2 May 2017

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

**Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZ") - Half-Yearly 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 ANZ with the London Stock Exchange today, together with ANZ's Half Year Results for the six month period ended 31 March 2017. This UK DTR Submission has been prepared by ANZ 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 ANZ. For completeness, ANZ is lodging this UK DTR Submission with the Australian Securities Exchange and the New Zealand Stock Exchange today.

Yours faithfully

**Simon Pordage**
**Company Secretary**
Australia and New Zealand Banking Group Limited

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

**Australia and New Zealand Banking Group Limited (ANZ) – Half-yearly financial report under the 'Disclosure and Transparency Rules' (DTR)**

The following attached documents constitute ANZ's 2017 half-yearly financial report for the purposes of the disclosure requirements of DTR 4.2:

- The Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements for the half year ended 31 March 2017, Directors' Report (including matters included by reference) and Directors' Declaration (as set out on pages 74 to 102 of ANZ's Half Year 31 March 2017 Consolidated Financial Report Dividend Announcement and Appendix 4D);

- A description of the principal risks and uncertainties for the remaining six months of the financial year provided in accordance with DTR 4.2.7 (2); and

- A directors' responsibility statement provided in accordance with DTR 4.2.10 (3)(b).

**ANZ's Half Year 31 March 2017 Consolidated Financial Report Dividend Announcement and Appendix 4D**

Copy previously lodged with ASX

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

## PRINCIPAL RISKS AND UNCERTAINTIES

### *1. Introduction*

The Group's activities are subject to risks that can adversely impact its business, operations and financial condition. The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occurs, the Group's business, operations, financial condition, or reputation could 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 investment.

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

The Group's financial performance is primarily influenced by the political and economic conditions and the level of business activity in the major countries and regions in which it operates or trades, i.e., Australia, New Zealand, Asia Pacific, Europe and the United States. The Group's business, operations, and financial condition can be negatively affected by changes in political and economic and business conditions in these markets.

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

For example, the global financial crisis that commenced in 2007 saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the emergence of many challenges for financial services institutions worldwide that still persist to some extent in many regions. Sovereign risk and its potential impact on financial institutions in Europe and globally subsequently emerged as a significant risk (see risk factor 5 'Sovereign risk may destabilise global financial markets adversely affecting all participants, including the Group').

The impact of the global financial crisis and its aftermath continue to affect regional and global economic activity, confidence and capital markets. Prudential authorities have implemented and continue to implement increased regulations to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective. The global financial crisis has also had a lasting effect on consumer and business behaviour in the advanced economies. Consumers have acted more cautiously, while businesses have been reluctant to invest and inflation has remained low. Monetary authorities responded by introducing zero and near-zero interest rates across most countries, while the major central banks have taken unconventional steps to support growth and raise inflation. While some economic factors have recently improved and some monetary authorities have begun to increase interest rates, lasting impacts from the global financial crisis and the potential for escalation in geopolitical risks suggest ongoing vulnerability and potential adjustment of consumer and business behaviour. On 23 June 2016, the United Kingdom voted to leave the European Union in a referendum and on 29 March 2017 gave notice under Article 50 of the Treaty on European Union to commence the legal process to end the United Kingdom's membership in the European Union. The Group expects there will be an extended period of increased uncertainty and volatility in the global financial markets while the details of the departure (known as

'Brexit') are negotiated. The United Kingdom's decision to leave the European Union may adversely affect the Group's ability to raise medium or long term funding in the international capital markets. There is potential for further consequences of Brexit to adversely impact the financial markets. In addition, a series of elections in key Eurozone countries during 2017, particularly in France and Germany, could heighten risk to the global business environment and increase market volatility.

Furthermore, since the start of his presidency in the United States in January 2017, President Donald Trump has outlined a political and economic agenda that, in certain ways, significantly differs from previous U.S. trade, tax, fiscal, regulatory and other policies. The extent, implementation and outcome of policy changes resulting from President Trump's agenda, and the consequences for global trade, the broader global economy and financial markets, are uncertain, and may negatively impact the Group.

