# 2020

# Half Year U.S. Disclosure Document

## for the fiscal half year ended March 31, 2020

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

The date of this 2020 Half Year U.S. Disclosure Document is August 21, 2020.

**U.S. Disclosure Document**
Fiscal half year ended March 31, 2020

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All references in this document to the “U.S. Disclosure Document” refer to the 2020 Half Year U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal half year ended March 31, 2020 (the “March 2020 half” or “Mar 20” or “Mar 20 half”), including the Annex attached hereto, and we refer to prior fiscal half years in a similar fashion. References to the “September 2019 half” refer to the fiscal half year ended September 30, 2019 (the “September 2019 half” or “Sep 19” or “Sep 19 half”) and references to the “March 2019 half” refer to the fiscal half year ended March 31, 2019 (the “March 2019 half” or “Mar 19” or “Mar 19 half”). References in this document to the “2019 Annual U.S. Disclosure Document” refer to the 2019 Annual U.S. Disclosure Document for the fiscal year ended September 30, 2019. References to the “June 2020 quarter” refer to the fiscal quarter ended June 30, 2020. References to the “Third Quarter Trading Update” refer to the 2020 Third Quarter Trading Update for the fiscal quarter ended June 30, 2020, published on August 19, 2020.

This U.S. Disclosure Document is dated August 21, 2020. All references in this document to “the date of this U.S. Disclosure Document” are to August 21, 2020.

All references in this U.S. Disclosure Document to “ANZ”, the “ANZ Group”, the “Group”, the “Bank”, “we”, “us” and “our” are to Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) together with its subsidiaries. All references in this U.S. Disclosure Document to the “Company” and to “ANZBGL” are to Australia and New Zealand Banking Group Limited only.

Information contained in or accessible through any website referred to in this U.S. Disclosure Document does not form part of this document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document. All references in this document to websites are inactive textual references and are not active links.

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ’s business and operations, as well as its financial position, as of March 31, 2020, and the results of operations for the fiscal half year then ended. All financial information disclosed in this U.S. Disclosure Document relates to the Group.

Attached to this U.S. Disclosure Document as the Annex are the following documents that have been filed with the Australian Securities Exchange (“ASX”) in accordance with its rules:

- The Group‘s Condensed Consolidated Financial Statements for the half year ended March 31, 2020 (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “Condensed Consolidated Financial Statements”); and
- The independent auditor’s review report on the Condensed Consolidated Financial Statements.

## FORWARD-LOOKING STATEMENTS

This U.S. Disclosure Document contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company or the Group to differ materially from the information presented herein. When used in this U.S. Disclosure Document, the words “forecast”, “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “may”, “probability”, “risk”, “will”, “seek”, “would”, “could”, “should” and similar expressions, as they relate to the Company or the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute “forward-looking statements” for the purposes of the United States (“U.S.”) Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date of this U.S Disclosure Document or to reflect the occurrence of unanticipated events.

For example, the forward-looking statements contained in this U.S. Disclosure Document will be affected by:

- the outbreak of the novel coronavirus and related respiratory disease (“COVID-19”), which is continuing to have a negative impact on global economic conditions, creating increased volatility in financial markets and resulting in disruptions to the Group’s business and operations;
- political, general business and economic conditions in Australia, New Zealand and the Asia Pacific region, Europe and the United States and other jurisdictions in which we, our customers or counterparties operate, including without limitation, impacts from the COVID-19 pandemic, changes that impact consumers (including demographic changes, consumer spending, saving or borrowing habits), and changes that may result from the exit of the United Kingdom from the European Union and the trade policies of the United States;
- the stability of Australian and other regional and global financial systems, disruptions to financial markets and any losses we, our customers or counterparties may experience as a result;
- the effects of competition in the geographic and business environments in which we or our customers operate, including our ability to maintain or increase market share and control expenses, our timely development of new products and services, and the perceived overall value of these products and services by customers, as well as our ability to adjust to and compete in the various markets in which we operate or seek to operate;
- commercial and residential mortgage lending and real estate market conditions in Australia and New Zealand;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- sovereign risk events that may have an adverse effect on global financial markets;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- credit risk, including losses associated with the Group’s counterparty exposures;
- an increase in defaults in credit exposures because of a deterioration in economic conditions, including due to the impacts from the COVID-19 pandemic;
- challenges in managing the Group’s capital base, which could give rise to greater volatility in capital ratios;
- changes to our credit ratings;
- the failure to meet the capital adequacy and liquidity requirements that the Group is subject to;
- changes in the valuation of some of the Group’s assets and liabilities;
- any changes to the Group’s accounting policies and their application;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws in Australia and worldwide;
- the impact of legal, regulatory, administrative and other current and future action, proceedings or litigation against us, our customers or counterparties, including the risk of fines or sanctions, arising out of alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- changes in monetary policies;
- the impact of compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes;
- unexpected changes to the Group’s license to operate in any jurisdiction;
- operational factors, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- adverse impacts on our reputation;
- conduct-related risk events or behaviors;
- risks associated with the information systems we maintain, including the reliability and security of our technology and our ability to protect our information from security risks and potential cyber-attacks;
- the impact of future climate-related and geological events, including risks relating to lending to customers that are impacted by climate events and counterparties that are impacted by climate events;
- the effectiveness of our risk management framework;
- other risks and uncertainties detailed under “Competition”, “Supervision and regulation”, and “Risk factors” in “Section 2: Information on the Group”, “Legal proceedings” in “Section 6: Additional Information” and elsewhere throughout this U.S. Disclosure Document; and
- various other factors beyond our control.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this U.S. Disclosure Document. For further discussion, refer to “Risk factors” in “Section 2: Information on the Group”.

Investors are strongly cautioned to not place undue reliance on any forward-looking statement, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

## BASIS OF PREPARATION

The summary of condensed consolidated income statements and selected ratios for the fiscal half years ended March 31, 2020, September 30, 2019 and March 31, 2019, and the summary of condensed consolidated balance sheets and selected ratios as of March 31, 2020, September 30, 2019, and March 31, 2019, have been derived from the Condensed Consolidated Financial Statements. The Condensed Consolidated Financial Statements are attached to this U.S. Disclosure Document as the Annex.

The Condensed Consolidated Financial Statements and the financial information included herein, except where otherwise noted, have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards ("AASs"), issued by the Australian Accounting Standards Board ("AASB"), AASB 134 *Interim Financial Reporting* ("AASB 134") and the *Corporations Act 2001*(Cth) (the "Corporations Act"). International Financial Reporting Standards ("IFRS") are standards and interpretations issued by the International Accounting Standards Board ("IASB"). IFRS forms the basis of AASs. The Group's Condensed Consolidated Financial Statements and the financial information included herein comply with the recognition and measurement requirements of IFRS and International Accounting Standard 34 Interim Financial Reporting issued by the IASB.

Amounts in this U.S. Disclosure Document are presented in Australian Dollars ("$", "AUD" or "A$") unless otherwise stated. Amounts reported in United States Dollars ("USD" or "US$") have been translated at the March 31, 2020 Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"), which was US$0.6139 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document, refer to "Currency of presentation and exchange rates" in "Section 2: Information on the Group". References to "NZD", "EUR" and "JPY" in this U.S. Disclosure Document are to New Zealand dollars, Euros and Japanese Yen respectively. References throughout this U.S. Disclosure Document to "$B" and "$M" are to billions and millions of Australian Dollars (or, if specified, such other currency), respectively.

### CORONAVIRUS ("COVID-19")

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) and this U.S. Disclosure Document.

The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices).This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in the Condensed Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at March 31, 2020 about future events that the Group believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the Condensed Consolidated Financial Statements.

While pervasive across the Condensed Consolidated Financial Statements, the estimation uncertainty is predominantly related to expected credit losses where the Group recognized a credit impairment charge of $1.7 billion pre-tax in the March 2020 half and the fair value measurement and recoverable amount assessments of non-financial assets where the Group recognized an impairment loss of $815 million in respect of two of the Group's Asian associate investments.

The impact of the COVID-19 pandemic on our accounting estimates is discussed further in the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document). Refer also to the Third Quarter Trading Update in "Section 2: Information on the Group - Recent Developments" for further information.

**Allowance for expected credit losses**

The Group measures the allowance for expected credit losses ("ECL") using an expected credit loss impairment model as required by AASB 9 Financial Instruments. The Group's accounting policy for the recognition and measurement of the allowance for expected credit losses is described in Note 13 to the Group's consolidated financial statements for the year ended September 30, 2019 (the "2019 Financial Statements") (attached as part of Annex A to the 2019 Annual U.S. Disclosure Document).

The table below shows the Group's allowance for expected credit losses (refer to Note 9 and Note 14 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for further information). Refer also to the Third Quarter Trading Update in "Section 2: Information on the Group - Recent Developments" for further information.

| | As at | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Collectively assessed | **4,501** | 3,376 | 3,378 |
| Individually assessed | **1,093** | 814 | 891 |
| **Total[1,2]** | **5,594** | 4,190 | 4,269 |

1. *Includes allowance for expected credit losses for Net loans and advances – at amortised cost, Investment securities – debt securities at amortised cost and Off-balance sheet commitments - undrawn and contingent facilities.*
2. *Includes assets and liabilities reclassified as held for sale from continuing and discontinued operations.*

*Individually assessed allowance for expected credit losses*

In estimating individually assessed ECL for Stage 3 exposures, the Group makes judgements and assumptions in relation to expected repayments, the realizable value of collateral, the business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

*Collectively assessed allowance for expected credit losses*

During the March 2020 half the collectively assessed allowance for expected credit losses increased by $1,125 million. This was attributable to changes in economic outlook of $1,031 million, foreign exchange of $77 million and changes in portfolio composition and risk of $17 million.

In estimating collectively assessed ECL, the Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The modelling methodology applied in estimating ECL in the Condensed Consolidated Financial Statements (attached as the Annex to the U.S. Disclosure Document) is consistent with that applied in the 2019 Financial Statements (attached as part of Annex A to the 2019 Annual U.S. Disclosure Document).

The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

| Judgement/Assumption | Description | Changes and considerations during the half year ended March 31, 2020 |
|---|---|---|
| **Determining when a significant increase in credit risk ("SICR") has occurred** | In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement since transition from stage 1 to stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. | Various initiatives, such as payment holidays and deferrals have been offered to customers in the March 2020 half recognizing the potential detrimental impact of COVID-19. Such offers, if accepted, are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade customer facilities. |
| **Measuring both 12-month and lifetime credit losses** | ECL is a function of the probability of default ("PD"), the loss given default ("LGD") and the exposure at default ("EAD") which are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking variables. | The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the half year ended March 31, 2020. |
| | In addition, judgement is required where behavioral characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. | There were no changes to behavioral lifetime estimates during the half year ended March 31, 2020. |

| Judgement/Assumption | Description | Changes and considerations during the half year ended March 31, 2020 |
|---|---|---|
| **Base case economic forecast** | The Group derives a forward looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions. | There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current half year.<br>As at March 31, 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), governments (wage subsidies), and institution specific responses (such as payment holidays). These are considered in determining the length and severity of the forecast economic downturn.<br>The expected outcomes of key economic drivers for the base case scenario as at March 31, 2020 and those previously used as at September 30, 2019 are described below under the heading "Base case economic forecast assumptions" as per below. |
| **Probability weighting of each scenario (base case, upside[1], downside[1] and severe downside[2] scenarios)** | Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. | The key consideration for probability weightings in the current period is the continuing impact of COVID-19.<br>In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Group's assessment of downside risks.<br>The assigned probability weightings in Australia, New Zealand and "Rest of world" (as described below) are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. |
| **Management temporary adjustments** | Management temporary adjustments to the ECL allowance are adjustments used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognized. | Temporary adjustments have been assessed in the context of COVID-19 and the extent that associated credit loss exposures are captured within the modelled economic scenarios. While changes to temporary adjustment have been made to select industries and portfolios, there has been no material change to the overall temporary adjustments in the March 2020 half. |

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

*Base case economic forecast assumptions*

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic down turn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The Group's base case economic forecast scenario reflects a sharp deterioration in economic conditions in the second quarter with a gradual improvement thereafter. It reflects a widespread shutdown in the 2nd quarter of calendar 2020 followed thereafter by a progressive relaxation.

