of the recent spread of new strains of the virus, such as the 'Delta variant'. Further variants may develop that require different government responses and greater restrictions to those adopted to date. Consequently, the duration, severity and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses to the pandemic, remain subject to significant uncertainties.

Major disruptions to community health and economic activity continue to have wide ranging negative effects across most business sectors in Australia, New Zealand and globally, which in turn has impacted demand for the Group's products and services and resulted in a deterioration of the quality of the Group's credit portfolio. Additionally, many of the Group's borrowers have been and continue to be negatively impacted by the COVID-19 pandemic and the Group is exposed to an increased risk of credit loss from borrowers, particularly in the following sectors: transportation (including airlines and shipping); tourism and travel (including accommodation, food and beverage); entertainment; education; retail; and property (particularly shopping malls and hotels). See Notes 1 and 17 of the consolidated financial statements for the financial year ended 30 September 2021 as set out in the Group's 2021 Annual Report ("2021 Financial Statements").

Despite initial concerns about the negative impacts of the COVID-19 pandemic and the threat of a long-term recession, most commercial property markets in the Group's core property markets have been resilient in large part due to government stimulus, record low interest rates and strong investor interest (debt and equity) seeking long-term defensive assets. However, some segments of the economy have experienced more direct and ongoing consequences from the COVID-19 pandemic (e.g. with respect to mobility and tourism) and in these segments cash flows have been impaired and are more volatile, which has impacted serviceability and asset valuations. Furthermore, a highly competitive commercial construction sector, coupled with COVID-19 related supply chain disruption and labour mobility constraints could result in a decline in profit margins, and could also, impact contractors' and sub-contractors' cash flows, working capital needs and liquidity, which may present a completion risk to the Group's commercial property development financing activities.

In response to the COVID-19 pandemic, the Group established a range of accommodations and measures, such as loan payment deferral, designed to assist its personal and business customers but there can be no assurance that these accommodations and measures will be sufficient to prevent or mitigate further hardship, or ensure the delivery of the Group's products and services, and there is a risk that the Group's Position may be materially and adversely affected. For example, there can be no guarantee that at the conclusion of the deferral or suspension period, customers will be able to recommence their loan repayment obligations, leading to a potential increase in credit risk related losses, which could have a material adverse effect on the Group's Position. See Notes 1 and 17 of the 2021 Financial Statements. These accommodations and measures, and any future accommodations and measures while supporting the Group's customers, may in turn have a negative impact on the Group's Position, may negatively impact the Group's net interest margin, and may result in the Group assuming a greater level of risk than it would have under ordinary circumstances and the Group's Position may be materially and adversely affected as a result.

Significant requests for assistance from retail and small business customers have been received by the Group's customer service team. These requests may grow if there are further outbreaks and the Group is continuing to address additional resourcing and process changes to enable it to support its customers. Whilst there have been signs of improvement, in the longer term, asset values may start to deteriorate if a large quantity of retail and business customers liquidate their investments, which may also be exacerbated by the cessation of government assistance, either during, or immediately after, the crisis or due to a decrease in demand for these assets. In both scenarios loan-to-value ratios are expected to be impacted.

Substantially reduced global economic activity has caused substantial volatility in the financial markets and such volatility may continue and is expected to continue, to have a significant impact on the global economy and global markets, as well as on the economies of Australia and New Zealand. Travel restrictions, border controls, social distancing measures, quarantine protocols and other containment measures have contributed, and may continue to contribute, to restricted economic activity in Australia, New Zealand and elsewhere around the world and suppress demand for commodities, interrupt the supply chain for industries, dampen consumer confidence and suppress business earnings and growth prospects, all of which could contribute to ongoing volatility in global financial markets.

Many countries have, at times, experienced large declines in GDP as they restrict activities to manage the spread of the virus, with sharp increases in unemployment rates. These declines in GDP could be exacerbated by further outbreaks, such as due to the emergence of new variants, of the virus. Governments have responded, and some continue to respond, with fiscal stimulus packages/measures as well as traditional and unconventional monetary easing and regulatory forbearance that is designed to offset at least some of the worst effects of the COVID-19 pandemic. While such stimulus measures do not prevent the decrease in economic activity stemming from the widespread movement restrictions aimed at stalling the spread of the virus, they have contributed to economic recovery when restrictions were eased. There may also be further fluctuations in economic activity when economic support policies are withdrawn.

The Australian and New Zealand Governments and their agencies pursued (and may continue to pursue) policies to promote lending by financial institutions. These actions may support providers that compete with the Group. Given the importance of a functioning and competitive banking sector, and the Australian and New Zealand Governments' ongoing desire to pursue a pro-growth agenda in response to the economic disruption caused by the COVID-19 pandemic, it is anticipated that over the longer term the level of competition in the financial services sector will remain a focus area for the Australian and New Zealand Governments. Policy reform in this area may result in increased competitive pressure in the Group's key markets which may adversely affect the Group's Position.

A deterioration of public finances of sovereigns in response to the COVID-19 pandemic combined with pre-existing sovereign risk may lead to further increased volatility and widening credit spreads. In March 2020 there was a substantial impact to market liquidity across most asset classes as market volatility significantly increased. Whilst this level of market volatility has not been repeated since, there is still uncertainty surrounding any future impact on financial markets. The Group's assessment of its valuation of assets and liabilities considers internal and external information, which includes assessing the ongoing impact of the COVID-19 pandemic, and related responses of governments, regulators and businesses, on the carrying values of the Group's assets. There is a high degree of uncertainty associated with the duration and impact of the COVID-19 pandemic which may affect the recoverability of the Group's assets in future periods.

The COVID-19 pandemic has also affected, and can be expected to continue to impact, the Group's ability to continue its operations without interruption or delays due to closure of and restricted access to premises, contagion management and travel restrictions. Any related illness or quarantine of the Group's employees or contractors or suspension of the Group's business operations at its branches, stores or offices could affect the Group's Position. The COVID-19 pandemic has resulted in the adoption of the virtual working environment as 'business as usual' and the Group has focused on the well-being of staff given the pressures of working from home including the risk of ongoing impacts of the COVID-19 pandemic and potential impacts that it may have on employee mental well-being, including the ability to perform duties and operational activities appropriately. Conduct risk, however, may be heightened because of remote working through its impact on employees' behaviour and/or the Group's systems and processes (or through its impact on the Group's ability to monitor such matters). The risk of customer harm over the next twelve months is likely to be shaped by the economic and social impact of the pandemic, and a prioritised area of focus for the Group is mitigating the risk of unfair treatment of borrowers, including those in financial difficulties. As the economy begins to move towards recovery and governments' or the Group's COVID-19 related support measures are wound back, individual customers still enduring hardship may suffer detriment if the Group cannot provide tailored support and sustainable arrangements based on individual circumstances.

In addition, the COVID-19 pandemic has also increased geopolitical risk. Continuing tensions between countries, including between Australia and China, and policy uncertainty could result in further downturns to the domestic and global economies, which in turn could have a material adverse impact on the Group's Position or its ability to execute its strategic initiatives. See Risk Factor 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 ongoing ramifications of the COVID-19 pandemic remain highly uncertain and, as of the date of this document, it is difficult to predict the further spread or duration of the COVID-19 pandemic, including whether there will be further outbreaks and whether and to what extent vaccines or other medical treatments will be effective in curtailing the effects of the COVID-19 pandemic.

All or any of the negative conditions related to the COVID-19 pandemic described above may cause a further reduction in demand for the Group's products and services and/or an increase in loan and other credit defaults, bad debts, and impairments and/or an increase in the cost of the Group's operations. Should any of these occur, the Group's Position could be materially adversely affected.

Actions taken by regulators in response to the COVID-19 pandemic have impacted, and may continue to impact, the Group. As an example, in Australia, the Australian Prudential

Regulation Authority ("APRA") revised its guidance for Authorised Deposit-taking institutions ('ADIs") on capital management (including capital distributions) and, in New Zealand, the Reserve Bank of New Zealand ("RBNZ") made the decision to restrict the payment of dividends on ordinary shares by New Zealand incorporated registered banks during the period of economic uncertainty caused by the COVID-19 pandemic.

To the extent the COVID-19 pandemic continues to adversely affect the Group's Position, it may also have the effect of heightening many of the other risks described in these Principal Risks and Uncertainties.

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 or its customers or counterparties operate, trade or raise funding including, without limitation, Australia, New Zealand, the Asia Pacific region, the United Kingdom ("UK"), Europe and the United States (the "Relevant Jurisdictions").