Other current economic conditions impacting the Group and its customers include changes in the commercial and residential real estate markets in Australia and New Zealand (see risk factor 6 'Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect its business, operations and financial condition'). The demand for natural resources is also an important economic influence given that sector is a significant contributor to Australia's economy and that sector's significant exposure to Asia, particularly China and China's economic growth (see risk factor 21 'An increase in the failure of third parties to honour their commitments in connection with the Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition').

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

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

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

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

Natural and biological disasters such as, but not restricted to, cyclones, floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters on domestic and global conditions can adversely impact the Group's ability to continue operating or trading in the country or countries directly or indirectly affected, which in turn may adversely affect the Group's business, operations and financial condition. In March 2017, certain of the Group's customers were affected by Cyclone Debbie in Queensland and New South Wales. For further discussion in relation to natural and biological disasters, refer to risk factor 23 'The Group may be exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect its business, operations and financial condition'.

Other economic and financial factors or events that may adversely affect the Group's performance, and give rise to operational and markets risk are covered in risk factors 13 ('The Group is exposed to market risk, which may adversely affect its business, operations and financial condition') and 14 ('Changes in exchange rates may adversely affect the Group's business, operations and financial condition').

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

The markets in which the Group operates are highly competitive and could become even more so. Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors, and regulatory changes in the rules governing the operations of banks and non-bank competitors. For example, changes in the financial services sector in Australia and New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks, such as payments, home loans, and credit cards. In addition, existing companies from outside of the traditional financial services sector may seek to obtain banking licences to directly compete with the Group by offering products and services traditionally provided by banks. In addition, banks organised in jurisdictions outside Australia and New Zealand are subject to different levels of regulation and some may have lower cost structures. Increasing competition for customers could also potentially lead to a compression in the Group's net interest margins or increased advertising and related expenses to attract and retain customers.

Digital technologies and business models are changing customer behaviour and the competitive environment. Emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models in the financial services sector.

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

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

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

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

### *5. Sovereign risk may destabilise global financial markets adversely affecting all participants, including the Group*

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

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

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

- Residential housing loans, owner occupier and investment; and
- Commercial real estate loans.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and commercial property) the Group holds against loans which may impair the Group's ability to recover amounts owing to the Group if customers or counterparties were to default. Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to drive underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). Values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, have steadily risen.

A significant decrease in Australian and New Zealand housing valuations triggered by, for example, an event or a series of events in the local or global economy or lack of confidence in market values, could adversely impact the Group's home lending activities because borrowers with loans in excess of their property value show a higher propensity to default and, in the event of such defaults the Group's security values would be eroded, causing the Group to incur higher credit losses, which could adversely affect the Group's financial performance and condition. The demand for the Group's home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make the Group's lending products less attractive to potential homeowners and investors.

Recently, the Australian Bureau of Statistics reported that Australian housing prices rose 4.1% over the quarter ended December 31, 2016, the strongest quarterly growth in Australian housing prices since the quarter ended June 30, 2015. Additionally, prompted by Australian housing price appreciation and rising Australian household debt, APRA introduced a new supervisory measure instructing Australian banks, including the Group, to limit new residential interest-only mortgages to 30% of total new residential mortgage lending. Should the Group's regulators impose further supervisory measures impacting the Group's residential lending or if Australian housing price growth subsides or property valuations decline, the demand for the Group's home lending products may decrease which may adversely affect the Group's business, operations and financial condition.

A significant decrease in commercial property valuations or a significant slowdown in Australia, New Zealand or other commercial real estate markets where the Group does business could result in a decrease in the amount of new lending the Group is able to write and/or increase the losses that the Group may experience from existing loans, which, in either case, could materially and adversely impact the Group's financial condition and operations. The Group's portfolio of commercial property interest only loans, may be particularly susceptible to losses in the event of a decline in property prices as a result of refinance risk and deteriorating security values. A material decline in residential housing prices could also cause losses in the Group's residential build to sell portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the Group is forced to re-sell these dwellings at a loss.