The economic drivers of the base case economic forecasts at March 31, 2020 and those that were used at September 30, 2019 are set out below. These reflect ANZ's view, at the respective reporting dates, of the most likely future macro-economic conditions.

| | **Base case economic forecast as at March 31, 2020** | **Base case economic forecast as at September 30, 2019** |
|---|---|---|
| **Australia:** | | |
| • GDP | Expected contraction in GDP in the 2020 calendar year, with some recovery in 2021.<br>GDP is expected to contract 13% in the June 2020 quarter and to recover thereafter resulting in the 2020 calendar year GDP contracting 4.7% then growing by 4.1% in the 2021 calendar year. | Expected to improve modestly. |
| • Unemployment rate | Unemployment is expected to increase significantly over the June quarter, recovering gradually over the remainder of 2020 and 2021, but remaining higher than pre COVID-19 levels.<br>The unemployment rate is expected to reach 13% in the June 2020 quarter before moderate recovery in the September 2020 quarter**.** It is expected to average 9.0% for calendar year 2020 and 7.3% for calendar year 2021. | Expected to remain essentially flat. |
| • Residential property values | Property prices are expected to fall progressively by 4.1% in calendar year 2020 (taking into account growth pre COVID-19) and contract a further 6.3% in calendar year 2021. | Expected to improve after a period of decline. |
| • Consumer price index | CPI growth is forecast to fall moderately in 2020 from 2019 levels, returning to 2019 levels in 2021.<br>CPI growth is forecast at 1.2% for calendar year 2020 and 1.6% for calendar year 2021. | Growth expected to rise from current levels. |
| **New Zealand** | | |
| • GDP | Expected sizeable contraction in GDP in June quarter, rebounding partially over the remainder of the year. Moderate GDP growth is expected in 2021.<br>GDP is expected to contract by 17% in the June 2020 quarter, rebounding in the September 2020 quarter once activity resumes, resulting in the 2020 calendar year GDP contracting 6.7% then growing by 4.2% in the 2021 calendar year. | Expected to improve modestly. |
| • Unemployment rate | Unemployment is expected to increase significantly over the June quarter, recovering gradually over the remainder of 2020 and 2021, but remaining significantly higher than levels of first half 2020. It is expected to average 7.4% for calendar year 2020 and 7.7% for calendar year 2021. | Expected to remain stable. |
| • Residential property values | Property prices are expected to contract by 1.9% in calendar year 2020, followed by 6.0% growth in calendar year 2021. | Expected to achieve modest levels of growth. |
| • Consumer price index | CPI growth is forecast at slightly lower levels than 2019 across 2020 and 2021.<br>CPI growth is forecast at 1.5% for calendar year 2020 and 1.5% for calendar year 2021. | Expected to rise modestly. |
| **Rest of world** | | |
| • GDP | Expected contraction in GDP in the 2020 calendar year, with modest growth in 2021.<br>GDP is expected to contract 3.6% over the 2020 calendar year and then grow by 2.0% over the 2021 calendar year. | Growth is forecast to taper lower in the near term due to uncertainty in the global outlook. |
| • Consumer price index | Inflation is forecast to fall significantly in 2020 from 2019 levels, increasing in 2021.<br>Inflation is forecast at 0.9% for calendar year 2020 and 1.7% for calendar year 2021. | Expected to remain soft. |

*ECL - Sensitivity analysis*

COVID-19 introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it:

*ECL sensitivity - Weightings applied to forecast scenarios*

| | Total ECL $m | Impact $m |
|---|---|---|
| 100% upside scenario | 1,969 | (2,533) |
| 100% base scenario | 4,319 | (183) |
| 100% downside scenario | 5,293 | 791 |
| 100% severe downside scenario | 6,472 | 1,970 |

**INVESTMENTS IN ASSOCIATES**

At March 31, 2020, the impairment assessment of non-lending assets identified that two of the Group's associate investments AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia ("PT Panin") had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use ("VIU") calculations to assess if the carrying value of the investments were impaired.

The VIU calculations are sensitive to a number of key assumptions, including discount rates, long term growth rates, future profitability and capital levels. Changes in key assumptions could have a positive or adverse impact on the recoverable amount of the investment. The key assumptions used in the VIU calculations are outlined below:

| | AmBank | | PT Panin | |
|---|---|---|---|---|
| | Mar 20 | Sep 19 | Mar 20 | Sep 19 |
| Carrying Value ($m) | 1,161 | 1,586 | 1,130 | 1,350 |
| Post-tax discount rate | 12.4% | 10.7% | 13.9% | 13.3% |
| Terminal growth rate | 4.9% | 4.8% | 5.3% | 5.3% |
| Expected net profit after tax ("NPAT") growth (compound annual growth rate - 5 years) | 1.0% | 4.1% | 2.6% | 6.5% |
| Common Equity Tier 1 ratio | 11.5% | 11.9% to 12.7% | 12.3% | 11.6% |

While the underlying performance of both investments continues to be strong, the assumptions in the VIU were adjusted to reflect reasonable estimates of the impact of COVID-19 and the increased risks associated with the estimated cash flows. Accordingly in performing the VIU calculation as at March 31, 2020 expected NPAT growth estimates were reduced; higher risk weight asset growth estimates were used in the early years and a higher discount rate was used assuming that higher risk premiums would more than offset reductions in risk free rates.

As the adjusted VIU calculations did not support the carrying value of either investment as at March 31, 2020 the Group recorded an impairment charge of $815 million in the March 2020 half with AmBank impaired by $595 million and PT Panin impaired by $220 million. Both investments form part of the TSO and Group Centre operating segment.

The ongoing impact of COVID-19 on the valuation of AmBank and PT Panin is uncertain. Significant management judgment is required to determine the assumptions underpinning the VIU calculations. Changes in key assumptions could have a positive or adverse impact on the recoverable amount of the investment.

**CUSTOMER REMEDIATION PROVISIONS**

At March 31, 2020, the Group has recognized provisions of $1,094 million (Sep 19: $1,139 million; Mar 19: $698 million) in respect of customer remediation which includes provisions for expected refunds to customers, remediation project costs and costs associated with related customer and regulatory claims, penalties and litigation outcomes.

Determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer, associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances.

Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, including expert legal advice, and adjustments are made to the provisions where appropriate.

## ACCOUNTING STANDARDS ADOPTED

During the March 2020 half, the Group adopted AASB 16 Leases ("AASB 16") and applied a modified retrospective transition approach in recognizing all leases (except for leases of low value assets and short term leases) on the balance sheet based on the present value of remaining lease payments as of October 1, 2019. Consequently on October 1, 2019 the Group recognized an increase in lease liabilities of $1.7 billion, a right-of-use lease asset of $1.6 billion, an increase in deferred tax assets of $37 million and a net reduction to opening retained earnings of $88 million. For further details on key requirements and impacts of the changes refer to Note 1 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

The Group early adopted AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform from October 1, 2019 ("AASB 2019-3"), which has not had a significant impact on the Group. The standard modifies certain hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform. For further details on key requirements and impacts of the changes, refer to Note 1 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

## DISCONTINUED OPERATIONS

As a result of the sale transactions outlined below under "Sale of Wealth Australia Businesses", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. These businesses qualify as discontinued operations, a subset of assets and liabilities held for sale, as they represent a major line of business.

The information presented in the summary of condensed consolidated income statements set forth in Section 1 and otherwise disclosed in this U.S. Disclosure Document and selected ratios for the fiscal half years ended March 31, 2020, September 30, 2019 and March 31, 2019 show discontinued operations separately from continuing operations in the 'Profit/(Loss) after income tax from discontinued operations' line item.

*Sale of Wealth Australia Businesses*

- Sale to IOOF Holdings Limited ("IOOF")

  In October 2017, the Group announced it had agreed to sell its OnePath pensions and investments (OnePath P&I) business and Aligned Dealer Groups (ADGs) businesses to IOOF. The sale of the ADG business completed on October 1, 2018 and the OnePath P&I business completed on January 31, 2020.

- Sale to Zurich Financial Services Australia Limited ("Zurich")

  In December 2017, the Group announced it had agreed to sell its life insurance business to Zurich and the transaction completed on May 31, 2019.

Included in the 'Profit/(Loss) after income tax from discontinued operations' is:

- $11 million loss after tax was recognized in the March 2020 half attributable to sale completion costs.
- $65 million loss after tax was recognized in the September 2019 half, comprising a net loss of $1 million from sale related adjustments and write-downs, partially offset by the recycling of gains previously deferred in equity reserves on sale completion, and a $64 million income tax expense.
- As shown in the table below, customer remediation includes provisions for expected refunds to customers and related remediation costs associated with inappropriate advice or services not provided in the pensions and investments and life insurance businesses.

| | Half Year | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Customer remediation (pre-tax) | **124** | 166 | 75 |
| Customer remediation (post-tax) | **94** | 154 | 53 |

## SUMMARY OF CONDENSED CONSOLIDATED INCOME STATEMENTS AND SELECTED RATIOS - INCLUDING DISCONTINUED OPERATIONS

| Condensed Consolidated Income Statement | Half Year | | | |
|---|---|---|---|---|
| | **Mar 20 USD M[1]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Interest income | **8,472** | **13,800** | 15,107 | 15,970 |
| Interest expense | **(4,038)** | **(6,578)** | (8,067) | (8,671) |
| Net interest income | **4,434** | **7,222** | 7,040 | 7,299 |
| Other operating income | **1,026** | **1,671** | 2,452 | 1,994 |
| Operating income | **5,460** | **8,893** | 9,492 | 9,293 |
| Operating expenses | **(2,827)** | **(4,605)** | (4,706) | (4,365) |
| Profit before credit impairment and income tax | **2,633** | **4,288** | 4,786 | 4,928 |
| Credit impairment charge[2] | **(1,028)** | **(1,674)** | (402) | (392) |
| **Profit before income tax** | **1,605** | **2,614** | 4,384 | 4,536 |
| Income tax expense | **(600)** | **(978)** | (1,325) | (1,284) |
| **Profit after income tax from continuing operations** | **1,005** | **1,636** | 3,059 | 3,252 |
| Profit/(Loss) after income tax from discontinued operations[3] | **(55)** | **(90)** | (273) | (70) |
| **Profit for the period** | **950** | **1,546** | 2,786 | 3,182 |
| Profit attributable to non-controlling interests | **(1)** | **(1)** | (6) | (9) |
| **Profit attributable to shareholders of the Company** | **949** | **1,545** | 2,780 | 3,173 |

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *The credit impairment charge represents the aggregation of the individually and collectively assessed credit impairment charges.*
3. *Discontinued operations comprise the sale of the OnePath P&I and ADGs businesses to IOOF and the sale of ANZ's life insurance business to Zurich. See "Basis of Preparation – Discontinued Operations".*

| Selected Ratios | Half Year | | | |
|---|---|---|---|---|
| | **Mar 20 USD M[1]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Other operating income as a % of operating income - including discontinued operations | **17.8%** | **17.8%** | 26.2% | 23.2% |
| Net interest margin - including discontinued operations | **1.68%** | **1.68%** | 1.72% | 1.79% |
| Operating expense to operating income ratio - including discontinued operations | **53.8%** | **53.8%** | 51.8% | 48.6% |
| Dividends on ordinary shares[2] | **1,368** | **2,228** | 2,227 | 2,254 |
| Earnings per fully paid ordinary share (cents) including discontinued operations | | | | |
| Basic | **33.5** | **54.6** | 98.3 | 111.7 |
| Diluted | **31.6** | **51.5** | 94.7 | 106.4 |
| Earnings per fully paid ordinary share (cents) from continuing operations | | | | |
| Basic | **35.5** | **57.8** | 107.9 | 114.1 |
| Diluted | **33.3** | **54.3** | 103.6 | 108.7 |
| Ordinary share dividend payout ratio including discontinued operations (%)[3] | **46%** | **46%** | 82% | 71% |
| Dividend per ordinary share (cents) including discontinued operations[3] | **25** | **25** | 80 | 80 |

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *Dividends paid to ordinary equity holders of the Company during the period after adjusting for the bonus option plan. Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (Sep 19 half: $1.6 million; Mar 19 half: nil)*
3. *On August 19, 2020, following the deferral of a decision on the interim dividend in April 2020, the Board of Directors proposed a 2020 interim dividend of 25 cents per share, which will be fully-franked (for Australian tax purposes). Refer to "Section 2: Information on the Group – Recent Developments" for further details.*

*The ordinary dividend payout ratio calculation for the prior halves are based on the following dividend payments:*

| *Mar 20* | *Sep 19* | *Mar 19* |
|---|---|---|
| *$711 million** | *$2,268 million* | *$2,267 million* |

**Based on the proposed interim dividend announced on August 19, 2020 and on the forecast number of ordinary shares expected to be on issue at the dividend record date.*