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

Global political conditions that impact the global economy have led to, and may continue to result in extended periods of increased political and economic uncertainty and volatility in the global financial markets, which could adversely affect the Group's Position. Relatively recent examples of events that have affected (and may continue to affect) global political conditions include the United Kingdom ceasing to be a member of the European Union ("EU") and the European Economic Area on 31 January 2020 (commonly referred to as "Brexit"), and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries, including the United States, China and other countries that are Australia's and New Zealand's significant trading partners and allies.

Following the end of the Brexit transition period on 30 December 2020, aspects of the relationship between the UK and the EU have been governed by the EU-UK Trade and Cooperation Agreement (the "TCA"). The TCA came into effect on 1 May 2021, following its provisional application. The TCA sets out a number of preferential arrangements in areas such as trade in goods and in services, digital trade and intellectual property, but many matters pertaining to the provision of financial services remain uncertain. There are a number of remaining uncertainties regarding, among other things, post-Brexit protocols and arrangements among the parties involved.

Trade, and broader geopolitical, relationships between the United States and some of its trading partners, such as China, remain volatile. The implementation of trading policies or divergent regulatory frameworks by Australia's and New Zealand's key trading partners and allies may adversely impact the demand for Australian and New Zealand's exports and may lead to declines in global economic growth. In particular, China is one of Australia's and New Zealand's major trading partners and a significant driver of commodity demand and prices in many of the markets in which the Group and its customers operate. Any heightening of geopolitical tensions and the occurrence of events that adversely affect China's economic growth and Australia's and New Zealand's economic relationship with China, including the implementation of additional tariffs and other protectionist trade policies, could adversely affect Australian or New Zealand's economic activity, and, as a result, could adversely affect the Group's Position.

Instability in global political conditions, including in the United States, has contributed to economic uncertainty and declines in market liquidity and could increase volatility in the global financial markets and negatively impact consumer and business activity within the markets in which the Group or its customers or counterparties operate, or result in the introduction of new and/or divergent regulatory frameworks that the Group will be required to adhere to.

Should economic conditions in markets in which the Group or its customers or counterparties operate deteriorate, 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. Should any of these occur, the Group's Position could be materially adversely affected.

The Group's financial performance may also be adversely affected if the Group is unable to adapt its 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 or its customers or counterparties operate. Should any of these occur, the Group's Position could be materially adversely affected.

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 more competitive in the future. Competition is expected to increase, including from non-Australian financial service providers who continue to expand in Australia, and from new non-bank entrants or smaller providers in those markets.

Examples of factors that may affect competition and negatively impact the Group's Position include:

- entities that the Group competes with, including those outside of Australia and New Zealand, could be subject to lower levels of regulation and regulatory activity. This could allow them to offer more competitive products and services, because those lower levels of regulation may give them a lower cost base and/or the ability to attract employees that the Group would otherwise seek to employ;
- digital technologies and business models are changing customer behaviour and the competitive environment and 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;
- 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, or may not competitively be able, to provide financial services; and
- Open Banking (as described below) may lead to increased competition (see risk factor 16 "Regulatory changes or a failure to comply with laws, regulations or policies 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, could lead to a material reduction in the Group's market share, customers and margins and adversely affect the Group's Position.

Increased competition for deposits may increase the Group's cost of funding. If 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.

Economic disruptions could have a significant impact on competition and profitability in the financial services sector over the medium term due to funding cost and provision increases, further declines in or persistence of structurally low interest rates, insufficient liquidity, implementation of business continuity plans, changes to business strategies and temporary regulatory safe harbours. The low-growth environment will likely lead to heightened competitive intensity and margin compression.

4. Changes in 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 (investment and development).

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 be a significant driver underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). However, although values for completed tenanted properties and residential house prices, particularly in metropolitan east coast Australian regions rose steadily until 2018, the fall in Australian house prices in 2018 was the largest since the global financial crisis. In the latter part of 2019 and early 2020, property prices across Australia had started to increase, and although this trend was disrupted by COVID-19 (see risk factor 1 "The COVID-19 pandemic and future outbreaks of other communicable diseases or pandemics may materially and adversely affect the Group's Position"), property prices in Australia have risen again in the most recent fiscal year.

Similarly, in New Zealand residential property prices have steadily increased with median prices increasing to a record high in March 2021. In response, the New Zealand Government has introduced a range of initiatives aimed at limiting further price increases, such as mandating that the RBNZ consider the impact on housing when making monetary and financial policy decisions; creating a NZ$3.8 billion fund to accelerate housing supply in the short to medium term by investing in infrastructure like roads and pipes to homes; extending the 'bright-line' test (which is akin to a capital gains tax on investment property if sold within 10 years from date of purchase, previously 5 years); the removal of interest deductibility from 1 October 2021 for residential property investors who hold their investments (acquired on or after 27 March 2021) on capital account as well as phasing out its application on existing residential investments (with concessions for businesses and for "new builds"); and pledging to help Kāinga Ora (the Crown entity responsible for housing and communities) borrow an additional NZ$2 billion to increase land acquisitions to boost housing supply. These measures are intended to moderate the rate of New Zealand residential property price increases.

Longer term, given a prolonged period of asset price inflation and record low interest rates, the Group's portfolio of commercial property loans may become more susceptible to a sudden and material increase in interest rates, which could cause a decline in interest coverage ratios and asset values, which could increase refinance risk and necessitate equity contributions towards debt reduction.

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

Sovereign risk is the risk that 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 defaults may adversely impact the Group directly, through adversely impacting the value of the Group's assets, or indirectly through destabilising global financial markets, thereby adversely impacting the Group's Position.

Sovereign risk exists in many economies, including the United States, the UK, China, Europe, Australia and New Zealand. 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.

6. 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. Losses arising from the occurrence of such market risk events may adversely affect the Group's Position.

7. 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 movements 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 the New Zealand dollar and the U.S. dollar) may adversely affect the Group's reported earnings.

While the Group has put in place hedges to partially mitigate the impact of currency changes, there can be no assurance that the Group's hedges will be sufficient or effective, and any appreciation in the Australian dollar against other currencies in which the Group earns its revenue may have an adverse impact upon the Group's Position.

8. The planned discontinuation of LIBOR and developments affecting other benchmark rates could have adverse consequences on the Group's securities issuances and its capital markets and investment activities

As a result of longstanding global regulatory initiatives, LIBOR (the London Interbank Offered Rate) is being discontinued as a floating rate benchmark. LIBOR has been the principal floating rate benchmark in the financial markets, and its planned discontinuation has affected and will continue to affect the financial markets generally and may also affect the Group's operations, finances and investments specifically, as described below.

On 5 March 2021, ICE Benchmark Administration Limitation (the "IBA"), the administrator of LIBOR, and its regulator, the UK's Financial Conduct Authority (the "FCA"), separately announced the dates on which panel bank submissions for all LIBOR settings will either permanently cease to be published or will cease to be representative of the underlying market and economic reality the rates are intended to measure (with such representativeness not being restored). These dates are (a) 31 December 2021, for all sterling, euro, Swiss franc and Japanese yen settings and the 1-week and 2-month U.S. dollar settings; and (b) 30 June 2023, for the remaining U.S. dollar settings. Subsequently, the Alternative Reference Rates Committee (the "ARRC"), the working group convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York to identify risk-free alternatives to U.S. dollar LIBOR, confirmed the FCA's announcements constituted a "Benchmark Transition Event" under ARRC-recommended fallback language with respect to all U.S. dollar LIBOR settings. The International Swaps and Derivatives Association ("ISDA") also confirmed the FCA announcement was an 'Index Cessation Event' under the fallbacks added to derivatives transactions by Supplement 70 to the 2006 ISDA Definitions.

While significant effort has been made to implement replacement alternative benchmark rates, there are loans, mortgages, securities, derivatives and other financial instruments which remain linked to the LIBOR benchmark. Any failure to successfully implement replacement benchmark rates and execute effective transitional arrangements to address

LIBOR discontinuation could result in disruption in the financial markets, suppress capital markets activities and give rise to litigation claims. In addition, financial markets, particularly the trading market for LIBOR-based obligations, may in general be adversely affected by the planned discontinuation of LIBOR, the alternative reference rates that will be used when LIBOR is discontinued and other reforms related to LIBOR. There is no assurance that any alternative reference rate will be the economic equivalent of the LIBOR setting it is intended to replace. Any or all of these matters could have a negative impact on the Group's Position and on the value of LIBOR-linked securities or other instruments which are issued, funded or held by the Group.