Although the Group reduced the leverage it generally provides for commercial property developers and investors and tightened its general lending conditions during 2016, the Group could still be adversely affected by the weakening of real estate markets in Australia, New Zealand or other markets where the Group does business.

### *7. The Group is exposed to liquidity and funding risk, which may adversely affect its business, operations and financial condition*

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

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

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

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

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

### *8. Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition*

As a financial institution, the Group is subject to detailed laws and regulations in each of the jurisdictions in which it operates or obtains funding, including Australia, New Zealand, the United States, Europe and Asia Pacific. The Group is also supervised by a number of different regulatory and supervisory authorities.

The Group is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which it operates or obtains funding.

Compliance risk arises from these legal, regulatory and internal compliance requirements. If the Group, or an employee of the Group, fails to comply, the Group may be subject to fines, other penalties or restrictions on its ability to do business and it may lose customer confidence and business, which could have a material adverse impact on the Group. In Australia, an example of the broad administrative power available to regulatory authorities is the power available to APRA under the Banking Act in certain circumstances to investigate the Group's affairs and/or issue a direction to the Group (such as direction to comply with a prudential requirement, to conduct an audit, to remove a director, executive officer or employee or not to undertake a transaction). Other regulators also have the power to investigate the Group. For further information see Note 41 of ANZ's 2016 Annual Financial Statements and Note 19 of the 2017 Half Year Financial Statements.

Recent public scrutiny of banking culture has led to an inquiry by the Australian House of Representatives Standing Committee on Economics into the four major Australian banks (including ANZ) focussed on consumer protection and transparency in the banking sector. A first report of the Committee was issued in November 2016 and a second report is expected. In addition, in April 2016, public scrutiny of banking culture led to a proposal by the Australian Labor Party (the political party in opposition to the government) to establish a Royal Commission to investigate Australian banks. Regulatory investigations, fines, other penalties or regulator imposed conditions could adversely affect the Group's business, reputation, prospects, financial performance or financial condition.

Similar to other financial services providers, the Group faces increasing supervision and regulation in most of the jurisdictions in which the Group operates or obtains funding. In particular, the Group must comply with supervision and regulation in the areas of funding, liquidity, product design and pricing, capital adequacy, conduct and prudential regulation, cyber-security, anti-bribery and corruption, anti-money laundering and counter-terrorism financing and trade sanctions.

The Group has fully implemented the requirements of the Basel Committee on Banking Supervision's ('BCBS') and APRA's capital reform packages (and APRA's implementation thereof) aimed at implementing Basel 3 and strengthening the resilience of the banking and insurance sectors. Details of these reforms are contained in APRA's prudential standards which implement the Basel 3 capital reforms, and which took effect from 1 January 2013.

In addition to the above, Basel 3 requirements include liquidity reforms. Consistent therewith, APRA requires the Group to comply with the Liquidity Coverage Ratio ('LCR') requirements with effect from 1 January 2015 and the Group will also be required to comply with the Net Stable Funding Ratio ('NSFR') requirements, with effect from 1

January 2018. Certain regulators in jurisdictions where the Group has a presence have also either implemented or are in the process of implementing Basel 3 and equivalent reforms.

In November 2014, the Financial Stability Board ('FSB') issued a consultative document that defined a global standard for minimum amounts of Total Loss-Absorbing Capacity ('TLAC') to be held by global systemically important banks ('G-SIBs'), with the objective of ensuring that G-SIBs have the loss absorbing and recapitalization capacity so that critical functions continue without requiring taxpayer support or threatening financial stability. While the Group is not currently subject to TLAC as it is not a G-SIB, should APRA decide to impose TLAC or similar regulations on the Group, it could increase the level of regulatory capital that the Group is required to maintain and could adversely affect the Group's business, financial performance or financial condition.