**SUMMARY OF CONDENSED CONSOLIDATED BALANCE SHEETS AND SELECTED RATIOS - INCLUDING DISCONTINUED OPERATIONS[1]**

| | As of | | | |
|---|---|---|---|---|
| | **Mar 20 USD M[2]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Shareholders' equity excluding non-controlling interests[3] | **37,671** | **61,364** | 60,783 | 59,821 |
| Subordinated debt[4] | **12,961** | **21,112** | 16,586 | 16,268 |
| Unsubordinated debt | **73,138** | **119,136** | 113,105 | 113,424 |
| Deposits and other borrowings | **446,249** | **726,909** | 637,677 | 636,533 |
| | | | | |
| Gross loans and advances | **405,959** | **661,278** | 618,767 | 613,770 |
| Less: Individually assessed provision for credit impairment | **(648)** | **(1,055)** | (791) | (865) |
| Less: Collectively assessed provision for credit impairment | **(2,219)** | **(3,614)** | (2,718) | (2,736) |
| Less: Loans and advances held for sale | **-** | **-** | - | (888) |
| Net loans and advances (excluding held for sale) | **403,092** | **656,609** | 615,258 | 609,281 |
| | | | | |
| Total assets[3] | **705,957** | **1,149,955** | 981,137 | 980,270 |
| Net assets[3] | **37,678** | **61,375** | 60,794 | 59,971 |
| Risk weighted assets[5] | **275,648** | **449,012** | 416,961 | 396,291 |
| | | | | |
| **Capital adequacy ratios:[5]** | | | | |
| Common Equity Tier 1 | **10.8%** | **10.8%** | 11.4% | 11.5% |
| Tier 1 | **12.5%** | **12.5%** | 13.2% | 13.4% |
| Tier 2 | **2.9%** | **2.9%** | 2.1% | 1.9% |
| Total capital ratio | **15.5%** | **15.5%** | 15.3% | 15.3% |
| | | | | |
| Number of ordinary shares on issue (millions) | **2,836.2** | **2,836.2** | 2,834.6 | 2,833.2 |

| | Half Year | | | |
|---|---|---|---|---|
| | **Mar 20 USD M[2]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| **Selected ratios** | | | | |
| Profit attributable to the shareholders of the Company as a percentage of: | | | | |
| Average total assets[6] | **0.30%** | **0.30%** | 0.56% | 0.65% |
| Average ordinary shareholders' equity excluding non-controlling interests[6] | **5.1%** | **5.1%** | 9.3% | 10.8% |
| Average ordinary shareholders' equity excluding non-controlling interests as a percentage of average total assets[6] | **5.9%** | **5.9%** | 6.1% | 6.1% |

1. *Balance sheet amounts and ratios include assets and liabilities reclassified as held for sale from continuing and discontinued operations unless otherwise stated.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *The Group adopted AASB 16 from October 1, 2019 and applied a modified retrospective transition approach. Under this approach, the Group recognized lease liabilities of $1.7 billion presented within Payables and other liabilities and right-of-use assets of $1.6 billion presented within Property Plant and Equipment. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million as of October 1, 2019. Comparative information has not been restated. Refer to Note 1 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for further details.*
4. *For the composition of subordinated debt refer to Note 13 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for further details.*
5. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority (“APRA”) Basel 3 methodology (refer to page 20).*
6. *Averages are calculated using predominantly daily averages.*

## SUMMARY OF CREDIT RISK DATA - INCLUDING DISCONTINUED OPERATIONS[1]

| | As of | | | |
|---|---|---|---|---|
| | **Mar 20 USD M[2]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| **Gross impaired assets** | | | | |
| Impaired loans[3] | **1,356** | **2,209** | 1,711 | 1,803 |
| Restructured items[4] | **139** | **226** | 267 | 264 |
| Non-performing commitments and contingencies[3] | **101** | **164** | 51 | 61 |
| **Total gross impaired assets** | **1,596** | **2,599** | 2,029 | 2,128 |
| **Allowance for expected credit losses[5]** | | | | |
| Individually assessed provision - impaired loans | **648** | **1,055** | 791 | 865 |
| Individually assessed provision - non-performing commitments and contingencies | **23** | **38** | 23 | 26 |
| Collectively assessed provision | **2,763** | **4,501** | 3,376 | 3,378 |
| **Total allowance for expected credit losses** | **3,434** | **5,594** | 4,190 | 4,269 |
| **Total gross loans and advances[6]** | **405,959** | **661,278** | 618,767 | 613,770 |
| Credit risk weighted assets[7] | **236,964** | **385,997** | 358,106 | 345,523 |
| Collectively assessed provision as a percentage of credit risk weighted assets[7] | **1.17%** | **1.17%** | 0.94% | 0.98% |
| Gross impaired assets as a percentage of gross loans and advances | **0.39%** | **0.39%** | 0.33% | 0.35% |
| Individually assessed provision for credit impairment as a percentage of gross impaired assets | **42.1%** | **42.1%** | 40.1% | 41.9% |
| Individually assessed provision for impaired loans as a percentage of impaired loans | **47.8%** | **47.8%** | 46.2% | 48.0% |
| Total allowance for expected credit losses as a percentage of: | | | | |
| Gross loans and advances[6] | **0.8%** | **0.8%** | 0.7% | 0.7% |
| Credit risk weighted assets[7] | **1.4%** | **1.4%** | 1.2% | 1.2% |

1. *Balance sheet and credit risk data includes assets and liabilities reclassified as held for sale from continuing and discontinued operations.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *Impaired loans and non-performing commitments and contingencies do not include exposures which are included in collectively assessed Stage 3 ECL, which comprise unsecured retail exposures greater than 90 days past due and defaulted but well secured exposures.*
4. *Restructured items are facilities where the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.*
5. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortized cost and Off-balance sheet commitment – undrawn and contingent facilities.*
6. *Consists of loans and advances and capitalized brokerage/mortgage origination fees less unearned income.*
7. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 20).*

## OVERVIEW

Australia and New Zealand Banking Group Limited ("ANZBGL") and its subsidiaries (together, the "Group"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia, and the telephone number is +61 3 9683 9999. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

As of March 31, 2020, ANZBGL had total assets of $1,150.0 billion and shareholders' equity excluding non-controlling interests of $61.4 billion. In terms of total assets among banking groups, the Group ranked first in Australia[1] as of March 31, 2020 and first in New Zealand[2] as of March 31, 2020.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on July 31, 2020, ANZBGL had a market capitalization of $50.9 billion, which ranked among the top eight largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the fiscal half year ended December 31, 2019; National Australia Bank results announcement for the fiscal half year ended March 31, 2020; Westpac Banking Corporation results announcement for the fiscal half year ended March 31, 2020.*
2. *Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard (https://bankdashboard.rbnz.govt.nz/summary) for the quarter ending March 31, 2020.*
3. *Source: IRESS.*

## BUSINESS MODEL

The Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the Group operates a Markets business which earns revenue from sales, trading and risk management activities. The Group also provides payments and clearing solutions. Up until the sale completion dates outlined in "Section 1: Key Information – Basis of Preparation – Discontinued Operations", the Group earned revenue from its wealth activities through the provision of insurance, superannuation and funds management services, which are largely classified as discontinued operations.

Our primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

Our income is derived from a number of sources, primarily:

- Net interest income – represents the difference between the interest income the Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services. It includes net funds management income;
- Share of associates' profits – represents the Group's share of the profit of an entity over which the Group has significant influence but not control; and
- Other income – includes income earned from the provision of insurance solutions, revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

## STRATEGY

Our strategy is focused on improving the financial wellbeing of our customers; having the right people who listen, learn and adapt; putting the best tools and insights into their hands; and focusing on those few things that we believe really add value to customers and doing them right the first time.

<table>
<tr><td colspan="8">Purpose<br>Our purpose is to shape a world where people and communities thrive</td></tr>
<tr><th>Strategic Imperatives</th><th colspan="6">Strategy</th><th>Target Outcomes</th></tr>
<tr><td>Create a simpler, better capitalised, better balanced bank</td><td colspan="6" rowspan="1">Improving the financial wellbeing of customers…</td><td>Improve the financial wellbeing of our customers</td></tr>
<tr><td>Build a superior experience for our people and customers in order to compete in the digital age</td><td colspan="2">Looking to save for, buy and own a home</td><td colspan="2">Looking to start, buy and grow a business</td><td colspan="2">Looking to move capital and goods around the region</td><td>Deliver decent returns for our shareholders<br>• target growth<br>• low cost<br>• capital efficient</td></tr>
<tr><td>Focus our efforts where we can carve out a winning position</td><td colspan="3">With people who listen, learn and adapt</td><td colspan="3">With the best tools and insights</td><td>Resilient, adaptable & capable workforce</td></tr>
<tr><td>Drive a purpose and values led transformation of the Bank</td><td colspan="6">With flexible, resilient, digital infrastructure that supports great customer experience at lower cost</td><td>Improve housing, environment and financial wellbeing outcomes for the community</td></tr>
</table>

## PRINCIPAL ACTIVITIES

The Group operates on a divisional structure with five continuing divisions: Australia Retail and Commercial, Institutional, New Zealand, Pacific, and TSO and Group Centre. For key changes impacting the financial information disclosed in this U.S. Disclosure Document, refer to "Section 1: Key Information – Basis of Preparation" for further details.

There have been a number of divestments impacting the divisions of the Group. These are detailed in "Section 3: Operating and Financial Review and Prospects – Operating and Financial Review – Large/notable Items – continuing operations".

The divisions reported below are consistent with operating segments as defined in AASB 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of March 31, 2020, the principal activities of the five continuing divisions were:

### Australia Retail and Commercial

The Australia Retail and Commercial division comprises the following business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centres and a variety of self-service channels (internet banking, phone banking, ATMs, website, ANZ share investing and digital banking) and third party brokers in addition to financial planning services provided by salaried financial planners.
- Commercial (previously named Business & Private Banking) provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

### Institutional

The Institutional division services government, global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialized Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialized Finance provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provides risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the Group's interest rate exposure and liquidity position across Franchise Sales, Franchise Trading and Balance Sheet subdivisions.

### New Zealand

The New Zealand division comprises the Retail and Commercial business units.

- Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.
- Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment and governments.

### Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

### TSO and Group Centre

TSO and Group Centre division provides support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes residual Asia Retail and Wealth, Group Treasury, Shareholder Functions and minority investments in Asia.

## RECENT DEVELOPMENTS

### Third Quarter Trading Update

On August 19, 2020 ANZBGL announced profit after income tax of $1,327 million for the fiscal quarter ended June 30, 2020 compared to $1,545 million for the fiscal half year ended March 31, 2020. Net interest margin was 1.59% for the June 30, 2020 quarter (compared to 1.69% for the March 31, 2020 half year). Key drivers included low interest rates, higher liquid assets, competition and lending mix (e.g. higher fixed rate mortgages), partially offset by lower funding costs and deposit mix. For the fiscal quarter ended June 30, 2020, operating income increased as compared to the quarterly average for the fiscal half year ended March 31, 2020, benefiting from a stronger markets performance, partly offset by lower margins and transaction volumes. For the fiscal quarter ended June 30, 2020, operating expenses decreased slightly compared to the quarterly average for the fiscal half year ended March 31, 2020, reflecting disciplined cost management.

An aggregate credit impairment charge of $500 million was recorded for the fiscal quarter ended June 30, 2020, compared to $1,674 million for the fiscal half year ended March 31, 2020. This includes a collective provision charge of $236 million for the fiscal quarter ended June 30, 2020, compared to $1,048 million for the fiscal half ended March 31, 2020 and an individually assessed provision charge of $264 million for the fiscal quarter ended June 30, 2020, compared to $626 million for the fiscal half year ended March 31, 2020. The collective provision charge for the fiscal quarter ended June 30, 2020 reflected the less adverse economic outlook as at June 30, 2020 relative to March 31, 2020, offset by additional downside risk and overlays reflecting ongoing COVID-19 uncertainties, including considerations around deferral packages and higher risk segments in the Commercial portfolios in Australia and New Zealand and the regrading of wholesale exposures, prioritizing the segments and customers deemed more susceptible under the current environment. As at June 30, 2020, the total collective provision balance was $4.65 billion. Depending on the continued impact of the COVID-19 pandemic, further credit impairment charges related to the COVID-19 pandemic may be incurred in future periods.

Following the deferral of a decision on the interim dividend in April 2020, ANZBGL's Board of Directors also proposed an interim dividend of 25 cents per-share, fully franked (for Australian tax purposes). This decision took into account ANZ's continuing capital strength and the updated regulatory guidance, while also balancing shareholder needs with the uncertain future impact of COVID-19.