The Group is party to loans, securities, derivatives and other financial instruments that currently use LIBOR as a benchmark rate or are otherwise linked to LIBOR. In some cases, those instruments include terms providing for the relevant interest or payment calculations to be made by reference to an alternative benchmark rate or on some other basis in the event of LIBOR's discontinuation; and such instruments should transition away from LIBOR in accordance with those terms. In cases where an instrument's terms do not include robust fallback provisions or the fallback provisions are considered to be inadequate, the instrument, may need to be amended to add or amend such provisions in line with emerging market standards, or other arrangements may have to be made with regard to such instrument when LIBOR is discontinued. Progress is being made by the Group on the amendment of these types of instruments. In some cases, it may not be possible to amend the relevant terms of LIBOR-linked instruments. The potential legal, regulatory and other consequences if this occurs are uncertain. In any event, implementation of existing fallback provisions or changes made on any other basis may, for example, alter the amounts payable under the relevant instrument, its value and its liquidity, and may result in a mismatch between such instrument and any related contract (such as a hedging agreement). In addition, the process of taking the necessary action with regard to this large volume of contracts prior to the end of calendar year 2021 (for sterling, euro, Swiss franc and Japanese yen settings, or the 1-week or 2-month U.S. dollar settings) and prior to the end of June 2023 (for remaining U.S. dollar settings) involves operational risks for the Group.

Other benchmark rates have been, or may be, reformed (for example, the Euro Interbank Offered Rate ('EURIBOR")). Any such reforms may cause the relevant benchmarks to perform differently than in the past, or the reforms made to the rate may have other consequences which cannot be fully anticipated.

If a benchmark is discontinued, there may or may not be a suitable, similar alternative reference rate and there may be adverse consequences in transitioning to an alternative rate. Any of these developments, and any future initiatives with regard to the regulation of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded or held by the Group; and could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on the Group's Position.

9. 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.

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. There is also the risk of counterparties making claims in respect of completed or uncompleted transactions against the Group that could adversely affect the Group's Position. There can also be no assurance that any acquisition (or divestment) would have the anticipated positive results around cost or cost savings, time to integrate and overall performance. All or any of these factors 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). Further, there is a risk that completion of an agreed transaction may not occur whether in the form originally agreed between the parties or at all, 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. Should any of these integration or separation risks occur, this could adversely affect the Group's Position.

Transactions that the Group has previously announced but not yet completed include a proposed merchant acquiring joint venture arrangement with Worldline, a European payment systems provider. Completion of this transaction, which remains subject to satisfaction of one or more conditions, is expected to occur during the first half of calendar year 2022.

Risks related to the Issuer's financial situation

10. 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.

Whilst the risk of credit-related losses has increased as a result of the impact of the COVID-19 pandemic, the risk of credit-related losses may further increase as a result of a number of factors, including a deterioration in the financial condition of the economies in which the Group or its customers or counterparties operate, a sustained high level of unemployment in the markets in which the Group or its customers or counterparties operate, a deterioration of the financial condition of the Group's customers or 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.

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

Some of the Group's customers and counterparties in or with exposures to the below mentioned sectors are increasingly vulnerable:

- industries impacted by the COVID-19 pandemic particularly those referred to in the risk factor 1 "The COVID-19 pandemic and future outbreaks of other communicable diseases or pandemics may materially and adversely affect the Group's Position";
- industries exposed to the unwinding of government stimulus packages and/or timing of the opening of borders (both domestic and international) as well as industries reliant on consumer discretionary spending;
- the commercial property sector (including construction and contractors) which is exposed to a decline in investor demand for large scale inner city apartment buildings and a material decline in net migration. In some markets, commercial contractors and sub-contractors may face cash flow/liquidity issues over the next 12-24 months as current projects run off and their forward books are diminished. The residential development sector is experiencing supply chain issues, increased costs and labour mobility issues. Earnings for hotel accommodation and certain retail sectors are still being impacted by reduced mobility and the extent of longer-term implications for some offices remains uncertain due to the shift to remote working arrangements;

- industries at risk of sanctions, geopolitical tensions or trade disputes (e.g. technology, agriculture and communications) and/or declining global growth and disruption to global supply chains;
- customers and industries exposed to disruption from physical climate risk (e.g. bushfires, floods, storms and drought), and transition risk (e.g. industry exposed to carbon reduction requirements and resulting changes in demand for goods and services or liquidity). For more information on climate-related risks, see risk factor 29 "Impact of future climate events, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's Position"; and
- industries exposed to the volatility of the United States Dollar as well as the Australian Dollar and New Zealand Dollar.

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.

Credit risk may also arise from certain derivative, clearing and settlement contracts that 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.

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 incomplete, inaccurate or materially misleading.

The Group holds provisions for credit impairment that are determined based on current information and subjective and complex judgements of the impairment within the Group's lending portfolio. 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.

11. 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, the RBNZ and various regulators in the United States, the UK and the countries in the Asia Pacific region. The Group is required by its primary regulator, APRA and the RBNZ for the ANZ Bank New Zealand Limited ("ANZ New Zealand", and, together with its subsidiaries, the "ANZ New Zealand Group") 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 business 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 and the RBNZ have implemented prudential standards to accommodate Basel III. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel III, that 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 risks arising from any regulatory changes (including those arising from APRA's response to the remaining Financial System Inquiry ("FSI") recommendations, further changes from APRA's 'unquestionably strong' requirements, the requirements of the Basel Committee on Banking Supervision ("BCBS"), the RBNZ's reform of capital requirements and the RBNZ's amendments to ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, are described in risk factor 16 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position". Any inability of the Group to maintain its regulatory capital may have a material adverse effect on the Group's Position.

12. 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 negatively affected by a change in the credit ratings or rating outlooks of the Commonwealth of Australia or New Zealand, the occurrence of one or more of the other risks identified in this document, a change in ratings methodologies or by other events. As a result, downgrades in the Group's credit ratings or rating outlooks 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.

On 12 April, 2021, Fitch Ratings ("Fitch") revised the outlook on ANZBGL and ANZ New Zealand to stable from negative and affirmed ANZBGL's and ANZ New Zealand's 'A+' long-term and 'F1' short term issuer default rating. Further, on 7 June 2021, S&P Global Ratings ("S&P") revised its outlook on the long-term ratings on Australia and its outlook on the long-term issuer credit rating for ANZBGL and ANZ New Zealand to stable from negative (having previously revised it to negative from stable on 9 April 2020). S&P also affirmed Australia's 'AAA' long-term and 'A-1+' short-term unsolicited sovereign credit ratings and ANZBGL's and ANZ New Zealand's 'AA-' long-term and 'A-1+' short-term issuer credit ratings.

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

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

13. 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 and volatility in market conditions and/or declines in 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 domestic and in 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 domestic markets is not available or constrained, the Group's ability to access sources of funding and liquidity may be constrained and the Group will be exposed to liquidity and funding risk.

In response to the economic impact of the COVID-19 pandemic, major central banks including in Australia and New Zealand have implemented or expanded the use of alternative monetary policy tools including quantitative easing and certain other facilities that directly provide funding to banks in their relevant jurisdiction, including the Group. If these tools were to be withdrawn or significantly reduced unexpectedly the Group may be required to seek alternative funding.

The availability of 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 and New Zealand's sovereign credit rating). Even if available, the cost of these funding alternatives may be more expensive or on unfavourable terms that may adversely affect the Group's Position.

14. Changes in the valuation of some of the Group's assets and liabilities may adversely affect the Group's earnings and/or equity, and therefore the Group's Position

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 18 of the 2021 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 fair values based on present value estimates or other valuation techniques that 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 that 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 that are recognised in earnings. The Group is required to test the recoverability of goodwill balances and intangible assets with indefinite useful lives or not yet available for use at least annually and other non-lending related assets including premises and equipment, investment in associates, capitalised software and other intangible assets where there are indicators of impairment.

For the purpose of assessing the recoverability of the goodwill balances, the Group uses a multiple of earnings calculation. Changes in the assumptions upon which the calculation is based, together with changes in earnings, 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 charges may be recorded. This, in conjunction with the other potential changes above, could impact the Group's Position.

15. Changes to accounting policies may adversely affect the Group's Position

The accounting policies that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management exercises judgement in selecting and applying many of these accounting policies so that they comply with the applicable accounting standards or interpretations and 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. In addition, the application of new or revised accounting standards or interpretations may adversely affect the Group's Position.