Separately, since 2014, the BCBS has also released a number of consultation documents as part of its reforms aimed at simplifying the measurement of risk-weighted assets and reducing their variability across banks and jurisdictions. Consultation and finalisation of these reforms are current and on-going. Any impacts on the Group resulting from these reforms cannot be determined as final calibration is still to be finalised by the BCBS and they are also subject to the form of these proposals that APRA will implement in Australia.

In addition, there have also been a series of other regulatory releases from authorities in the various jurisdictions in which the Group operates or obtains funding that propose significant regulatory change for financial institutions. This includes proposals for changes to financial regulations in the United States (including the Dodd-Frank Act and its Volker Rule) which are under review as a result of an executive order released in February 2017, changes to senior executive accountability in Singapore and Hong Kong, more data protection regulations in Europe, the Markets in Financial Instruments Directive 2 in Europe and amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach). United Kingdom and European authorities may also propose significant regulatory changes as a result of 'Brexit', however the scope and timing of any such changes remains uncertain.

The Final Report of the Financial System Inquiry ('FSI') (released on 7 December 2014) which concluded a comprehensive inquiry into Australia's financial system established by the Australian Government in late 2013, included a wide-ranging set of recommendations. The Government has authorised APRA to take forward a number of the FSI's recommendations, particularly as they related to the resilience of the financial system. Key recommendations from the FSI Final Report that may have an impact on regulatory capital levels include:

- setting capital standards ensuring that capital ratios of ADI's are 'unquestionably strong';
- raising the average internal ratings-based ('IRB') mortgage risk weight to narrow the difference between average mortgage risk weights for ADIs, which use IRB models, and those that use standardised risk weights in order to increase competition in mortgage lending;
- implementing a framework for minimum loss absorption and recapitalisation capacity in line with emerging international practice;
- developing a common reporting template that improves the transparency and comparability of capital ratios of ADIs; and
- introducing a leverage ratio that acts as a backstop to ADIs' risk-based capital requirements, in line with Basel 3.

APRA supported the FSI's recommendation that the capital ratios of ADIs should be unquestionably strong and, with effect from July 2016, increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach to credit risk (including the Group). In March 2017, APRA announced that the main policy item for its 2017 agenda is to set the capital standards that will result in capital ratios necessary for ADIs to meet the FSI's 'unquestionably strong' requirements.

Apart from the announcements mentioned above, APRA has not implemented any of the other key recommendations in the FSI Final Report to date. However, APRA is expected to assess the impact of impending BCBS reforms (such as simplifying the measurement of risk-weighted assets) and to consider other measures relating to financial resilience, such as liquidity, funding, asset quality, and recovery and resolution planning relating to the FSI's recommendations. Accordingly, the final outcome of the FSI, including any impacts and the timing of these impacts on the Group, remain uncertain. In addition, there are several ongoing Government enquiries and proposals for new enquiries which may affect the Group and its business, though the impact of the enquiries and proposals for new enquiries cannot be determined at at this stage.

APRA is currently undertaking several open consultations, including those related reporting requirements for the countercyclical capital buffer, liquidity measures and securitisation, as well as other areas of focus. Until these are finalised, the impact to the Group is unknown. A new APRA prudential framework for ADI counterparty credit risk is also expected to commence in January 2019 at the earliest.

Regulation is becoming increasingly extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. This may result in conflicts with specific requirements of the jurisdictions in which the Group operates and, in addition, such changes may be inconsistently introduced across jurisdictions. Changes may also occur in the oversight approach of regulators. It is possible for example that governments in jurisdictions in which the Group operates or obtains funding might revise their application of existing regulatory policies that apply to, or impact, the Group's business, including for reasons relating to national interest and systemic stability.