The Group's capital position continues to be strong, allowing the Group to play a role in supporting the recovery, with a Level 2 Common Equity Tier 1 capital ("CET1") ratio of 11.1% at June 30, 2020, compared to 10.8% at March 31, 2020. The CET1 ratio increased 37 basis points from March 31, 2020, and benefited from a reduction in credit risk weighted assets in the Institutional business across Corporate, Bank and Specialised Lending asset classes as customers adjusted their requirements in the changing environment.

Customer deposits have increased in the nine months ending June 30, 2020 in the Australia Retail & Commercial, Institutional and New Zealand divisions. For the Australia Retail and Commercial, Institutional and New Zealand divisions, customer deposits were $221 billion, $243 billion and NZ$95 billion respectively, as at June 30, 2020. Within the Institutional and Corporate customer base, a number of customers have been proactive in managing costs and taking a conservative approach to capital and distribution. Within the Retail portfolio, credit card debt has declined and offset balances have increased and approximately two-thirds of Australian home loan customers with loan repayment deferrals have increased their "savings buffer" (offset, redraw and credit in transaction and savings accounts) over the period from February to July 2020.

*COVID-19 support*

The Group launched support packages for retail and commercial customers in Australia and New Zealand that included the option of an up to six-month loan repayment deferral. The Group is continuing to work with customers impacted by COVID-19 to restructure loans and in some circumstances will provide an extension to loan repayment deferrals for a further four months.

In Australia, the Group had approximately 84,000 deferrals in place for home loan accounts at July 31, 2020 valued at $31 billion, representing 9% of Australian home loan accounts and approximately 12% of Australian home loan balances. ANZ had deferred approximately 22,000 business loans at July 31, 2020 valued at $9.5 billion, representing approximately 14% of commercial lending exposure as at that date. These deferrals were concentrated by loans made to customers in the following industries: Commercial Property & Construction (approximately 19% of the deferred loans), Accommodation Cafes & Restaurants (approximately 18% of the deferred loans) and Retail Trade (approximately 14% of the deferred loans). Approval processes for key government initiatives such as 'JobKeeper' and the 'Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme' were streamlined during the quarter.

In New Zealand, ANZ provided support to approximately 39,000 customers at July 31, 2020 which included deferrals on 24,000 home loans valued at NZ$6 billion as at July 31, 2020, representing approximately 6% of New Zealand's Home Loan portfolio as at that date. ANZ had also granted approximately 2,700 temporary overdraft facilities to businesses needing more working capital as at July 31, 2020.

### COVID-19

The COVID-19 pandemic has materially and adversely affected the Group.

Due to COVID-19, governments worldwide, including those in Australia and New Zealand, have imposed wide-ranging restrictions on, suspensions of, or advice against, 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.

Major disruptions to community health and economic activity are having 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 negatively impacted by the COVID-19 pandemic. In response to the COVID-19 pandemic, the Group has established a range of accommodations and measures designed to assist its personal and business customers. For further information, see "—COVID-19 support" above.

COVID-19 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.

The Group has moved staff to work-at-home arrangements, split teams and introduced greater distance between those staff performing essential functions in the office. The number of staff working from home continues to vary in line with changing circumstances and associated government restrictions. At the date of this U.S. Disclosure Document, approximately 95% of the Group's staff (excluding branch staff) are working from home. Measures have been introduced for staff who need to come to work, with protective equipment and social distancing in bank branches, and thermal scanning in major buildings.

The ramifications of COVID-19 are highly uncertain and, as of the date of this U.S. Disclosure Document, it is difficult to predict the spread or duration of the pandemic.

Actions taken by regulators in response to the COVID-19 pandemic have impacted, and may continue to impact, the Group. For further information on the regulatory response see "Section 2: Information on the Group - Supervision and Regulation - Australia - Australian Regulatory Developments - Regulatory Response to COVID-19".

For further information on the actual and potential impacts of COVID-19 see above "Third Quarter Trading Update", "Section 1: Key Information - Coronavirus (COVID-19)" and "Section 2: Information on the Group - Risk Factors".

**RBNZ restrictions on distributions and capital instruments**

With effect from April 2, 2020, the Reserve Bank of New Zealand ("RBNZ") amended the conditions of registration for ANZ Bank New Zealand Limited ("ANZ New Zealand"), a New Zealand subsidiary of ANZBGL, to (among other things) prohibit ANZ New Zealand from making distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments. These amendments were also applied to other New Zealand-incorporated registered banks to further support the stability of the New Zealand banking financial system during this period of economic uncertainty. These amendments prevent ANZ New Zealand from paying dividends to ANZBGL.

The RBNZ has also informed New Zealand-incorporated registered banks (including ANZ New Zealand) that they should not redeem capital instruments at this time. Accordingly, ANZ New Zealand was not permitted to redeem its NZ$500 million of mandatory convertible perpetual subordinated securities ("Capital Notes") in May 2020, although it can continue making coupon payments on those Capital Notes. As ANZ New Zealand did not exercise its option to convert in May 2020, the terms of the Capital Notes provide for their conversion into a variable number of ANZBGL shares in May 2022 subject to certain conditions (refer to note 13 of the Condensed Consolidated Financial Statements). Conversion would result in an increase in the Group's CET1 capital (approximately 12 basis points) at Level 2.

**Ratings actions**

In light of the COVID-19 pandemic, Fitch Ratings ("Fitch") and S&P Global Ratings ("S&P") have revised the Group's ratings and/or outlook as described below.

On April 8, 2020, ANZBGL confirmed that Fitch changed its ratings of the Australian major banks, resulting in ANZBGL's Long-Term Issuer Default Rating ("IDR") decreasing one-notch to A+ from AA-. The Outlook on ANZBGL's Long-Term IDR remains Negative. ANZBGL's Short-Term IDR was also downgraded to F1 from F1+. The full list of ANZBGL's Fitch ratings are: Senior Debt: A+, Subordinated Debt: A- and Hybrid Debt: BBB.

On April 9, 2020, ANZBGL confirmed that S&P revised the outlook on the long-term issuer credit rating for the Commonwealth of Australia to negative from stable. As a result of the sovereign action, S&P has also revised the credit rating outlook of the Australian major banks, including ANZBGL, to negative from stable. S&P reaffirmed ANZBGL's 'AA-' long-term and 'A-1+' short term issuer credit ratings. S&P also reaffirmed all the ratings on debt issued by ANZBGL, including senior and subordinated debt and hybrid Tier 1 capital instruments.

**Sale of UDC Finance Limited**

On June 2, 2020, ANZBGL announced that ANZ New Zealand had agreed to sell its asset finance business in New Zealand, UDC Finance Limited ("UDC"), for NZ$762 million to Shinsei Bank Limited.

The sale follows a strategic review of UDC previously announced by ANZ New Zealand, and is in line with the Group's strategy to simplify its business.

Based on the Group's March 31, 2020 balance sheet, the sale is expected to provide approximately 10 basis points of CET1 capital at Level 2 at settlement.

The sale will also release more than NZ$2 billion of funding provided by ANZ New Zealand, further strengthening its balance sheet position.

The completion of the UDC sale is expected in the second half of the 2020 calendar year.

Except as disclosed above, there have been no significant developments since March 31, 2020 to the date of this U.S. Disclosure Document.

## COMPETITION

### Australia

The Australian banking system is concentrated and highly competitive. As of June 30, 2020, the four major banking groups in Australia (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) held approximately 73%[1] of the total Australian lending assets of banks that conduct business in Australia. The operations of the smaller regional banks are typically focused on servicing customers in a particular state or region with an emphasis on retail banking. A number of international banks also provide banking services in Australia and typically focus on specific segments of the retail or institutional markets, holding a minority position in these segments.

The deregulation of the Australian financial system during the early 1980s led to a proliferation of both bank financial institutions and non-bank financial institutions that compete in selected markets with the four major banking groups. Non-bank financial intermediaries, such as building societies and credit unions, compete principally in the areas of accepting deposits and residential mortgage lending. Some large building societies have been granted banking authorizations under the *Banking Act 1959 (Cth)* (the “Banking Act”). Specialist non-bank residential mortgage lenders and direct (non-branch) banking operations have also become more prominent in recent years.

Competition has historically been greater in the housing lending market, which initially resulted from the rise of mortgage originators, and subsequently from growth in the mortgage broker industry. In recent years, major banks have competed aggressively by offering significant discounts below the advertised rate. The market turmoil experienced during the 2008 global financial crisis materially affected the business models of non-bank originators, and as a consequence, there was an overall uplift in mortgage market share to the major banks. In more recent years, non-bank originators have become more active in the mortgage market, which has been reflected in the growth rates of non-bank originators and the unregulated market relative to major banks and the regulated market, however from a significantly lower market share base.

The retail deposit market in Australia is also competitive, particularly in times of higher credit growth to support funding and increased lending demand. An Australian Government Guarantee for retail customer bank deposits was introduced in 2008 during the global financial crisis, which led to increased deposits with the major Australian banks and a decrease in deposits with other deposit fund providers. The Australian Government Guarantee refers to temporary arrangements announced by the Australian Government to enable the provision of a guarantee for the deposits and wholesale funding of Australian deposit-taking institutions. In addition, changes in the financial services sector have made it possible for non-banks to offer through various distribution channels (physical and online), products and services traditionally provided by banks.

In corporate and commercial banking businesses competition remains intense across the major banks, regional banks and other commercial banking financiers. Business investment remains subdued contributing to less demand for credit, which together with a heightened focus on protecting and deepening customer relationships has continued to place increased pressure on lending margins.

In the institutional market, we believe competitors gain recognition through the quality of their client base, perceived skill sets, structured solutions and pricing, client insights, reputation and brands. In Australian domestic markets, competitors at the large corporate and institutional customer level are generally the major Australian banks, some global investment banks, some Asian banks who are expanding beyond their local markets and the boutique operations of large multi-national banking conglomerates with a focus on niche areas.

The banking industry continues to evolve with new digital products and service solutions to meet customer needs and changing customer preferences. Demand for innovative, digital solutions coupled with Open Banking regulation (which came into force at the start of July 2019 in Australia) is contributing to further competition from existing and new entrants to the banking industry, particularly in retail banking.

In addition, the current COVID-19 pandemic and future economic conditions may have the effect of reducing the number of competitors in the markets in which the Group operates over the medium-term (for details refer to “Section 2: Information on the Group - Risk factors - Competition in the markets in which the Group operates may adversely affect the Group’s Position”). However, this may not lead to any medium-term reduction in the level of competition.

*Note*

1. *Source: APRA monthly authorized deposit-taking institution statistics June 2020 (released July 31, 2020).*

### New Zealand

The New Zealand financial services sector in which the Group operates is very concentrated and highly competitive. ANZ's principal competitors are the three other major banks: ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. These banks participate across all customer segments from individuals to large corporates.

Competition also exists in specific business segments from other banks. Kiwibank Limited is active in retail segments, and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, New Zealand has also seen Industrial and Commercial Bank of China, China Construction Bank and Bank of China become registered banks in New Zealand. Their focus appears to be in housing and business lending, however, their market share remains small in these segments.

Competition in the financial services sector can be intense and difficult to predict. The retail deposit market in New Zealand continues to be competitive, with banks attempting to maintain their market share in the current low interest rate environment. Margins on retail term deposits have increased as wholesale rates have shifted lower. As at June 30, 2020, lending to the residential mortgage market accounted for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension.

While non-bank originators have become more active in New Zealand in recent years, the growth rate in total assets has been lower compared to off-shore markets such as Australia, which we believe may be a result of factors that include the more positive community perception that New Zealand banks have compared to banks in other off-shore markets and limited legislation in New Zealand mandating the disclosure of customer data. The non-banking sector constituted approximately 3% of total financial system assets as of June 30, 2020.

The COVID-19 impact on competition in New Zealand will become more evident in the coming months. To support New Zealanders, the government announced the Mortgage Repayment Deferral Scheme and Business Finance Guarantee Scheme in partnership with all the major banks – including ANZ New Zealand. For further information about the Mortgage Repayment Deferral Scheme and Business Finance Guarantee Scheme, see “Supervision and Regulation-New Zealand-New Zealand Regulatory Developments-Regulatory Response to the COVID-19 Pandemic and Other Developments”.

**Asia**

Banking in Asia is highly competitive. There are a large number of global banks (for example Citibank, HSBC and Standard Chartered) and regional banks (for example DBS Bank, CIMB and Maybank) operating in the region in addition to the local banks in each market. The Group's most active competitors, particularly in the Institutional division, are global investment banks and large Chinese and Japanese banks.