The impact of new accounting standards effective for the first time in the Group's 2021 fiscal year is outlined in Note 1 of the 2021 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 and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under the alternative.

Legal and regulatory risk

16. 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 pace of regulatory change has accelerated in recent years. The Group is subject to a substantial and increasing number of laws, regulations and policies, including industry self-regulation, in the Relevant Jurisdictions in which it carries on business or obtains funding and is supervised by a number of different authorities in each of these jurisdictions. The volume of changes, and resources allocated to the regulation and supervision of financial services groups, such as the Group, and the enforcement of laws against them, including through litigation, has increased substantially in recent years, including in response to community concern regarding the conduct of financial services groups in Australia and New Zealand. As a result, the regulation and supervision of, and enforcement against, financial services groups, including the Group has become increasingly extensive, complex and costly across the Relevant Jurisdictions. Such regulation, supervision and enforcement continue to evolve.

The COVID-19 pandemic has had, and may continue to have an impact on the regulation and supervision of, and enforcement against, financial services groups such as the Group. Any future ramifications of the COVID-19 pandemic remain uncertain and, as of the date of this document, difficult to predict. There have been delays and deferrals to the implementation of regulatory reforms in Australia and New Zealand and a re-ranking of priorities, including enforcement priorities.

Such delays and deferrals could impact the Group's ability to manage regulatory change and increase the risk of the Group not complying with new regulations when they come into effect.

The ongoing COVID-19 pandemic also has the potential to complicate the Group's dealings with its regulators in a number of ways. In particular, disruptions to the Group's business, operations, third party contractors and suppliers resulting from the COVID-19 pandemic may increase the risk that the Group will not be able to satisfy its regulatory obligations or processes and/or address outstanding issues, potentially increasing the prospect of a regulator taking adverse action against the Group. Although there is continuing engagement with regulators with respect to banking industry wide loan repayment deferrals and assistance to customers to get back to making their repayments, the Group remains susceptible to regulatory action where it fails to satisfy its regulatory obligations. For more information on risks relating to the COVID-19 pandemic see risk factor 1 "The COVID-19 pandemic and future outbreaks of other communicable diseases or pandemics may materially and adversely affect the Group's Position".

In Australia:

Prudential Developments

Developments in prudential regulation continue to impact the Group in a material way. Given the number of items that are currently open for consultation with APRA and the RBNZ, the potential impacts on the Group remain uncertain. Further changes to APRA's or the RBNZ's prudential standards 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/or impact the profitability of one or more business lines any of which may adversely affect the Group's Position. Particular points include:

- In August 2021, APRA released the final prudential standard APS111 Capital Adequacy: Measurement of Capital ("APS111"). The most material change from APRA's revision is in relation to the treatment of capital investments for each banking and insurance subsidiary at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:
  - 250% risk weighting up to an amount equal to 10% of ANZBGL's net Level 1 Common Equity Tier 1 ("CET1") capital; and
  - the remainder of the investment will be treated as a CET1 capital deduction.
- APRA has maintained the above proposals, in an update in May 2021, which also includes APRA responses to submissions made by the industry in relation to the issues raised from the October 2019 discussion paper. ANZBGL continues to review the implications of APRA's proposal for its current investments. The net impact on the Group is unclear and will depend upon a number of factors including the capitalisation of the affected subsidiaries at the time of implementation, the final form of the prudential standard, as well as the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on ANZBGL's investment as at 30 September 2021 in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in ANZBGL's Level 1 CET1 capital ratio of up to approximately A$2 billion (approximately 60 basis points). There would be no impact on the Group's Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date has been deferred by APRA to 1 January 2022. In a further update during November 2020, APRA announced, that until the new APS111 is finalised and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10% of an ADI's CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10% of an ADI's CET1 capital.
- In August 2019, APRA announced that it will amend prudential standard APS222 Associations with Related Entities to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA's capital regulations (contained in APS111) will affect the measurement of ADI exposures. The implementation date for these changes has been deferred by APRA from 1 January 2021 to 1 January 2022.
- In July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which

it will require Australian domestic systemically important banks ("D-SIBs"), including ANZBGL, to increase their total capital by 3% of risk-weighted assets ("RWA") by January 2024. Based on the Group's capital position as at 30 September 2021 this represents an incremental increase in the total capital requirement of approximately A$3.7 billion, with an equivalent decrease in other senior funding. APRA has stated that it anticipates that D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. APRA is considering, over the next four years, feasible alternative methods for raising an additional 1% to 2% of RWA. As part of APRA's update on the APS111 consultation in May 2021, APRA has also indicated their intention to work with the industry and the RBNZ on how the RBNZ's proposed new definitions of Additional Tier 1 ("AT1") and Tier 2 capital could contribute towards the overall loss absorbing capacity of banking groups. Subject to appropriate strengthening of cross-border resolution arrangements, APRA could take into account the RBNZ qualifying AT1 and Tier 2 capital when determining the financial resources needed to support the orderly resolution of major banks.

- Implementation of APRA's revisions to the capital framework for ADIs, resulting from the BCBS Basel III capital reforms and the recommendations of the FSI, will continue over the coming years. However, in response to the challenging economic environment resulting from disruption caused by the COVID-19 pandemic, APRA announced a temporary change to its expectations with regards to ADIs maintaining bank capital ratios at the 'unquestionably strong' benchmark of 10.5% for CET1. APRA advised all banks that during this period of disruption resulting from the COVID-19 pandemic, APRA would not be concerned if banks are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy, provided that they continue to meet their other minimum capital requirements.
- APRA has deferred its scheduled implementation of changes to ADIs risk-weighting framework and other capital requirements (capital reforms) by one year. The majority of the capital reforms were initially due for implementation on 1 January 2022, but these have now been revised to 1 January 2023. In December 2020, APRA released a consultation paper regarding proposed changes to the capital framework for ADIs aimed at embedding 'unquestionably strong' levels of capital, improving the flexibility of the framework, and improving the transparency of ADI capital strength. These proposals replaced previous consultation packages released by APRA in 2018 and 2019 in relation to proposed revisions to the capital framework for ADIs. The key aspects of APRA's latest proposal, published in December 2020, are:
  - Increased alignment with internationally agreed Basel standards;
  - Implementing more risk-sensitive risk weights for residential mortgage lending;
  - Introduction of the Basel II capital floor that limits the RWA outcome for Internal Ratings-Based ("IRB") ADIs to no less than 72.5% of the RWA outcome under the standardised approach;
  - Improving the flexibility of the capital framework through the introduction of a default level of the countercyclical capital buffer ("CCyB") and increasing the capital conservation buffer ("CCB") for IRB ADIs;
  - Improving the transparency and comparability of ADIs' capital ratios, including by requiring IRB ADIs to also publish their capital ratios under the standardised approach; and
  - Implementing a Minimum Leverage Ratio for IRB ADIs at 3.5%.
- APRA has indicated in their proposals a decrease in RWA, but this would be offset by the increased capital allocation to regulatory buffers. APRA has also indicated that, as ADIs are currently meeting the 'unquestionably strong' benchmarks, it is not APRA's intention to require ADIs to raise additional capital. Accordingly, APRA has therefore sought to calibrate the proposed capital requirements for ADIs, measured in dollar terms, to be consistent at an industry level with the existing 'unquestionably strong' capital benchmarks for ADIs under the current capital framework. The impact of these proposed changes on individual ADIs (including ANZBGL), however, will vary depending on the final form of requirements implemented by APRA.