Regulatory changes and the timing of their introduction continue to evolve. The nature and impact of future changes are not predictable and are beyond the Group's control. Regulatory change may impact the Group in a range of ways, such as by requiring the Group to change its business mix, incur additional costs as a result of increased management attention, raise additional amounts of higher-quality capital (such as ordinary shares, Additional Tier 1 capital or Tier 2 capital instruments) or retain capital (through lower dividends), and hold significant levels of additional liquid assets and undertake further lengthening of the funding base. Further examples of ways in which regulatory change may impact the Group include: limiting the types, amount and composition of financial services and products the Group can offer, limiting the fees and interest that the Group may charge, increasing the ability of other banks or of non-banks to offer competing financial services or products and changes to accounting standards, taxation laws and prudential regulatory requirements. Regulatory change could adversely affect one or more of the Group's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more business lines. Any such costs or restrictions could adversely affect the Group's business, prospects, financial performance or financial condition.

### *9. The Group is exposed to the risk of significant fines and sanctions in the event of breaches of law or regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions*

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates across the Asia Pacific region has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for the Group.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanction laws remains high given the scale and complexity of the Group. A failure to operate a robust programme to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious 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. The Group's foreign operations may place the Group under increased scrutiny by regulatory authorities, and may increase the risk of a member of the Group breaching applicable rules, regulations or laws.

### *10. The Group may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios*

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

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

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

APRA's Prudential Standards implementing Basel 3 are now in effect. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, which seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations will have their intended effect. Some of these regulations, together with any risks arising from any regulatory changes (including those arising from the requirements of the BCBS or the Australian Government's response to the FSI), are described in risk factor 8 'Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition'.

### *11. The Group is exposed to credit risk, which may adversely affect its business, operations and financial condition*

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties. Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, or natural disasters, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms.

For example, the Group's customers and counterparties in:

- the Australian natural resources sector which is particularly exposed to any prolonged slowdown in the Chinese economy could be materially and adversely impacted by a decline in natural resource prices;

- the Australian State governments have been successful in privatising government owned assets such as electricity distribution networks, ports, road and rail networks. The flight of capital towards these investments has driven the values of these assets to historically high levels relying on long range assumptions to justify the investments. The value of the capital and profitability of these investments is vulnerable to interest rate and currency exchange rate movements. Long term interest rate and currency hedges are provided by banks to manage these risks. These long term hedge exposures have volatile mark to market characteristics which are unsupported by collateralised security agreements for out of the money positions. Counterparty insolvency has scope to expose the Bank to large uncovered derivative liabilities; and
- the dairy industry in Australia and New Zealand, which is particularly exposed to excess milk production from other developed countries being sold into traditional markets, could be materially and adversely impacted by a decline in commodity prices.

The Group's customers and counterparties may also be adversely impacted by more expensive imports due to the reduced strength of the Australian and New Zealand dollars relative to other currencies.

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

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

### *12. The Group is exposed to the risk that its credit ratings could change, which could adversely affect its ability to raise capital and wholesale funding and constrain the volume of new lending which may adversely affect the Group's business operations and financial condition*

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

On 7 July 2016, the Group announced that Standard & Poor's decision to revise the outlook on the Commonwealth of Australia to ratings outlook negative, resulted in a change in the credit rating outlook of ANZ and its strategically important entities, along with other major Australian banks, from stable to negative. Standard & Poor's outlook on the major Australian banks has remained negative, citing increasing economic imbalances, pressures on sovereign credit quality and potential weakening of sovereign supportiveness.

On 19 August 2016, the Group announced that Moody's decision to revise Australia's macro profile resulted in a change in the outlook for major Australian banks, including the Group, from stable to negative.

On 8 December 2016, Fitch's outlook on Australia's banking sector was revised from stable to negative but, notwithstanding this revision, Fitch indicated that the ratings of the major Australian banks, including ANZ, remained on stable outlook. On 7 March 2017, Fitch affirmed the ratings of the major Australian banks, including ANZ, with a stable outlook.