The Group currently operates in multiple countries, focused primarily in institutional banking and delivering financial solutions to customers driven by regional trade and capital flows. We believe the Group's geographic coverage, strength in its domestic markets of Australia and New Zealand, and targeted focus on customers, industries and product specialization (including Markets and Transaction Banking) enables the Group to differentiate itself from its competitors across the region.

Competition remains robust as a number of banks have shown a willingness to commit their balance sheet in support of growth opportunities in the region. This has contributed to the net interest margin on institutional lending in Asia being generally lower than that of similar lending in Australia and New Zealand. With the onset of the COVID-19 pandemic, there are some signs of lower activity from those competitors, particularly those with home markets outside the Asia Pacific region. However overall competition still remains robust within the region.

While the Group provides a broad suite of financial services to institutional customers, it does not seek to be a full-service bank to the retail or commercial markets in Asia.

## SUPERVISION AND REGULATION

As a major banking group, the Group is subject to extensive regulation by regulatory agencies and security exchanges in each of the major markets where it operates. This section provides an overview of the regulatory landscape applicable to the Group, focusing on Australia, New Zealand and the United States.

## AUSTRALIA

### Overview of APRA's Prudential and Regulatory Supervision

Since July 1, 1998, APRA has been responsible for the prudential and regulatory supervision of Australian authorized deposit-taking institutions ("ADIs"), which include banks (including ANZBGL), credit unions, building societies, insurance companies and superannuation funds. Prior to this, the Australian banking industry was regulated by the Reserve Bank of Australia ("RBA"). The RBA has retained overall responsibility for monetary policy, financial system stability and payments system regulation. APRA draws authority from the Australian Prudential Regulation Authority Act 1998 of Australia.

APRA requires ADIs to meet certain prudential requirements that are covered in a range of APRA Prudential Standards.

APRA discharges its responsibilities in part by requiring ADIs subject to its supervision to regularly provide it with reports that set forth a broad range of information, including financial and statistical data relating to their financial position and information in respect of prudential and other matters. APRA gives special attention to capital adequacy, liquidity, earnings, credit quality and associated loan loss experience, concentration of risks, maturity profile of assets and liabilities, operational risks, market risks, interest rate risk in the banking book ("IRRBB"), exposures to related entities, outsourcing, funds management, governance, business continuity management, audit and related matters, securitization activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition. Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), APRA can take control of the ADI's business (including by appointment of a Banking Act statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness. In addition, APRA has powers under the Financial Sector (Transfer and Restructure) Act 1999 to require the compulsory transfer of some or all of an ADI's assets and liabilities or its shares to another body specified by APRA (which need not in all cases be an ADI). Broadly, APRA may require such a transfer in circumstances including where the relevant Australian Minister requires the transfer, or APRA is satisfied that there has been a contravention of the Banking Act or regulations or instruments made under it or the ADI has informed APRA that it is likely to become unable to meet its obligations or is about to suspend payment, and certain other criteria are met, including that APRA is satisfied that the transfer is appropriate having regard to the interests of the financial sector as a whole. A counterparty to a contract with an ADI cannot rely solely on the fact that a Banking Act statutory manager is in control of the ADI's business or on the making of a direction or compulsory transfer order as a basis for denying any obligations to the ADI or for accelerating any debt under that contract, closing out any transaction relating to that contract or enforcing any security under that contract.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective "on site" visits and formal meetings with the ADI's senior management and the external auditor. APRA has also formalized a consultative relationship with each ADI's external auditor, with the agreement of the ADIs. The external auditor provides additional assurance to APRA that the information sourced from an ADI's accounting records and included in the ADI's APRA reporting is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The external auditor also undertakes targeted reviews of specific risk management areas as selected by APRA. In addition, an ADI's Chief Executive Officer attests to, and its directors endorse, the adequacy and operating effectiveness of the ADI's risk management systems to control exposures and limit risks to prudent levels.

### Capital

The common framework for determining the appropriate level of bank regulatory capital is set by the Basel Committee on Banking Supervision ("BCBS") under a framework that is commonly known as "Basel 3".

For calculation of minimum capital requirements under Pillar 1 ("Capital Requirements") of the Basel Accord, the Group has been accredited by APRA to use the Advanced Internal Ratings Based methodology for credit risk weighted assets and Advanced Measurement Approach for the operational risk weighted asset equivalent.

Effective January 1, 2013, APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios are not directly comparable with international peers. The Basel 3 reforms include: increased capital deductions from CET1 capital, an increase in capitalization rates (including prescribed minimum capital buffers, fully effective from January 1, 2016), tighter requirements around new Additional Tier 1 ("AT1") and Tier 2 securities and transitional arrangements for existing AT1 and Tier 2 securities that do not conform to the new regulations. Other changes include capital requirements for counterparty credit risk and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions as well as changes that have resulted from the Financial System Inquiry ("FSI") as described below.

For further discussion regarding capital regulatory developments, refer to "Australian Regulatory Developments" below.

### Liquidity

ANZBGL's liquidity and funding risks are governed by a detailed policy framework that is approved by ANZBGL's Board Risk Committee. The management of the liquidity and funding positions and risks is overseen by the Group Asset and Liability Committee. ANZBGL's liquidity risk appetite is defined by the ability to meet a range of regulatory requirements and internal liquidity metrics mandated by ANZBGL's Board Risk Committee. The metrics cover a range of scenarios of varying duration and level of severity. This framework helps:

- Provide protection against shorter-term but more extreme market dislocations and stresses;
- Maintain structural strength in the balance sheet by ensuring that an appropriate amount of longer-term assets are funded with longer-term funding; and
- Ensure no undue timing concentrations exist in the Group's funding profile.

A key component of this framework is the Liquidity Coverage Ratio ("LCR") that was implemented in Australia on January 1, 2015. The LCR is a severe short term liquidity stress scenario mandated by banking regulators including APRA. It was introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, ANZBGL has a Committed Liquidity Facility ("CLF") with the RBA. The CLF has been established as a solution to a High Quality Liquid Asset shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA. From January 1, 2020, ANZBGL's CLF is A$35.7 billion (2019 calendar year end: A$48.0 billion).

Additionally, the Group has implemented APRA's Net Stable Funding Ratio ("NSFR") requirement from January 1, 2018 following the release of the NSFR final standards in December 2016. The Group's Level 2 NSFR was 120% as of June 30, 2020.

ANZBGL seeks to observe strictly its prudential obligations in relation to liquidity and funding risk as required by APRA Prudential Standard APS 210, as well as the prudential requirements of overseas regulators on ANZBGL's offshore operations.

**Capital Management and Adequacy and Liquidity within APRA's Regulations**

For further details of the Group's capital management and adequacy, liquidity and APRA's regulatory environment, refer to the sections entitled "Liquidity and capital resources – including discontinued operations" set out in Section 3: Operating and Financial Review and Prospects.

**Banking Executive Accountability Regime**

The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 established the "Banking Executive Accountability Regime" ("BEAR"). ANZBGL's obligations under the BEAR commenced on July 1, 2018.

The BEAR aims to strengthen the responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Under the BEAR:

- ANZBGL is required to register individuals with APRA before appointing them to certain senior executive or director positions and maintain and provide APRA with a map of the roles and responsibilities of such persons across the ADI group, and to provide APRA with accountability statements for each of these senior executives or directors, detailing that individual's roles and responsibilities;
- where ANZBGL and its registered senior executives and directors do not meet accountability obligations, APRA is empowered to disqualify those individuals as senior executives or directors without a court order (but subject to a right of administrative review in accordance with Part VI of the Banking Act);
- ANZBGL is obliged to set remuneration policies for directors and senior executives consistent with BEAR's requirements, including for the deferral of certain components of that remuneration; and
- ANZBGL may be liable for substantial penalties for failing to comply with its BEAR obligations.

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 and directors / senior executives to increase accountability. FAR would be jointly administered by APRA and ASIC and could impose larger civil penalties for any breaches.

**Crisis Management**

The Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (the "Crisis Management Act") enhanced APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group include greater oversight, management and directions powers in relation to ANZBGL and other Group entities which were previously not regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments (the "Statutory Conversion and Write-Off Provisions").

The Statutory Conversion and Write-Off Provisions apply in relation to regulatory capital instruments issued by certain financial sector entities (including ADIs, of which ANZBGL is one) that contain provisions for conversion or write-off for the purposes of APRA's prudential standards. Where the Statutory Conversion and Write-Off Provisions apply to an instrument, that instrument may be converted in accordance with its terms. This is so despite any law (other than specified laws, currently those relating to the ability of a person to acquire interests in an Australian corporation or financial sector entity), the constitution of the issuer, any contract to which the issuer is a party, and any listing rules, operating rules or clearing and settlement rules applicable to the instrument. In addition, the Banking Act includes a moratorium on the taking of certain actions on grounds relating to the operation of the Statutory Conversion and Write-Off Provisions.

**Other Australian Regulators**

In addition to APRA and its prudential and regulatory supervision, ANZBGL and its Australian subsidiaries are supervised and regulated in some respects by other regulators including the Australian Securities and Investments Commission ("ASIC"), the Australian Competition and Consumer Commission ("ACCC"), the Australian Transaction Reports and Analysis Centre ("AUSTRAC"), the Office of the Australia Information Commissioner ("OAIC") and various securities exchanges.

ASIC is Australia's corporate, markets, financial services and consumer credit regulator. It regulates Australian companies, financial markets, financial services organizations and professionals who deal in and advise on investments, superannuation, insurance, deposit-taking and credit. As the consumer credit regulator, ASIC licenses and regulates people and businesses engaging in consumer credit activities (including banks, credit unions, finance companies, and mortgage and finance brokers). ASIC ensures that licensees meet the standards, including those related to responsibilities to consumers that are set out in the Australian National Consumer Credit Protection Act 2009. As the markets regulator, ASIC assesses how effectively authorized financial markets are complying with their legal obligations to operate fair, orderly and transparent markets. Since August 1, 2010, ASIC has had responsibility for the supervision of trading on Australia's domestic licensed equity, derivatives and futures markets. As the financial services regulator, ASIC licenses and monitors financial services businesses to ensure that they operate efficiently, honestly and fairly. These businesses typically deal in superannuation, managed funds, shares and company securities, derivatives and insurance. ANZBGL provides products and participates in markets regulated by ASIC.

The ACCC is an independent Commonwealth statutory authority that promotes competition and fair trading in the Australian marketplace to benefit consumers, businesses and the community. It also regulates national infrastructure services. Its primary responsibility is to ensure that individuals and businesses, including the Group, comply with the Australian competition, fair trading and consumer protection laws.

AUSTRAC is Australia's financial intelligence unit and its anti-money laundering and counter-terrorism financing regulator. The Group is required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under Australian law, including the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("AML Act"). The AML Act is administered by AUSTRAC.

The OAIC is an independent agency within the Australian Attorney General's portfolio. Its primary functions are privacy, freedom of information and government information policy, with responsibilities including conducting investigations, reviewing decisions, handling complaints, and providing guidance and advice.

**Australian Regulatory Developments**

***Regulatory Response to COVID-19***

Australian regulators and the Australian Government have implemented a broad range of measures in response to the COVID-19 pandemic, many of which affect the Group. These include the following measures:

- In March 2020, AUSTRAC announced that it will constructively work with reporting entities, such as ANZBGL, as they manage their money laundering and terrorism financing risks during the COVID-19 disruptive period. This includes considering such reporting entities' circumstances when applying anti-money laundering and counter-terrorism financing laws. AUSTRAC stated that it has a business continuity plan in place which will allow it to maintain core functions and continue its work with reporting entities, to protect Australians from serious financial crime and terrorism.
- In March 2020, the Reserve Bank of Australia ("RBA") announced, among other matters:
  - a reduction in the cash rate target to 0.25%;
  - a target for the yield on 3-year Australian Government bonds of around 0.25%, to be achieved by the RBA purchasing Australian Government bonds in the secondary market;
  - a term funding facility ("TFF") for the banking system. The RBA will provide a three-year funding facility to ADIs at a fixed rate of 0.25%. ADIs will be able to obtain initial funding of up to 3% of their existing outstanding credit. ADIs will have access to additional funding if they increase lending to business, especially to small and medium-sized businesses. As at August 5, 2020 the total size of the RBA's TFF was A$154 billion. As at August 4, 2020, ANZBGL had drawn $7 billion from its initial TFF allowance of $12 billion and it had drawn $0 from its additional TFF allowance of $8.3 billion; and
  - that exchange settlement balances at the RBA will be remunerated at 10 basis points (rather than zero as would have been the case under the previous arrangements) to mitigate the cost to the banking system associated with the large increase in banks' settlement balances at the RBA that will occur following the above policy actions.