- Further updates were made by APRA in June and July 2021 in regards to the capital reforms. APRA provided more details around the timing of implementation of the capital reforms and updates to RWA calibration, with no substantive changes to the key policy objectives as outlined in their December 2020 proposals.
- In response to the COVID-19 pandemic, in April 2020, APRA provided guidance on capital management, which included an expectation that ADIs seriously consider deferring decisions on the appropriate level of dividends. In July 2020, APRA provided an update to their guidance, which included an expectation that ADIs maintain caution on dividends and, for the remainder of the 2020 calendar year, the ADIs seek to retain at least half of their earnings when making decisions on capital distributions. In December 2020, APRA further updated its guidance, whereby from calendar year 2021, APRA will no longer hold banks to a minimum level of earnings retention but ADIs will need to maintain vigilance and careful planning in capital management. APRA stated that the onus will be on Boards to carefully consider the sustainable rate for dividends, taking into account the outlook for profitability, capital and economic environment.
- In July 2021, APRA has also announced the regulatory support for banks offering temporary financial assistance to borrowers impacted by the COVID-19 pandemic. For these eligible borrowers, ADIs will not need to treat a repayment deferral as a loan restructuring or the period of deferral as a period of arrears. This temporary prudential treatment was applicable for eligible loans granted a repayment deferral of up to three months from 8 July 2021 to 30 September 2021.
- The RBNZ has released new capital adequacy requirements for New Zealand banks, which are set out in the Banking Prudential Requirements ("BPR") documents, and are being implemented in stages during a transition period from October 2021 to July 2028. The net impact on the Group is expected to be an increase in CET1 capital of approximately A$1.0 billion between 30 September 2021 and the end of the transition period in 2028 (based on the Group's 30 September 2021 balance sheet). This amount could vary over time subject to changes to capital requirements for ANZ New Zealand (e.g. RWA growth, management buffer requirements), potential dividend payments and the final form of APS111 implementation.
- Additionally, under changes outlined in the BPRs, from 1 January 2022 there will be a 12.5% reduction in the regulatory capital recognition of ANZ New Zealand's existing Additional Tier 1 capital instruments, including its NZ$500 million of mandatory convertible perpetual subordinated securities ("Capital Notes"). As a result, ANZ New Zealand has determined that a Regulatory Event (as defined in the deed poll for the Capital Notes dated 23 February 2015 as amended and restated on 26 June 2019) has occurred in respect of the Capital Notes. The occurrence of a Regulatory Event means that ANZ New Zealand may choose to redeem the Capital Notes at its discretion. A redemption of the Capital Notes is subject to certain conditions, including approval from the RBNZ and the APRA. No decision has been made on whether ANZ New Zealand will redeem the Capital Notes (subject to the regulatory approvals).
- In March 2021, the RBNZ announced that its restrictions on dividends put in place in April 2020 would be eased. The updated restrictions allow ANZ New Zealand to pay up to 50% of its earnings as dividends to its shareholder. This restriction will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restrictions completely, subject to no significant worsening in economic conditions. Further, in March 2021, the RBNZ announced that it would remove the restrictions on redemption of non-CET1 capital instruments. However, as the restriction was in place in May 2020, ANZ New Zealand was not permitted to redeem its Capital Notes on the Optional Exchange Date (25 May 2020) and did not exercise its option to convert in May 2020. Refer above for discussion on the Capital Notes.

Recalibration of ASIC's Regulatory Priorities

Australian Securities and Investments Commission ("ASIC") announced on 23 March 2020, that it will focus its regulatory efforts on challenges created by the COVID-19 pandemic. Since then, ASIC has afforded priority to matters where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. This included a focus on loan deferral programs and customers dealing with hardship. ASIC immediately suspended a number of near-term activities which are not time-critical. These included some consultations, regulatory reports and onsite reviews including ASIC's close and continuous monitoring program. In April 2020, ASIC announced further details of changes to its regulatory work and priorities in light of the COVID-19 pandemic, including that it has stepped up markets supervision work and that enforcement action will continue. However, ASIC stated that there may be changes to the timing and process of investigations it is conducting to take in account the impact of the COVID-19 pandemic. In May 2020, ASIC announced that it would defer the commencement date of the mortgage broker best interest duty and remuneration reforms and the design and distribution obligations by six months to 1 January 2021, and 5 October 2021, respectively.

In August 2021, ASIC released its Corporate Plan for 2021 through 2025, which outlines ASIC's vision to achieve a fair, strong and efficient financial system for all Australians, through four external strategic priorities: (i) promoting economic recovery, including through better and more efficient regulation, facilitating innovation, and targeting regulatory and enforcement action to areas of greatest harm; (ii) reducing risk of harm to consumers exposed to poor product governance and design, and increased investment scam activity in a low-yield environment; (iii) supporting enhanced cyber resilience and cyber security among ASIC's regulated population, in line with the whole-of-government commitment to mitigating cyber security risks; and (iv) driving industry readiness and compliance with standards set by law reform initiatives (including the Financial Accountability Regime, reforms in superannuation and insurance, breach reporting, and the design and distribution obligations). ASIC also stated it intends to take regulatory action during this period to achieve its vision and that its work over the next four years will centre on: changing behaviours to drive good consumer and investor outcomes; acting against misconduct to maintain trust and integrity in the financial system; promoting strong and innovative development of the financial system; and helping Australians to be in control of their financial lives. ASIC also released its new Statement of Intent in response to the Australian Government's Statement of Expectations. The Statement of Intent covers: support for economic goals and COVID-19 pandemic recovery; regulatory co-operation; stakeholder engagement and guidance; use of regulatory tools; and governance.

Royal Commission

The Royal Commission made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA, a number of which have already been addressed. The Australian Government has stated that it remains focused on completing the implementation of the remaining recommendations. Following the Royal Commission, there have been, and continue to be, additional costs and 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 and their impact may adversely affect the Group's Position.

Competition Laws, Regulations and Inquiries

There is a strong focus on the regulation of competition in the Australian and New Zealand financial services sectors. In February 2021, the Australian Competition and Consumer Commission ("ACCC") announced its enforcement priorities for the year and financial services has returned as a key priority. The ACCC noted that it would be following through on the recommendations from the ACCC's Home Loan Price Inquiry final report which was released in December 2020. The recommendations included a prompt to encourage borrowers to consider if they could benefit from switching loan providers, changes to the mortgage discharge process, and an ongoing role for the ACCC to monitor competition and prices in the home loan market. These changes are likely to result in increased compliance costs being incurred by the Group. The ACCC has noted it will heavily scrutinise any mergers or acquisitions, particularly by any of the big four Australian banks and will also keep a close watch on any issues arising from collections as loan deferral periods come to an end. Increased scrutiny by ACCC may result in an associated increase in costs for the Group in addition to adversely impacting the Group's ability to grow through the implementation of potential acquisitions which may in turn, have a negative impact on the

Group's Position.

Product Laws, Regulations and Inquiries

There remains a strong focus on the suitability of products offered by financial services providers, including the Group. Regulatory policy development and monitoring of responsible consumer lending has increased significantly, 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 that may in some respects adversely affect the Group's operations in this area and consequently, the Group's Position. ASIC published updated regulatory guidance on responsible lending laws in December 2019. In December 2020, the Australian Government introduced a bill to make changes to Australia's credit framework, including changes to the responsible lending obligations for ADIs, where APRA will continue to regulate ADIs in relation to existing standards, while ASIC will regulate non ADIs in relation to new standards. Laws for stricter anti-hawking prohibitions in relation to financial products and a deferred sales model for add on insurance have recently been passed. The design and distribution obligation legislation, which came into effect in Australia on 5 October 2021, will introduce requirements on product issuers and distributors to, among other things, identify appropriate target markets for financial and credit products and distribute those products so that they likely reach the relevant target market. There are significant penalties for non-compliance and such legislation could impact the Group's ability to issue and market financial products in the future. Increased compliance costs resulting from financial product distribution requirements may adversely impact the Group's Position.

Increasing Regulatory Powers, Corporate Penalties and Funding for Regulators

There are increased penalties for breaches of laws in Australia, including the Australian consumer law, as well as increased powers to regulators and funding for regulators to enforce breaches. Increasing regulatory powers include ASIC's product intervention power and proposed expansions of ASIC directions powers. The Australian Government announced in March 2019 that ASIC would be provided with more than A$400 million and APRA with more than A$150 million in additional funding to support enforcement actions and increase regulation and supervision. The Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019 significantly increased the sanctions applicable to the contravention of a range of corporate and financial sector obligations. The imposition of such penalties on the Group may adversely affect the Group's Position.

Senior Executive Accountability Laws and Regulations

There are increasing penalties and specialised rules applicable to senior executives in the banking sector. The Banking Executive Accountability Regime ("BEAR") was introduced as a new responsibility and accountability framework for the directors and most senior executives in ADI groups. The Australian Government announced in January 2020 that BEAR will be replaced by the Financial Accountability Regime ("FAR"), which proposes to extend the regime to other APRA-regulated entities. FAR would be jointly administered by APRA and ASIC and could impose larger civil penalties for any breaches, including for individuals. In July 2021, Federal Treasury released for consultation draft documents in relation to FAR. Potential risks to the Group from the BEAR legislation and FAR include the risk of penalties and the risk to the Group's ability to attract and retain high-quality directors and senior executives.