The Group's credit ratings could be revised at any time in response to a change in the credit rating of the Commonwealth of Australia.

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

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

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

### *13. The Group is exposed to market risk, which may adversely affect its business, operations and financial condition*

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For purposes of financial risk management, the Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded markets risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations, market risk arising from the insurance business, non-traded equity risk and lease residual value risk. For a further discussion of market and related risks, see Note to the ANZ 2016 Annual Financial Statements.

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

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

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

### 15. The Group is exposed to operational risk, which may adversely affect its business, operations and financial condition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of loss of reputation or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

Loss from operational risk events could adversely affect the Group's financial results. 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.

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

- Internal Fraud: is associated with the Group's employees acting outside their normal employment conditions/procedures to create a financial advantage for themselves or others;
- External Fraud: fraudulent acts or attempts which originate from outside the Group, more commonly associated with digital banking, lending, and cards products. Specific threats include ATM skimming, malware and phishing attacks and fraudulent applications and transactions, where financial advantage is obtained;
- Employment Practices and Workplace Safety: employee relations, diversity and discrimination, and health and safety risks to the Group's employees;
- Clients, Products and Business Practices: risk of market manipulation, product defects, incorrect advice, money laundering and misuse or unauthorised disclosure of customer information;
- Technology: the risk of loss resulting from inadequate or failed information technology;
- Business Disruption (including systems failures): risk that the Group's banking operating systems are disrupted or fail;
- Damage to Physical Assets: risk that a natural disaster or terrorist or vandalism attack damages the Group's buildings or property; and
- Execution, Delivery and Process Management: is associated with losses resulting from, among other things, process errors made by the Group's employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider errors or failed mandatory reporting errors.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results.

### 16. The Group is exposed to reputational risk, which may adversely affect its business, operations and financial condition

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

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

### *17. The Group may be exposed to conduct-related risks relating to the provision of advice, recommendations or guidance about financial products and services, or behaviours which do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community, in the course of its business activities*

Such risks can result from:

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

The Group is regulated under various legislative regimes in the countries in which it operates that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorised to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes. Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including unethical or misleading financial advice and compensation processes for consumers impacted by that advice. This inquiry is due to report 30 June 2017.

Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest, may expose the Group to regulatory actions, restrictions or conditions on banking licences and/or reputational consequences.

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

The Group and its service offerings (including digital banking) are highly dependent on information systems applications and technology. Therefore, there is a risk that these information systems applications and technology, or the services the Group uses or is dependent upon, might fail, including because of unauthorised access or use.

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

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

In addition, the Group has an ongoing need to update and implement new information systems applications and technology, in part to assist it to satisfy regulatory demands, ensure information security, enhance digital banking services for the Group's customers and integrate the various segments of its business. For example, the Group is considering the release of voice biometrics for customer transactions on mobile devices. The Group may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Group's information security controls or a decrease in the Group's ability to service its customers. ANZ New Zealand relies on the Group to provide a number of information technology systems, and any failure of the Group's systems could directly affect ANZ New Zealand.

### *19. The Group is exposed to risks associated with information security including cyber-attacks, which may adversely affect its financial results and reputation*

Information security means protecting information and information systems from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, including in Australia, New Zealand and India. The Group operates in 33 countries and the risks to its systems are inherently higher in certain countries where, for example, political threats or targeted cyber-attacks by terrorist or criminal organisations are greater. The Group employs a team of information security experts who are responsible for the development and implementation of the Group's Information Security Policy. The Group also uses third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the Group's business. The Group is conscious that threats to information systems are continuously evolving and that cyber threats, including but not limited to, cyber compromise, advanced persistent threats, distributed denial of service, malware and ransomware attacks, and the risk of such attacks are increasing, and as such the Group may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about the Group and/or its clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen. The Group may not be able to anticipate or to implement effective measures to prevent or minimise damage that may be caused by all information security threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. Any unauthorised access of the Group's information systems or unauthorised use of its confidential information could potentially result in disruption of the Group's operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion to the Group's competitive market position, which could adversely affect the Group's financial results and reputation.