  Further, the RBA has been injecting substantial extra liquidity into the financial system through its daily market operations. On March 16, 2020, the RBA announced it would conduct regular one-month, three-month and six-month maturity repurchase operations as long as market conditions warranted. On April 7, 2020, the RBA announced that daily open market operations were likely to be on a smaller scale in the near term given the substantial liquidity already in the system and the commencement of the TFF.

  The RBA also announced on March 16, 2020 that it stands ready to purchase Australian Government bonds and semi-government securities in the secondary market to support the smooth functioning of that market.

  On March 20, 2020, the RBA announced that the RBA and the US Federal Reserve will establish a temporary swap line for the provision of US dollar liquidity. The swap line allows the RBA to access up to US$60 billion in exchange for Australian dollars. The US dollars are made available to financial institutions operating in Australia via repos with the RBA.
- In March 2020, APRA announced, among other matters:
  - the suspension of the majority of its planned policy and supervision initiatives in response to the impact of COVID-19, including substantive public consultations and actions to finalize revisions to the prudential framework that were underway or upcoming, including consultations on prudential and reporting standards. In an update on August 10, 2020, APRA announced that apart from a limited number of policy initiatives, APRA does not plan to recommence consultation on any non-essential matters for the remainder of 2020. APRA's policy program for 2021 will be reviewed in light of the current environment;
  - a temporary change to its expectations with regards to ADIs maintaining bank capital ratios at the "unquestionably strong" benchmark. During the period of the COVID-19 disruption, APRA has stated that it would not be concerned if ADIs are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy;
  - an exemption for banks from having to treat eligible small business loans and home loans, which are subject to a COVID-19 loan repayment deferral, as 'arrears' or 'restructured' for capital purposes. APRA initially provided the capital treatment exemption for a period of up to 6 months from March 2020, but in July 2020, APRA allowed an extension to align with a further period of loan deferrals until the earlier of an aggregate period of deferral totalling ten months or March 31, 2021. The extension of the loan deferral arrangements (and associated capital treatment) is subject to ADIs undertaking an appropriate credit assessment to ascertain if an extension or new deferral is appropriate for the particular borrower given their circumstances.
  - For further information, please see "Risk factors - Legal and Regulatory Risk - Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position - Prudential Developments".
- In March 2020, ASIC announced that it will focus its regulatory efforts on challenges created by the COVID-19 pandemic. Until at least September 30, 2020, the other matters that ASIC will afford priority are, where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. ASIC immediately suspended a number of near-term activities which are not time-critical. These included consultation, regulatory reports and 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 COVID-19, 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 into account the impact of COVID-19. 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 January 1, 2021 and October 5, 2021 respectively.

- In March 2020, the ACCC announced that, while its 2020 compliance and enforcement priorities remain in place, it will re-focus its efforts to those priorities of most relevance to competition and consumer issues arising from the impact of COVID-19. Further, the ACCC provided interim authorisations for the Australian Banking Association and participating member banks (including ANZBGL) to co-operate to provide relief packages for individuals and businesses affected by COVID-19.

For information relating to the regulatory response to the COVID-19 pandemic in New Zealand, please see “Supervision and regulation - New Zealand - New Zealand Regulatory Developments - Regulatory Response to the COVID-19 Pandemic and Other Developments”.

The exact ramifications of the COVID-19 pandemic on the regulation and supervision of, and enforcement against, financial services groups such as the Group are highly uncertain and, as of the date of this U.S. Disclosure Document, difficult to predict.

The outbreak of COVID-19 has also resulted in the Australian Commonwealth and State Governments enacting many measures to combat the spread of the virus as well as economic response measures. The Australian Government has imposed wide ranging restrictions due to COVID-19 on, suspensions of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions. The Victorian State Government has declared a ‘state of disaster’ until September 2, 2020 and has imposed extensive restrictions on business, household and other activities. As an example of economic measures, the Australian Commonwealth Government announced a temporary ‘JobKeeper Payment’ (where eligible businesses significantly impacted by COVID-19 are able to access a subsidy from the Australian Government to continue paying their eligible employees) and a ‘Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme’ (where the Australian Commonwealth Government provides a guarantee of 50% to SME lenders to support new short-term unsecured loans to SMEs. The scheme will guarantee up to $40 billion of new lending). The Australian Commonwealth and State Governments may in the foreseeable future implement and introduce further measures. As of the date of this U.S. Disclosure Document, it is unclear what the full impact of these measures will be on the Group.

***APRA Guidance on Capital Management***

As a result of the COVID-19 disruption, on April 7, 2020, APRA wrote to ADIs and indicated that during the period of the disruption (and at least in the next two months from the date of the guidance), APRA expects ADIs to seriously consider deferring decisions on the appropriate level of dividends until the outlook is clearer. In line with APRA’s guidance, ANZBGL’s Board of Directors has deferred its decision on the 2020 interim dividend until there is greater clarity regarding the economic impact of COVID-19.

In July 2020, APRA provided an update that replaces the above guidance from April 2020. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs’ financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, ADIs’ boards should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

***ANZBGL Update on RBNZ Capital Requirements***

On December 5, 2019, ANZBGL provided an update on the impacts of the release of RBNZ’s final capital requirements.[1] See "Supervision and Regulation - New Zealand – New Zealand Regulatory Developments - RBNZ review of capital requirements" for more information about the RBNZ's final decisions.

At the time of the RBNZ announcement (December 5, 2019), the net impact on the Group was estimated as an increase in CET1 capital of approximately A$3.0 billion (based on the Group’s September 30, 2019 balance sheet and includes an approximately A$1 billion management buffer) over the seven year transition period from commencement date of the final capital requirements.

This impact is net of approximately NZ$1.5 billion of profits that ANZ New Zealand retained in 2019 in anticipation of meeting higher requirements (i.e. a total CET1 impact of approximately A$4.5 billion which is lower than what was previously anticipated[2]).

The key changes to the RBNZ’s final capital requirements relative to the consultation paper are:

- no change in total Tier 1 capital required for ANZ New Zealand of 16%, however the transition period is longer at seven years and there is a reduced impact on CET1 capital for the Group;
- a greater proportion of the increase is in AT1 capital (2.5% compared to the initial proposal of 1.5%), decreasing the amount of CET1 capital required[3]; and
- redeemable preference shares allowable as AT1 capital. It is anticipated that ANZ New Zealand will be able to refinance existing internal AT1 securities to external counterparties.

In response to the COVID-19 pandemic, the RBNZ has delayed the start date for the increased capital requirements by 12 months to support credit availability in New Zealand (with further delays possible if the conditions warrant it in 2021).

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[1] RBNZ released its consultation paper titled "Capital Review Paper 4: How much capital is enough?" on December 14, 2018.

[2] ANZBGL commented on the RBNZ’s consultation paper on December 14, 2018 (see U.S. Investor Website Update dated December 21, 2018) and responded to the RBNZ’s consultation paper on May 17, 2019.

[3] Based on APRA’s Prudential Standard APS 111 (Capital Adequacy: Measurement of Capital) proposals dated October 15, 2019.

See "Supervision and Regulation - New Zealand - New Zealand Regulatory Developments - RBNZ review of capital requirements" for more information.

***RBNZ restrictions on distributions and capital instruments***

With effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of AT1 capital instruments. This restriction applies to all New Zealand-incorporated registered banks, and is intended to support the stability of the financial system during the COVID-19 pandemic. The amendments prevent ANZ New Zealand from paying dividends to ANZBGL.

The RBNZ also informed ANZ New Zealand, and other New Zealand-incorporated registered banks, that they should not redeem capital instruments at this time. Accordingly ANZ New Zealand was not permitted to redeem its NZ$500 million of Capital Notes in May 2020, although ANZ New Zealand can continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand did not exercise its option to convert the Capital Notes in May 2020.The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions). Conversion would result in an increase in the Group's CET1 capital (approximately 12 basis points) at Level 2.

See "Recent Developments " and "Supervision and Regulation - New Zealand - New Zealand Regulatory Developments - Regulatory Response to the COVID-19 Pandemic and Other Developments" for more information.

***Royal Commission***

A Royal Commission is a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by terms of reference. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "Royal Commission") was directed to inquire into, and report on, whether any conduct of financial service entities (including ANZBGL) might have amounted to misconduct or conduct falling below community standards and expectations. The Royal Commission was also tasked with considering the causes of that conduct, in particular the role of culture, governance, remuneration and risk management practices, the effectiveness of regulators and making policy recommendations in response.

The final report of the Royal Commission was released publicly on February 4, 2019. In the final report, the Commissioner of the Royal Commission identified conduct by financial service entities, including ANZBGL, that may have amounted to misconduct or that has fallen short of community standards and expectations.

The final report of the Royal Commission contains 76 recommendations across the topics of banking, financial advice, superannuation, insurance, culture, governance and remuneration, regulators and other matters. Recommendations relevant to certain topics could also have implications for other topics.

While the Australian Government has implemented a number of recommendations (including through consultations, changed regulatory posture and amendments to the law), implementation is still in progress for many recommendations. As of the date of this U.S. Disclosure Document, ANZBGL believes that recommendations on the following topics could have an adverse impact on the Group's Position (as defined in "*Risk Factors - Introduction*" below):

*Banking*

- Changes to intermediated home lending, including that mortgage brokers should be subject to a duty to act in the best interests of an intending borrower, that changes should be made to mortgage broker remuneration (including that the borrower, and not the lender, should pay the mortgage broker a fee for acting in connection with home lending) and a phased prohibition on trailing and other commissions being paid by lenders to mortgage brokers, and that mortgage brokers should be subject to additional professional regulation;
- The Australian Banking Association ("ABA") should amend the Code of Banking Practice ("Code") to provide that banks will work with customers who live in remote areas or who are not adept in using English to identify a suitable way for those customers to access and undertake banking services, and without the prior express agreement with the customer, banks will not allow informal overdrafts or charge dishonor fees on basic accounts;
- Lending to small and medium enterprises, including that the ABA should amend the definition of 'small business' in the Code so that it applies to any business or group employing fewer than 100 full-time equivalent employees, where the loan applied for is less than AUD5 million and that banks should take certain steps and be required to adopt certain practices when dealing with agricultural loans, including in distressed situations;
- Enforceability of industry codes, including that the contravention of certain provisions of industry codes should constitute a breach of the law; and
- BEAR, including that APRA should set a responsibility within ADIs for all steps in the design, delivery and maintenance of all products offered to customers and any remediation of customers in respect of those products.

*Financial advice*

- Ongoing financial advice fee arrangements, including that the law should be amended to provide that ongoing fee arrangements must be renewed annually by the client, must record in writing the services the client is entitled to receive and the total fees to be charged, and may not permit or require the payment of fees from an account held by the client without the client's express written authority at the time of the latest annual renewal;
- The law should be amended to require the disclosure of the lack of independence of a financial advisor;
- Review of the measures implemented to improve the quality of advice;
- Conflicted remuneration, including that the grandfathering provisions that allow payment of certain conflicted remuneration, should be repealed as soon as is reasonably practicable; and
- Professional discipline of financial advisers, including that holders of Australian financial services licences ("AFSL") should be required, as a condition of their licence, to give effect to reference checking and information-sharing protocols for financial advisers, report 'serious compliance concerns' about individual financial advisers to ASIC on a quarterly basis and take certain steps when they detect that a financial advisor has engaged in misconduct in respect of financial advice given to a retail client, and that the law should be amended to establish a new disciplinary system for financial advisors.

*Superannuation*

- Superannuation trustee's obligations, including that the deduction of any advice fee (other than for intra-fund advice) from a MySuper account should be prohibited and trustees should be prohibited from assuming obligations other than those arising from its duties as a trustee;
- Nominating default superannuation funds, including that a person should only have one default superannuation account;
- Regulation of superannuation, including that trustee's or director's covenants should be enforceable by action for civil penalty; and
- The 'selling' of superannuation and insurance, including that the hawking (or unsolicited selling) of superannuation products and insurance products to retail clients should be prohibited.

*Insurance*

- Add-on insurance, including that the Australian Government should develop an industry-wide deferred sales model for the sale of any add-on insurance products;
- Pre-contractual disclosure and representations, including that an insured's duty of disclosure to an insurer should be replaced with a duty to take reasonable care not to make a misrepresentation to an insurer;
- Avoidance of life insurance contracts, including that an insurer should only be able to avoid a life insurance policy for non-disclosure or misrepresentation if it would not have entered into the contract on any terms;
- Statutory provisions protecting consumers from unfair contract terms in insurance contracts;
- Claims handling and settlement should be made subject to the laws regulating financial services;
- Enforceability of industry codes, including that the contravention of certain provisions of those codes should constitute a breach of the law;
- External dispute resolution, including that the law should be amended to require that holders of AFSLs take reasonable steps to co-operate with the Australian Financial Complaints Authority ("AFCA"); and
- Group life policies, including a government review of the practicability and likely pricing effect of legislating universal key definitions, terms and exclusions for default MySuper group life policies, and amendments to Prudential Standard SPS 250 (Insurance in Superannuation) including to require independent certification of any group life insurance arrangements between superannuation trustees and related parties.