Other government or regulatory interventions in the financial sector

There remain ongoing Australian Government and regulator led inquiries and interventions into Australia's banks. These inquiries are wide ranging and could lead to legislative or regulatory changes or measures that may adversely affect the Group's Position, including through taxes and levies. Scrutiny of banks also increased substantially following the commencement by the Australian Transaction Reports and Analysis Centre ("AUSTRAC") (the Australian Government financial intelligence agency set up to monitor financial transactions to identify money laundering, organised crime, tax evasion, welfare fraud and terrorism financing) of civil penalty proceedings in 2017 and 2019 against two major Australian banks relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth). The Australian Parliament's Joint Standing Committee on Trade and Investment Growth is conducting an inquiry into the prudential regulation of investment in Australia's export industries. The terms of reference focus on prudential standards and practices across banking, insurance and superannuation and how these are impacting businesses and the rural, regional and national economies. ANZBGL has appeared twice before the Standing Committee on Trade and Investment Growth in connection with the inquiry. The Australian Senate Select Committee on Australia as a Technology and Financial Centre is considering a range of issues concerning technology and Australian financial services, including the 'debanking' of fintechs by Australian banks. The impact of the inquiry on ANZBGL, if any, is not yet clear. See also risk factor 18 "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".

<u>Industry self-regulation</u>

There is continued focus on industry best practice guidance and standards impacting retail and small business banking. Changes to self-regulatory instruments, including industry codes and practice guidelines, has required Group resources to implement and monitor compliance. An independent review of the Australian Banking Code is underway with a final report due in November 2021. The report is expected to include recommendations on which provisions should be designated 'enforceable', pursuant to the Financial Services Royal Commission recommendation to allow certain industry code provisions to be deemed as 'enforceable code provisions' (the breach of which would attract civil penalties). ASIC is required to approve any changes made to the Australian Banking Code.

<u>Open Banking Laws</u>

Open Banking is part of a new consumer data right ('CDR') in Australia that came into effect in August 2019. The CDR gives customers access to and control over their data and establishes and seeks to improve consumers' ability to compare and switch between products and services. From 1 July 2020, individual customers can request their bank share their data for deposit and transaction accounts and credit and debit cards and this ability has since been extended to a number of additional products. It is expected to reduce the barriers to new entrants into the banking industry in Australia. Open Banking may lead to increased competition that may adversely affect the Group's Position.

On 23 December 2020, the Australian Government released the report of the Inquiry into Future Directions of the Consumer Data Right. The report contains 100 recommendations for the expansion of the CDR which currently underpins open banking. It includes a recommendation to enable general action initiation (e.g. opening, managing and closing products) and payment initiation by accredited persons through the CDR regime. If the recommendations are implemented by Australian Government this may lead to a further increase in competition. The Australian Government announced it will respond to the report in calendar year 2021. The Australian Treasury is also conducting a strategic assessment of the CDR.

<u>Cyber Security</u>

The Australian Government has expressed its commitment to protecting Australian essential services by improving the security and resilience of critical infrastructure. The Security Legislation Amendment (Critical Infrastructure) Bill 2020 was introduced in December 2020. If passed, the bill would create an enhanced regulatory framework for Australia's critical infrastructure that may include banks. The impact on ANZBGL of the bill, if passed, is not yet clear.

<u>Payments Policy</u>

There are a number of Government bodies considering issues relating to the regulation of payments in Australia. On 30 August 2021, the Australian Government released the final report of a review into the Australian payments system. The report makes 15 recommendations concerning how payments policy is set in Australia and the powers that Government would have to implement that policy. The Australian Treasury is expected to consult on the recommendations ahead of a response being finalised by the Australian Government. The Reserve Bank of Australia ("RBA") is separately reviewing retail payments regulation. It released a consultation paper in May 2021 that suggested, among other things, that major banks be obligated to issue dual-network debit cards. The Parliamentary Joint Committee on Corporations and Financial Services is also conducting an inquiry into mobile payment and digital wallet financial services. The impact of this work on ANZBGL, if any, is not yet clear.

Outside of Australia:

New Zealand Developments

The New Zealand Government and regulatory authorities have proposed, or have implemented, significant legislative and regulatory changes for New Zealand financial institutions. These changes include, among other things: the RBNZ's reform of capital requirements and revised outsourcing policy (BS11), proposed changes to RBNZ's mortgage lending standards, proposed conduct regulations for financial institutions under the Financial Markets (Conduct of Institutions) Amendment Bill, the replacement of the Reserve Bank of New Zealand Act 1989 and the enactment of the Credit Contracts Legislation Amendment Act 2019 ("CCLA Act"). Such changes may adversely affect the ANZ New Zealand Group, potentially impacting its corporate structures, businesses, strategies, capital, liquidity, funding and profitability, cost structures, and the cost and access to credit for its customers and the wider economy. This in turn may adversely affect the Group's Position.

Other Offshore Developments

Other offshore regulatory developments include changes to financial regulations in the United States, changes to senior executive accountability in Singapore, Hong Kong, and the UK, introduction of greater data protection regulations in Europe, implementation of further phases of the initial margin requirements for uncleared OTC derivatives in a number of the Relevant Jurisdictions and the requirement that banks prepare for the reform of EURIBOR and the Singapore Interbank Offered Rate ("SIBOR"), and the discontinuation of LIBOR and other such interbank offered rates by transitioning to risk free rates. For further information in relation to LIBOR risks, see also risk factor 8 "The planned discontinuation of LIBOR and developments affecting other benchmark rates could have adverse consequences on the Group's securities issuances and its capital markets and investment activities" above.

A failure by the Group to comply with laws, regulations or policies in any of the Relevant Jurisdictions could result in 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) that may adversely affect the Group's Position.

The impact of the COVID-19 pandemic on the Group's operations may result in delays to the implementation of regulatory changes or steps required to address commitments made to regulators or publicly. Any delays will be dependent on how regulators choose to adjust the prioritisation, timing and deployment of their supervisory mandate or legislative change.

Such failures may also 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 17 "Litigation and contingent liabilities may adversely affect the Group's Position" and Note 33 of the 2021 Financial Statements.

17. 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 that may adversely affect the Group's Position.

The Group had contingent liabilities as at 30 September 2021 in respect of the matters outlined in Note 33 of the 2021 Financial Statements.

Note 33 includes, among other things, descriptions of:

- regulatory and customer exposures;
- benchmark/rate actions;
- capital raising actions;
- consumer credit insurance litigation;
- Esanda dealer car loan litigation;
- OnePath superannuation litigation;
- New Zealand loan information litigation;
- the Royal Commission;
- security recovery actions; and
- warranties and indemnities.

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. 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. The nature of these interactions can be wide ranging and, for example, include or have included a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. 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.

18. 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 ("AML"), counter-terrorism financing ("CTF") 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 increased transparency of the outcomes of compliance breaches by financial institutions both domestically and globally and the related fines and settlement sums mean that these risks continue to be an area of focus for the Group.

In recent years, there has been an increase in action taken by key AML/CTF regulators against "reporting entities" (in Australia, a "reporting entity" constitutes a legal entity that provides at least one "designated service" to a customer, such as opening a bank account or providing a loan). AUSTRAC continues to publicly communicate its view that many reporting entities in Australia have underinvested in systems and controls required to identify, mitigate and manage their AML/CTF risks.

In late 2019, AUSTRAC commenced civil penalty proceedings against a major Australian bank relating to alleged past reporting contraventions of the Australian Anti-Money Laundering and Counter-Terrorism Financing Act 2006. In September 2020, an agreed statement of facts was filed in Federal Court resulting in a civil penalty of A$1.3 billion being imposed against the bank. This is the largest financial penalty imposed on a financial institution in Australia's history (almost twice the amount of the previous largest AUSTRAC financial penalty) confirming AUSTRAC's continued efforts to penalise significant non-compliance with the AML/CTF regime. Additionally, since 2018 AUSTRAC has had the power to issue infringement notices pursuant to which it can impose significant penalties. It has used this approach twice issuing infringement notices to reporting entities despite the number of breaches in each case being relatively small (less than 100). Further, AUSTRAC and other regulators have exhibited a willingness to promptly exercise their enforcement powers by instituting civil penalty proceedings.

Similarly, the RBNZ has stated that its appetite for taking formal enforcement action for breaches of the New Zealand Anti-Money Laundering and Countering Financing of Terrorism Act 2009 has increased, and the propensity for other regulators (including in Asia and the Pacific) to take action for non-compliance with their local AML/CTF laws has increased. In August 2021, the High Court of New Zealand handed down judgment in a civil case commenced by the RBNZ against a New Zealand retail bank for breaches of the New Zealand AML/CTF laws, imposing a penalty of NZ$3.5 million. The breaches concerned failures in the bank's risk assessment processes and maintenance of its AML/CTF programme. This is the first civil case brought by the RBNZ. In addition, in August 2021, the RBNZ issued a formal warning to the New Zealand branch of a major Australian bank for failing to report Prescribed Transactions as required by the AML/CTF legislation. The formal warning relates to approximately 7,800 reports of outgoing international wire transfers.