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

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

### *21. An increase in the failure of third parties to honour their commitments in connection with the Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition*

The Group is exposed to the potential risk of credit-related losses that can occur as a result of a counterparty being unable or unwilling to honour its contractual obligations. As with any financial services organisation, the Group assumes counterparty risk in connection with its lending, trading, derivatives, insurance and other businesses where it relies on the ability of a third party (including reinsurers) to satisfy its financial obligations to the Group on a timely basis. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances.

The risk of credit-related losses may also be increased by a number of factors, including deterioration in the financial condition of the economy, a sustained high level of unemployment, a deterioration of the financial condition of the Group's counterparties, a reduction in the value of assets the Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

The Group is directly and indirectly exposed to the natural resources sector, including contractors and related industries. Lower commodity prices, mining activity, demand for resources, or corporate investment in the natural resources sector may adversely affect the amount of new lending the Group is able to write, or lead to an increase in lending losses from this sector. Lower oil prices over 2015 and 2016 have resulted in reduced investment and increased asset write downs which have flow on effects in the energy supply chain.

Upstream exploration and production firms and related services operators are currently the most directly exposed if new project investment is wound back and operations are rationalised. Services to mining customers are also subject to heightened oversight given the cautious outlook for the services sector. This industry-specific revenue decline may lead to a broader regional economic downturn with a long recovery period.

Credit losses can and have resulted in financial services organisations realising significant losses and in some cases failing altogether. Should material unexpected credit losses occur to the Group's credit exposures, it could have an adverse effect on the Group's business, operations and financial condition.

### *22. The unexpected loss of key staff or inadequate management of human resources may adversely affect the Group's business, operations and financial condition*

The Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The Chief Executive Officer and the management team of the Chief Executive Officer have skills and reputation that are critical to setting the strategic direction, successful management and growth of the

Group, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect the Group's business, operations and financial condition. If the Group had difficulty retaining or attracting highly qualified people for important roles, particularly in times of strategic change, the Group's business, operations and financial condition could be adversely affected.

### *23. The Group may be exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect its business, operations and financial condition*

The Group and its customers are exposed to climate related events, including climate change. These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. In March 2017, certain of the Group's customers were affected by Cyclone Debbie in Queensland and New South Wales. The Group and its customers may also be exposed to other events such as geological events (including volcanic seismic activity or tsunamis), plant, animal and human diseases or a pandemic.

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

### *24. The Group is exposed to insurance risk, which may adversely affect its business, operations and financial condition*

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. In the Group's life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. In August 2015, the Group ceased to issue home, car and travel insurance and became a distributor only of these products. Existing insurance policies were transferred to QBE Insurance Group Limited as they came up for renewal. The only general insurance risk insured now is a small amount of involuntary unemployment benefits as part of consumer credit insurance sold in Australia. The Group has exposure to insurance risk in both its life insurance and general insurance business, which may adversely affect its businesses, operations and financial condition.

### *25. The Group is exposed to increased compliance costs and the risk of penalties and regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes which are still evolving*

The U.S. Foreign Account Tax Compliance Act ('FATCA') requires non U.S. financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Federal tax authority, the Internal Revenue Service ('IRS') either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30 percent withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States (and, beginning on 1 January 2019, certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to 1 January 2019, at the earliest.