*Culture, governance and remuneration*

- Remuneration, including that APRA take certain steps in conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration; that financial service entities should review at least annually the design and implementation of their remuneration systems for front line staff to ensure that the design and implementation of those systems focus on not only what staff do, but also how they do it; and that banks should implement fully the recommendations of the Retail Banking Remuneration Review released on April 19, 2017 (otherwise known as the Sedgwick Review, a review commissioned by the ABA); and
- Culture and governance, including that all financial services entities should, as often as reasonably possible, take proper steps to assess their culture and governance and take any required remedial action and that APRA take certain steps in conducting its prudential supervision of and revising its prudential standards and guidance about, culture and governance.

*Regulators*

- ASIC's enforcement practices, including that ASIC should adopt an approach that takes, as its starting point, the question of whether a court should determine the consequences of a contravention;
- Superannuation conduct regulation, including that the roles of APRA and ASIC should be adjusted, with APRA as the prudential regulator and ASIC as the conduct regulator;
- BEAR co-regulation, including that ASIC and APRA should jointly administer BEAR;
- Cooperation with regulators, including that the law should be amended to make clear that an ADI must deal with ASIC and APRA in an open, constructive and co-operative way;
- Extension of BEAR, including that the BEAR provisions should be extended to all APRA-regulated financial services institutions, APRA-regulated insurers and registrable superannuation entity licensees;
- Co-ordination, information sharing and co-operation between ASIC and APRA;
- Governance of regulators, including that the kind of management and accountability principles established by BEAR should apply to each of APRA and ASIC and that each of APRA and ASIC be subject to capability reviews; and
- Oversight of regulators, including that a new oversight authority for APRA and ASIC should be established.

*Other matters*

- External dispute resolution, including that a compensation scheme of last resort should be carried into effect;
- ASIC Enforcement Review Taskforce recommendations, for self-reporting of contraventions by financial services and credit licensees should be carried into effect; and
- Simplification of the law, including that exceptions and qualifications to generally applicable norms of conduct in legislation governing financial services entities should be eliminated as far as possible and legislation governing financial services entities should identify expressly what fundamental norms of behavior are being pursued.

Additionally, the other recommendations of the Royal Commission not highlighted above could also impact the Group's Position.

On February 4, 2019, the Australian Government said that it was committed to taking action on all 76 recommendations. On March 12, 2019, the Australian Government announced that it had decided not to prohibit trailing commissions being paid by lenders to mortgage brokers on new loans, but rather to review their operation in three years' time, alongside consideration of a borrower pays remuneration structure for mortgage broking.

In August 2019, the Australian Government reported that it had implemented 15 of the commitments it outlined in its response to the Royal Commission Final Report, including 8 of the Royal Commission's recommendations, and announced a timetable for further implementation in 2019 and through to 2022. The 15 commitments that the Australian Government has implemented include introducing regulations to require all compulsory AFCA members to take reasonable steps to co-operate with AFCA in the resolution of disputes, extending AFCA's remit to consider financial complaints from consumers and small businesses dating back to January 1, 2008 and extending ASIC's product intervention powers and the design and distribution obligations imposed on financial service licensees. APRA, ASIC and the industry have also implemented or begun the implementation process for a number of recommendations directed towards them.

Since August 2019, the Government has continued to take steps to implement the recommendations of the Royal Commission and the Government's additional commitments. Notably, on January 22, 2020, the Australian Government released for consultation a proposal for a financial accountability regime (FAR) that would implement five recommendations concerning the extension of the BEAR. Further, on January 31, 2020, the Australian Government released draft legislation for public comment which related to a further 22 recommendations and two additional commitments to recommendations. This draft legislation concerned recommendations, among others, relating to breach reporting, the hawking of financial products, a deferred sales model for insurance and the enforceability of financial services industry codes. The Government also consulted on a compensation scheme of last resort through early 2020 in response to a further recommendation.

On May 8, 2020, the Treasurer of Australia announced a six month deferral to the implementation of Royal Commission commitments. Under the updated timetable, the Treasurer stated that those measures that the Government had indicated would be introduced into the Parliament by June 30, 2020 would now be introduced by December 2020. Similarly, the Treasurer stated that those measures originally scheduled for introduction by December 2020 would now be introduced by June 30, 2021. In relation to commencement dates contained in Royal Commission related exposure draft legislation issued prior to the COVID-19 pandemic, the Treasurer stated that the Government would also extend these dates by an additional six months. As part of this announcement, the Treasurer stated that the Government had now implemented 24 commitments and had substantially progressed a further 35 through consultation and the preparation of draft legislation.

The Royal Commission's conclusions have led or may lead to regulators commencing investigations into various financial services entities, including the Group, which could subsequently result in administrative or enforcement action being taken. The recommendations and the Government's commitments have also led to the Group's regulators altering their existing policies and practices and legislation being passed to expand regulatory powers.

ANZBGL announced in February 2019 that it would take immediate steps to implement the first phase of its response to the recommendations. These steps included:

- Providing farmers with early access to farm debt mediation as well as favoring 'work-outs' over either enforcement or appointing external managers;
- Not charging farmers default interest in areas affected by drought or other natural disasters;
- Creating a dedicated phone service and easier account identification options for indigenous customers;
- Proactively contacting customers paying little off persistent credit card debt to encourage them to move to lower cost options;
- Removing overdrawn and dishonor fees from its Pensioner Advantage accounts;
- Engaging as a 'model-litigant' in situations where ANZBGL is involved in a court process with individual retail or small business customers; and
- Committing to the Australian Financial Complaints Authority's "look back" under its new limits.

ANZBGL reported to the Australian Government on April 30, 2020 that ANZBGL has:

- Made the changes that it can to respond to the four recommendations from the Royal Commission that were directed at banks. In relation to these recommendations, ANZBGL has:
  - Changed how people are paid across the Group to reduce the risk of outcomes that are not in customers' best interests;
  - Implemented all 15 Sedgwick Review recommendations that can be implemented by individual banks at this time (see "-Culture, governance and remuneration" above);
  - Strengthened oversight over ANZBGL's Board of Directors and management particularly in relation to accountability and governance;
  - Published principles about how it will treat family farmers in financial distress;
- Completed 11 of the 16 commitments ANZBGL made in February 2019. Of those remaining, four are dependent on finalization of legislation, and one is in progress as ANZBGL continues to assess culture and identify where changes are required.

The Royal Commission has also referred instances of potential misconduct to APRA or ASIC for consideration where they are not already being investigated. Where these matters relate to the Group, it may result in proceedings being brought against Group entities, which could result in the imposition of civil or criminal penalties on the Group.

The Royal Commission is resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities, and may have an adverse impact on the Group's Position. The outcomes and total costs associated with these possible exposures remain uncertain.

The Royal Commission may also lead to increased political or regulatory scrutiny of the financial industry in New Zealand.

***Self-assessment into frameworks and practices***

On May 1, 2018, APRA indicated that all regulated financial institutions would benefit from conducting a self-assessment into their frameworks and practices in relation to governance, culture and accountability and that, for large financial institutions such as the Group, APRA will be seeking written assessments that have been reviewed and endorsed by their boards. APRA made these indications in light of the issues that were identified in the final report relating to the prudential inquiry into another major ADI, which was established to examine the frameworks and practices in relation to the governance, culture and accountability within that ADI group. ANZBGL submitted its written self-assessment to APRA on November 30, 2018. On

August 22, 2019, ANZBGL released an article from ANZBGL's Chairman detailing the actions being taken by ANZBGL to address the issues raised in its self-assessment report.

***Financial System Inquiry***

The Australian Government completed a comprehensive inquiry into Australia's financial system in 2014 which included a number of key recommendations that may have an impact on regulatory capital levels. APRA initiatives in support of the FSI are:

- In July 2017, APRA released an information paper outlining its assessment on the additional capital required for the Australian banking sector to be considered 'unquestionably strong' as originally outlined in the FSI final report in December 2014. APRA indicated that "in the case of the four major Australian domestic systemically important banks ("D-SIBs"), this equated to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5% from January 1, 2020.
- In February 2018, APRA released a discussion paper that commenced APRA's consultation on:
  - *Revisions to the capital framework that will produce "unquestionably strong" capital ratios.* The discussion paper, along with subsequent announcements in June and September 2019, summarizes APRA's proposal regarding the risk-based capital approach for credit, market, interest rate risk in the banking book and operational risk following finalization of these requirements by the BCBS in December 2017. While the final forms of these proposals will only be determined later in 2020, the Group expects the implementation of any revisions to the current requirements will result in further changes to the risk weighting framework for certain asset classes and other risk types (such as market and operational risks). APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements.
  - *Adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility of the ADI capital framework.* APRA released a discussion paper in August 2018. The focus of the proposals is on the presentation of the capital ratios to facilitate comparability whilst recognizing the relative capital strength of ADIs and measures to enhance supervisory flexibility in times of financial stress.
  - *Leverage Ratio requirements.* APRA's "Leverage Ratio" compares Tier 1 capital to the "exposure measure" (expressed as a percentage) as defined by APRA Prudential Standard APS 110. It is designed as a non-risk based supplement or backstop to the current risk based capital requirements and is intended to restrict the build-up of excessive leverage in the banking system. APRA released draft prudential standards in November 2018 proposing to set the Leverage Ratio minimum for Internal Ratings-Based ("IRB") ADIs at 3.5%, in addition to other changes to the calculation of the exposure measure. These changes are not expected to have a material impact on the Group.

APRA's consultation for the above is ongoing. However, in response to the challenging economic environment resulting from the COVID-19 disruptions, APRA has:

- announced a temporary change to its expectations with regards to ADIs, such as ANZBGL, maintaining bank capital ratios at the "unquestionably strong" benchmark of 10.5% for CET1. During the period of the COVID-19 disruption, APRA has stated that it would not be concerned if ADIs are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy; and
- deferred its scheduled implementation of changes to ADIs risk-weighting framework and Leverage Ratio requirements by one year. The majority of the capital reforms were initially due for implementation on January 1, 2022, but these have now been revised to January 1, 2023. The deferral also includes APRA proposals on improving transparency, international comparability and flexibility of the ADI capital framework.

Given the number of items that are yet to be finalized by APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains uncertain.

***APRA Total Loss Absorbing Capacity Requirements***

In July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which it will require Australian D-SIBs, including ANZBGL, to increase their total capital by 3% of risk weighted assets by January 2024. Based on the Group's capital position as at March 31, 2020, this represents an incremental increase in the total capital requirement of approximately A$9 billion, with an equivalent decrease in other senior funding. APRA has stated that it anticipates that Australian 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 risk weighted assets.

***Level 3 Conglomerates ("Level 3") framework***

APRA is extending its prudential supervision framework to conglomerate groups via the Level 3 framework which will regulate a bancassurance group such as the Group as a single economic entity with minimum capital requirements and additional monitoring of risk exposure levels.

In August 2016, APRA confirmed the deferral of capital requirements for conglomerate groups, to allow for the final capital requirements arising from FSI recommendations as well as from international initiatives that are in progress.  APRA has not proposed any date for implementing any changes.

The non-capital components of the Level 3 framework relating to group governance, risk exposures, intragroup transactions and other risk management and compliance requirements came into effect on July 1, 2017. These requirements have had no material impact on the Group's capital position nor ANZBGL's funding of its subsidiaries. See "*Restrictions on ANZBGL's ability to provide financial support*" below for further discussion on the impact of the Level 3 framework on ANZBGL's ability to support its related entities, including ANZ New Zealand (together with its subsidiaries, the "ANZ New Zealand Group").

***Revisions to Related Entities Framework***

In August 2019, APRA announced that it will amend APS222 "Associations with Related Entities" ("APS222") 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 "Capital Adequacy: Measurement of Capital" ("APS111")) will affect the measurement of ADI exposures. On the basis that the APS111 revisions are implemented as currently proposed, the reduction in the above limits is not expected to have a material impact on the Group. The proposed implementation date of January 1, 2021 has been deferred by APRA to January 1, 2022. Refer to "Restrictions on ANZBGL's ability to provide financial support" below for more detail.