While the COVID-19 pandemic continues to evolve at different paces in many of the jurisdictions in which the Group operates, close monitoring of the levels and types of financial crimes continues across the Group. To date, the most notable impact has been the changing types of scams with criminals targeting vulnerable customers using the COVID-19 pandemic as a cover, as well as identity theft and false applications for Government support. There is a continuing risk that the management of alerts for potential money laundering or terrorism financing activities may be slowed due to both resource availability and/or changed working arrangements.

The risk of non-compliance with AML/CTF and sanction laws remains high given the scale and complexity of the Group and the lack of clarity around some mandatory reporting requirements. Emerging technologies, such as virtual currency issuers/exchangers and wallet providers as well as increasingly complex remittance arrangements via fintechs and other disruptors, may limit the Group's ability to track the movement of funds, develop relevant transaction monitoring, and meet reporting obligations. Additionally, the complexity of the Group's technology, and the increasing frequency of changes to systems that play a role in AML/CTF and sanctions compliance puts the Group at risk of inadvertently failing to identify an impact on the systems and controls in place. A failure to operate a robust program to report the movement of funds, combat money laundering, terrorism financing, and other serious crimes 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.

19. 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.

Many central monetary authorities have actively reduced official interest rates in jurisdictions in which the Group operates and are currently considering, implementing or expanding the use of unconventional monetary policies. Central banks worldwide, including the RBA, the U.S. Federal Reserve and the RBNZ cut interest rates during 2019 in response to slowing economic growth and again in 2020 in response to emerging risks from the COVID-19 pandemic. On 3 November 2020, the RBA cut the cash rate target to a historic low rate of 0.1%, in response to the ongoing effect of the COVID-19 pandemic on the Australian economy. The RBNZ also cut the New Zealand Official Cash Rate to a record low of 0.25% in March 2020, although this was subsequently increased to 0.50% in October 2021. Continued low or negative interest rates would likely put pressure on the Group's interest margins and adversely affect the Group's Position.

Changes in interest rates and monetary policy are difficult to predict and may adversely affect the Group's Position.

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

There have been mandatory and substantial changes to, and increasing regulatory focus on, compliance by all global Financial Institutions ("FIs"), including the Group, with global customer tax transparency regimes, including the Foreign Account Tax Compliance Act ("FATCA"), the Organisation for Economic Co-operation and Development's ("OECD's") Common Reporting Standard ("CRS") and similar anti-tax avoidance regimes. This includes enforcement and implementation of detailed rules and frameworks to close down circumventions and deter, detect and penalise non-compliance.

As an in scope FI, the Group operates in a globally interlinked operating environment. In this context, the highly complex and rigid nature of the obligations under the various regimes present heightened operational and compliance risks for the Group. Regulators around the world continue to mature their compliance framework and have a strong focus on enforcement of financial penalties, alongside other more general tax risk framework implications which may result in additional reputational damage in the event of failures. Accordingly, compliance with global customer tax transparency regimes continues to be a key area of focus for the Group.

Ongoing OECD government level peer reviews and regulatory FI compliance reviews continue to increase the scrutiny on FIs, resulting in further tightening of existing obligations and focus on CRS compliance. Each country of adoption is being pushed by the OECD to ensure its penalty regime is sufficient to deter and penalise non-compliance.

Under FATCA and other U.S. Treasury Regulations, the Group could be subject to:

- a 30% withholding tax on certain amounts (including amounts payable to customers), and be required to provide certain information to upstream payers, as well as other adverse consequences, if the ongoing detailed obligations are not adequately met;

and

- broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts if the FATCA Intergovernmental Agreements between the United States and the applicable jurisdictions in which the Group operates cease to be in effect.

Under the CRS, the Group:

- faces challenges in developing countries where the Group has operations, such as the Pacific region. The local regulators in these countries are generally assisted by a 'partner' country which may introduce standards that can be challenging to implement;
- must deal with considerable country specific variations in local law and regulatory implementation, with significant boarder 'justified trust' ramifications and penalties for non-collection or failed reporting in respect of prescribed customer information; and
- along with other FIs, is under increasingly stringent regulatory scrutiny and measures as regulators have turned their focus from the initial establishment of the CRS to the effectiveness of FI implementation. This tightening of the regulatory focus can lead to significant negative experience for affected customers (including unilateral account blocking and closure, and potential direct customer penalties), may adversely affect the Group's Position and if not similarly implemented by other FIs, may present a significant competitive disadvantage.

The scale and complexity of the Group, like other FIs, 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.

On a global scale, natural disasters and the COVID-19 pandemic have resulted in challenges for staff access to systems, tools and information, and have impacted the delivery of the Group's regulatory obligations on requisite timeframes, including mandatory FATCA and CRS regulatory reporting, customer follow-up strategies, resolution and action of regulatory recommendations, as well as continuous improvement activities required to achieve the zero rate of error expected by regulators. The Group's global taxation obligations in relation to the enterprise's own tax lodgements and payments may similarly be impacted. While some level of leniency from global regulators is anticipated, there is still an increasing risk of additional regulatory scrutiny, associated penalties and reputational ramifications resulting from any deficiencies or delays in meeting regulatory obligations to the level of quality and within the timeframes required.

These consequences, individually or collectively, may adversely affect the Group's Position.

21. 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 that prohibit or restrict the Group from trading in a manner that was previously permitted may adversely impact the Group's Position.

Internal control, operations and reputational risk

22. 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, cyber risk, conduct and culture 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 categories include but are not limited to:

- internal fraud (for example, involving employees or contractors);
- external fraud (for example, fraudulent loan applications or ATM skimming);
- employment practices, loss of key staff, inadequate workplace safety and failure to effectively implement employment policies;
- impacts on clients, products and business practices (for example, misuse of customer data or anti-competitive behaviour);
- business disruption (including systems failures);
- reputational risk (see risk factor 24 "Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk, which may undermine the trust of stakeholders, erode the Group's brand and adversely affect the Group's Position");
- cyber risk (see risk factors 26 "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" and 27 "Risks associated with information security including cyber-attacks, may adversely affect the Group's Position");
- conduct and culture risks (see risk factor 25 "Conduct risk events may adversely affect the Group's Position");
- damage to physical assets;
- execution, delivery and process management (for example, processing errors or data management failures); and
- financial crime (see risk factor 18 "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").

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.

Pursuant to APRA requirements, the Group must also maintain "operational risk capital" reserves in the event future operational events occur.

COVID-19 related challenges have resulted in a number of changes to how the Group undertakes its operations including adapting to remote working arrangements. The Group always follows the direction of the relevant government authority regarding permitted places of work. Depending on the environment, this might mean all staff work remotely, or staff are permitted to work from the office under defined workplace occupancy restrictions. Although technology has been successfully deployed to ensure remote working capabilities are available to the relevant staff, greater reliance on digital channels creates heightened risks associated with cyber-attacks and the impact those attacks might have on the Group's systems and service availability, which could affect the Group's technology assets as well as third party technology suppliers and critical services on which the Group relies, such as telecommunications operators.

All or any of the impacts described above may cause a reduction in productivity or delays in completing important activities or increased regulatory scrutiny, which could subsequently result in customer remediation activities, or fines, all of which may adversely affect the Group's Position.

23. Human Capital Risk, which relates to the inability to attract, develop, motivate and retain the Group's people to meet current and future business needs, could result in poor financial and customer outcomes and reduce the ability of the Group to

deliver against customer and other stakeholders' expectations

Key executives, employees and Directors play an integral role in the operation of the Group's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or the Group's failure to recruit and retain an appropriately skilled and qualified person into these roles, could have an adverse effect on the Group's Position. These risks may be further exacerbated by the ongoing impacts of the COVID-19 pandemic, including on employee well-being, social and employment choices.

24. Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk, which may undermine the trust of stakeholders, erode the Group's brand and adversely affect the Group's Position

The Group's reputation is a valuable asset and a key contributor to the support that it receives from the community in respect of its business initiatives and its ability to raise funding or capital.