- In addition to FATCA, the U.S. may require the Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.) and the Group may face adverse consequences in case it does not provide such information in compliance with the applicable rules and regulations.
- The OECD's Common Reporting Standard ('CRS') provides for the automatic exchange of (financial account) information ('AEOI') in tax matters. Over 100 jurisdictions have committed to implement the CRS. The CRS has already commenced in a number of countries which the Group has operations including the Cayman Islands, Hong Kong, India, Singapore, South Korea and the United. Australia and New Zealand have legislated for the CRS to apply from 1 July 2017 (with government to government exchange of information to take place by September 2018). Australian and New Zealand financial institutions that do not fully comply with all the requirements of the CRS will be subject to administrative penalties. CRS requirements, though generally similar to FATCA, have significant differences and a higher standard of compliance in many aspects, including penalties for non-collection of prescribed customer information.

In line with other global financial institutions, the Group has made and is expected to make significant investments in order to comply with, in all the countries that it operates in, the extensive requirements of FATCA, the CRS and the various other in-country tax reporting initiatives.

### *26. The Group may experience changes in the valuation of some of its assets and liabilities that may have a material adverse effect on its earnings and/or equity*

Under AASs, the Group recognises the following instruments at fair value with changes in fair value recognised in earnings or equity:

- derivative instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure with changes in fair value recognised in earnings with the exception of derivatives designated in qualifying cash flow or net investment hedges where the change is recognised in equity and released to earnings together with the underlying hedged exposure;
- assets and liabilities held for trading;
- available-for-sale assets with changes in fair value recognised in equity unless the asset is impaired, in which case, the decline in fair value is recognised in earnings;
- assets classified as held-for-sale where fair value is less than the original carrying amount; and
- assets and liabilities designated at fair value through profit and loss with changes recognised in earnings with the exception of changes in fair value attributable to the own credit component of liabilities that is recognised in equity.

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

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

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

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

### *27. Changes to accounting policies may adversely affect the Group's financial position or performance*

The accounting policies and methods that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the Group's financial position and results of operations. In addition, the application of new or revised generally accepted accounting principles could have a material adverse effect on the Group's financial position and results of operations.

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

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

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

The Group had contingent liabilities as at 31 March 2017 in respect of the matters outlined in Note 19 to the 2017 Half Year Financial Statements.

Note 19 includes, among other things, descriptions of:

- bank fees litigation;
- benchmark/rate actions;
- regulatory reviews and customer exposures; and
- security recovery actions.

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

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.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ANZ is aware) that have arisen since 31 March 2017 up to the date of the 2017 Half Year Financial Statements which may have a significant effect on the financial position or profitability of ANZ and its subsidiaries taken as a whole.

### *29. The Group regularly considers acquisition and divestment opportunities, and there is a risk that the Group may undertake an acquisition or divestment that could result in a material adverse effect on its business, operations and financial condition*

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

Divestments by the Group in the first half of 2017 include entering into agreements to sell:

- majority of its Retail and Wealth businesses in Asia;
- 20% stake in Shanghai Rural Commercial Bank; and
- UDC Finance.

The Group is also considering sale of its life insurance, advice and superannuation and investments business in Australia.

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

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. This could adversely affect the Group's ability to conduct its business successfully and impact the Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect the Group's operations or results.

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

During 2016 and in the first quarter of 2017, there have been various events in Australia that have affected retail, commercial and industrial electricity and gas users. These events include the closure of the Hazelwood coal power station in Victoria, black-outs in South Australia, export demand for Queensland LNG gas and announcements relating to energy policy and investment by the Australian federal government and the South Australian state government.

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

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

**Responsibility statement of the Directors in relation to ANZ's half-yearly financial statements made in accordance with DTR 4.2.10 (3)(b)**

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

The ANZ's half-yearly financial report for the half year ended 31 March 2017 (as defined on page 1 of this DTR half-yearly financial report submission) includes a fair review of:

(i) an indication of the important events that have occurred during the first six months of the financial year, and their impact on the Condensed Consolidated Financial Statements; and

(ii) a description of the principal risks and uncertainties for the remaining six months of the financial year.

Signed in accordance with a resolution of the Directors.

**David M Gonski, AC**
*Chairman*

**Shayne C Elliott**
*Director*

1 May 2017