Reputational risk may arise as a result of an external event or the Group's actual or perceived actions and practices, which include operational and regulatory compliance failures. The occurrence of such events may 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 which are continually changing and evolving. 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 its 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, reputational damage may also arise from the Group's failure to effectively manage risks, enforcement or supervisory action by regulators, adverse findings from regulatory reviews and failure or perceived failure to adequately respond to community, environmental and ethical issues.

While impacts of the COVID-19 pandemic are ongoing, and the longer-term financial and non-financial effects are yet to be fully realised, it is possible there may be unintended consequences from the Group's actions which may give rise to negative perceptions about the Group.

Additionally, certain operational and regulatory compliance failures or perceived 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;
- 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 funding, increased regulatory scrutiny, regulatory enforcement actions, additional legal risks 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.

25. Conduct risk events may adversely affect the Group's Position

The Group defines conduct 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 risks include:

- the provision of unsuitable or inappropriate advice to customers;
- 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;
- inadequate management of complaints or remediation processes;
- a failure to respect and comply with duties to customers in financial hardship; and
- unauthorised trading activities in financial markets, in breach of the Group's policies and standards.

There has been an increasing regulatory and community focus on conduct risk, including in Australia and New Zealand. The Group has a centralised and dedicated team tasked with undertaking a variety of customer remediation programs, including to address specific conduct issues identified in Group reviews. Conduct risk events may expose the Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences that may adversely affect the Group's Position. It is possible that remediation programs may not be implemented appropriately or may lead to further remediation work being required, resulting in litigation, regulatory action and/or increasing cost to the Group, all of which may adversely affect the Group's Position.

For further discussion of the increasing regulatory focus on conduct risk, see risk factor 16 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position" and risk factor 17 "Litigation and contingent liabilities may adversely affect the Group's Position".

26. 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's day-to-day activities and its service offerings (including digital banking) are highly dependent on information technology ("IT") systems. Disruption of IT systems, or the services the Group uses or is dependent upon, may result in the Group failing to meet its compliance obligations and/or customers' banking requirements.

The Group has an ongoing obligation to maintain its IT systems and to identify, assess and respond to risk exposures caused by the use of technology including IT asset lifecycle, IT asset project delivery, technology resilience, technology security, use of third parties, data retention/restoration or business rules and automation. Inadequate responses to these risk exposures could lead to unstable or insecure systems or a decrease in the Group's ability to service its customers, increased costs, and non-compliance with regulatory requirements, which may adversely affect the Group's Position. As an example, in response to the COVID-19 pandemic, more of the Group's staff and third-party contractors are working remotely or from alternative work sites, which has put additional stress on the Group's productivity and remote access to systems.

The Group has incident response, disaster recovery and business continuity measures in place designed to ensure that critical IT systems will continue to operate during both short-term and prolonged disruption events for all businesses across the Group's network, including ANZ New Zealand, which relies on the Group to provide a number of IT systems. A failure of the Group's systems may affect ANZ's network, which may in turn, adversely affect the Group's Position. The COVID-19 pandemic has highlighted that these arrangements must cater for vast and improbable events, and ensure critical information systems can be supported and accessed by a large number of technology and business users for extended periods. If such measures cannot be effectively implemented, this may adversely affect the Group's Position.

In addition, the Group must implement and integrate new technology systems, most notably Cloud technologies, into the existing technology landscape to ensure that the Group's technology environment is cost-effective and can support evolving customer requirements. Inadequate implementation and integration of these systems, incorrect assessments of the risks they pose or improper management of the supply chain for new technologies may adversely affect the Group's Position.

This risk factor should be read in conjunction with risk factor 27 "Risks associated with information security including cyber-attacks, may adversely affect the Group's Position" as information security breaches and cyber-attacks have the potential to result in the disruption of information technology systems.

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

The primary focus of information security is to protect information and technology systems from disruptions to confidentiality, integrity or availability. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, from the multiple geographies in which the Group operates. This information is processed and stored on both internal and third party hosted environments. Any failure of security controls operated by the Group or its third parties could adversely affect the Group's business.

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

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. The COVID-19 pandemic has increased the number of staff working offsite for an extended period, which may increase information security risks to the Group. Cyber criminals may attempt to take advantage through pursuing exploits in end point security, spreading malware, and increasing phishing attempts.

Additionally, failures in the Group's cybersecurity policies, procedures or controls, could result in loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these events could result in significant financial losses (including costs relating to notification of, or compensation for customers), regulatory investigations or sanctions or may affect the Group's ability to retain and attract customers, and thus may adversely affect the Group's Position.

28. Modelling risks may adversely affect the Group's Position

As a large financial institution, the Group relies on a number of models for material business decisions including but not limited to calculating capital requirements, provision levels, customer compensation payments and stressing exposures. If the models used prove to be inadequately designed, implemented or maintained or based on incorrect assumptions or inputs this may adversely impact the Group's Position.

Environmental, social and governance risks

29. 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 such as COVID-19, which is causing significant impacts on the Group's operations and its customers.

Parts of Australia are prone to, and have recently experienced, extreme climate events such as severe drought conditions, bushfires in 2019/2020, and severe flooding in 2021. The impact of these events can be widespread, extending beyond primary producers to customers of the Group who are suppliers to the agricultural sector, and to those who reside in, and operate businesses within, impacted communities. The impact of these losses on the Group may be exacerbated by a decline in the value and liquidity of assets held as collateral, which may impact the Group's ability to recover its funds when loans default.

Depending on their frequency and severity, these extrinsic events may continue to interrupt or restrict the provision of some local services such as the Group branch or business centres 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 in turn may adversely affect the Group's Position.

New regulations or guidance relating to climate change, as well as the perspectives of shareholders, employees and other stakeholders regarding climate change, may affect whether and on what terms and conditions the Group engages in certain activities or offer certain products.

30. The Group's risk management framework may fail to manage all existing risks appropriately or detect new and emerging risks fast enough, which could adversely affect the Group's Position

Risk management is an integral part of the Group's activities and includes the identification and monitoring of the Group's risk appetite and reporting on the Group's risk profile and effectiveness of identified controls. However, there can be no assurance that the Group's risk management framework will be effective in all instances including in respect of existing risks, or new and emerging risks that the Group may not anticipate or identify in a timely manner and/or for which its controls may not be effective. Failure to manage risks effectively could adversely impact the Group's reputation or compliance with regulatory obligations.

The effectiveness of the Group's risk management framework is also connected to the establishment and maintenance of a sound risk management culture, which is supported by appropriate remuneration structures. A failure in designing or effectively implementing appropriate remuneration structures, could have an adverse impact on the Group's risk culture and effectiveness of the Group's risk management frameworks.

The Group seeks to continuously improve its risk management frameworks. It has implemented, and regularly reviews, its risk management policies and allocates additional resources across the Group to manage and mitigate risks (including conduct risk). However, such efforts may not insulate the Group from future instances of misconduct and no assurance can be given that the Group's risk management framework will be effective. A failure in the Group's risk management processes or governance could result in the Group suffering unexpected losses and reputational damage, and failing to comply with regulatory obligations, which could adversely affect the Group's Position.

While these principles continue to underpin the Group's risk management framework, the ongoing COVID-19 pandemic requires the Group to continue to maintain good practices and a robust risk management framework as its operational activities continue to evolve, so as to manage the impacts of the pandemic both to its workforce and customers. In these circumstances, a failure in the Group's risk management processes or governance could adversely affect the Group's Position.

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

The risks associated with climate change are subject to increasing regulatory, political and societal focus, including in Australia and New Zealand. APRA has released a draft prudential practice guide that is designed to assist regulated entities (including the Group) in managing climate-related risks and opportunities as part of their existing risk management and governance frameworks. APRA is also conducting its first climate vulnerability assessment in calendar year 2021 to (i) assess banks' potential financial exposure to climate risk; (ii) understand how banks may adjust business models and implement management actions in response to different scenarios; and (iii) foster improvement in climate risk management capabilities. If enacted in New Zealand, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill will require ANZBGL and ANZ New Zealand, as 'climate reporting entities', to annually prepare, seek independent assurance for and make public disclosures on the management of, and effects of climate change to their business, in accordance with climate-related disclosure standards, to be issued by the External Reporting Board. Embedding climate change risk into the Group's risk management framework in line with APRA's and other stakeholders' expectations and adapting the Group's operation and business strategy to address both the risks and opportunities posed by climate change and the transition to a low carbon economy, could have a significant impact on the Group.

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, which may adversely affect the Group's Position. The risk to the Group through credit-related issues with the Group's customers could result 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.

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 2021 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.

Paul D O'Sullivan
Chairman

Shayne C Elliott
Managing Director

27 October 2021