***Revisions to APS111 Capital Adequacy Measurement of Capital***

In October 2019, APRA released a discussion paper on draft revisions to APS111 for consultation. The most material change from APRA's proposal is in relation to the treatment of capital investments into ADIs (or overseas equivalents) and insurance subsidiaries 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 CET1 capital; and
- the remainder of the investment will be treated as a CET1 capital deduction.

ANZBGL is reviewing the implications 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 current investment 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$2.5 billion (approximately 75 basis points). However, ANZBGL believes that this outcome is unlikely and, post implementation of management actions, the net capital impact could be minimal. There is no impact on the Group's Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date of January 1, 2021 for these changes is currently under review by APRA in line with their announcement to suspend public consultation on revisions to prudential standards that are currently underway or upcoming, with no plans for recommencement before September 30, 2020.

***Restrictions on ANZBGL's ability to provide financial support***

*Effect of APRA's Prudential Standards*

APRA's current or future requirements may have an adverse effect on ANZBGL's business, results of operations, liquidity, capital resources or financial condition.

APS222 sets minimum requirements for ADIs in Australia, including ANZBGL, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS222, ANZBGL's ability to provide financial support to related entities (including the ANZ New Zealand Group) is subject to the following restrictions:

- ANZBGL should not undertake any third party dealings with the prime purpose of supporting the business of related entities;
- ANZBGL must not hold unlimited exposures (i.e., should be limited as to specified time or amount) to related entities (e.g., not provide a general guarantee covering any of the obligations of related entities) either in aggregate or at an individual entity level;
- ANZBGL must not enter into cross-default clauses whereby a default by a related entity on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default of ANZBGL on its obligations; and
- the level of exposure, net of exposures deducted from capital, of ANZBGL's Level 1 total capital base:
  - (i) to related ADIs or equivalents, such as the ANZ New Zealand Group, should not exceed 50% on an individual exposure basis or 150% in aggregate to all related ADIs or equivalents;
  - (ii) to other related entities:
    - i. in the case of a regulated related entity, should not exceed 25% on an individual exposure basis; or
    - ii. in the case of any other (unregulated) related entity, should not exceed 15% on an individual exposure basis; and
    - iii. should not exceed in aggregate 35% to all non-ADIs or equivalent related entities.

In August 2019, APRA released an update to APS222. Changes that affect the quantum and nature of the financial support that ANZBGL can provide ANZ New Zealand Group are:

- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- reduce the individual ADI exposure limit to 25% of Level 1 Tier 1, and the aggregate to 75% of Level 1 Tier 1 capital base.

The proposed implementation date of January 1, 2021 for APS222 has been deferred by APRA to January 1, 2022. APRA has provided for entity-specific transitional arrangements or flexibility on a case by case basis.

Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents) and insurance subsidiaries, as outlined above in "Revisions to APS111 Capital Adequacy Measurement of Capital". The proposed implementation date of January 1, 2021 for these changes is currently under review by APRA in line with their announcement to suspend public consultation on revisions to prudential standards that are currently underway or upcoming, with no plans for recommencement before September 30, 2020.

If implemented, these APS111 changes would reduce ANZBGL's Level 1 Tier 1 capital base and exposure to the ANZ New Zealand Group for the purposes of APS222 reporting. As a result, ANZBGL's expected exposure to the ANZ New Zealand Group would be compliant with the revised APS222 limits. However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's business, results of operations, liquidity, capital resources or financial condition, as well as, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

In addition, APRA has confirmed that, by January 1, 2021, no more than 5% of ANZBGL's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as ANZ New Zealand, and ANZBGL's New Zealand branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the ANZ New Zealand Group during times of financial stress.

APRA has also confirmed that contingent funding support by ANZBGL to the ANZ New Zealand Group during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding. APRA also requires that ANZBGL's total exposures to its New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 capital base.

*Effect of the Level 3 framework*

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017 (see "*Level 3 Conglomerates ("Level 3") framework*" above). This framework also requires the Group to limit its financial and operational exposures to subsidiaries (including ANZ New Zealand).

In determining the acceptable level of exposure to a subsidiary, ANZBGL's Board of Directors should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status; and
- the potential impact on ANZBGL's capital and liquidity positions and ability to continue operating in the event of a failure by the subsidiary.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to its subsidiaries, including ANZ New Zealand.

***Residential mortgage lending practices***

In recent years APRA has closely monitored residential mortgage lending practices and taken a number of steps aimed at strengthening residential mortgage lending standards across the banking industry. For example:

- in December 2014, APRA outlined additional steps it may take to reinforce sound residential mortgage lending practices of ADIs, indicating that it will pay particular attention to certain areas of concern, including higher risk mortgage lending, growth in lending to property investors (particularly if the growth is materially above an annual benchmark of 10%) and loan affordability tests for new borrowers; and
- in March 2017, APRA outlined that ADIs will be expected, among other things, to:
  - limit the flow of new interest-only lending to 30% of total new residential mortgage lending ("30% Interest-Only Benchmark"). Within this limit, ADIs were expected to place strict internal limits on the volume of interest-only lending at loan-to-valuation ratios ("LVRs") above 80% and ensure there was strong scrutiny and justification of any instances of interest-only lending at LVRs above 90%; and
  - manage lending to investors so as to comfortably remain below the previously advised benchmark of 10% annual growth in lending to property investors ("10% Investor Loan Growth Benchmark").

The Group applied a number of levers to meet the above expectations and manage portfolio risk, including adjustment of lending criteria and implementation of differentiated pricing between owner occupier and investor lending. Within these categories, differentiated pricing applies between customers making interest-only repayments and principal and interest repayments.

In April 2018 and December 2018, APRA outlined that the 10% Investor Loan Growth Benchmark and 30% Interest-Only Benchmark, respectively, will no longer apply to ADIs in certain circumstances. The benchmarks no longer apply to the Group.

APRA has indicated that it will continue to monitor closely conditions in the housing market more generally and despite the removal of the benchmarks, a return to more rapid rates of investor loan growth or re-acceleration in interest-only lending at an industry-wide level would raise systemic concerns and that such an environment could lead APRA to consider the need to apply industry-wide measures.

***Changes in classifications for residential mortgage loans***

The current classification of ANZBGL's residential mortgage loans, as reported to regulators and the market, is generally determined during the loan origination process (i.e., loan application, processing and funding), based on information provided by the customer or subsequently when a customer requests changes to the loan.

Classification of residential mortgage loans may change due to:

- incorrect classification at origination: to the extent that customers inaccurately advise ANZBGL of their circumstances at origination, there is a risk that loans may be incorrectly classified, and such loans may be reclassified;
- changes in customer circumstances: ongoing appropriateness of a given classification relies on the customer's obligation to advise ANZBGL of any changes in the customer's circumstances and on ANZBGL's ability to independently validate the information provided by its customers. To the extent that customers advise of any changes in their circumstances or when ANZBGL makes such a determination based on its verification processes, a loan may be reclassified;
- regulatory or other changes: the criteria for loan classifications, and their interpretation, may change for one or more reporting purposes, which may affect the classification of certain loans; and
- changes in ANZBGL's systems and processes.

Incorrect classification or re-classification of loans may affect a customer's ability to meet required repayments, such as when an owner-occupied property loan is re-classified to an investment property loan, which may attract a higher interest rate. The inability of customers to meet repayment obligations on re-classified loans may increase the risk of default on such loans, which may adversely affect the Group's Position.

***Other***

For further information on regulatory developments, including the risks they pose to the Group, refer to the section entitled "Risk factors – Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position" in "Section 2: Information on the Group".

**Sections 102.6 and 102.7 of the Australian Criminal Code**

Under Sections 102.6 and 102.7 of the Australian Criminal Code (contained in the Criminal Code Act 1995 of Australia), a person commits a criminal offence if the person intentionally receives funds from, makes funds available to, collects funds for or on behalf of, or provides support or resources to a terrorist organization in circumstances where the person knows, or is reckless as to whether, the organization is a terrorist organization. An organization is a terrorist organization if it is directly or indirectly engaged in, preparing, planning, assisting in or fostering the doing of a terrorist act, or is prescribed as a terrorist organization in regulations under the Criminal Code Act 1995 of Australia.

Under the Autonomous Sanctions Act 2011 of Australia and the Autonomous Sanctions Regulations 2011 of Australia, sanctions are imposed against certain specifically identified persons, entities, assets and vessels associated with particular countries, and certain transactions involving the named persons or entities may only be conducted with specific approval from the Minister of Foreign Affairs. Contravention of these sanctions constitutes a criminal offence.

## NEW ZEALAND

### The supervisory role of the RBNZ

The Reserve Bank of New Zealand Act 1989 (the “Reserve Bank Act”) requires the RBNZ to exercise its powers of registration of banks and prudential supervision of registered banks (including ANZ New Zealand) for the purposes of:

- promoting the maintenance of a sound and efficient financial system; and
- avoiding significant damage to the financial system that could result from the failure of a registered bank.

The RBNZ's policy around the registration of banks aims to ensure that only financial institutions of appropriate standing and repute are able to become registered banks. Subject to this requirement, the RBNZ has stated that it intends to keep to a minimum any impediments to the entry of new registered banks, in order to encourage competition in the banking system.

The RBNZ's supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole, and are not aimed at preventing individual bank failures or at protecting creditors. The RBNZ seeks to achieve this by drawing on and enhancing disciplines that are naturally present in the market.

The RBNZ places considerable emphasis on a requirement that banks regularly disclose information on financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility - the directors and management.

The main elements of the RBNZ's supervisory role include:

- requiring all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration. These include constraints on connected exposures, minimum capital adequacy requirements and minimum standards for liquidity risk management, and are set out in more detail below;
- monitoring each registered bank's financial condition and compliance with conditions of registration, principally on the basis of published half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. This monitoring is intended to ensure that the RBNZ maintains familiarity with the financial condition of each bank and the banking system as a whole, and maintains a state of preparedness to invoke crisis management powers should this be necessary;
- consulting with the senior management of registered banks;
- using crisis management powers available to it under the Reserve Bank Act to intervene where a bank distress or failure situation threatens the soundness of the financial system;
- assessing whether a bank is carrying on business prudently;
- issuing guidelines on overseeing banks' compliance with anti-money laundering and countering financing of terrorism requirements;
- monitoring banks' outsourcing arrangements to determine whether a registered bank's risks associated with outsourcing are appropriately managed;
- issuing guidelines on banks' internal capital adequacy process and liquidity policy;
- issuing guidelines on corporate governance; and
- maintaining close working relationships with parent bank supervisors (such as APRA in Australia) on bank-specific issues, policy issues and general matters relating to the condition of the financial system in New Zealand and in the countries where parent banks are domiciled.

Registered banks are required to issue half-yearly disclosure statements that contain comprehensive details, together with full financial statements at the full-year, and unaudited interim financial statements at the half-year. The financial statements are subject to full external audit at the end of each financial year and a limited scope review at the end of each financial half-year. Each bank director is required to sign his or her bank's disclosure statements and to make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank's disclosure statement contains information that is held to be false or misleading.

The RBNZ publishes a quarterly “dashboard” of key information on registered banks on the RBNZ's website. The dashboard aims to improve the ability of the public and market participants to understand and act on information about such banks’ financial strength and risk profile. The information is sourced from private reporting that banks provide to the RBNZ. Information relating to the ANZ New Zealand Group published in the dashboard is not incorporated by reference herein and does not form part of this U.S. Disclosure Document. In some cases, information relating to the ANZ New Zealand Group published in the dashboard has not been prepared on a consistent basis with the information presented in the ANZ New Zealand consolidated financial statements.

New Zealand-incorporated registered banks are required to comply with the Basel 3 capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also requires most New Zealand-incorporated registered banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit. There are also counterparty credit risk requirements and additional disclosure requirements to incorporate Basel 3. These capital requirements are expected to change from July 1, 2021 as a result of the RBNZ's capital reforms, see "New Zealand Regulatory Developments - RBNZ review of capital requirements" below for further information.

New Zealand-incorporated registered banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("BS13"). A requirement of BS13 is that New Zealand-incorporated registered banks meet a minimum core funding ratio of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. However, with effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to reduce ANZ New Zealand's minimum core funding ratio to 50% in response to the COVID-19 pandemic.

Basel 3 proposes a liquidity policy which the RBNZ considers very similar to the intent of BS13. However, the RBNZ considers that certain aspects of the Basel 3 liquidity standards are not suitable for adoption in New Zealand. The RBNZ is undertaking a thematic review of compliance with BS13 ("BS13 Thematic Review"). Findings from the BS13 Thematic Review are intended to provide input into a forthcoming review of BS13. In March 2020, the RBNZ announced that it would defer external-facing work on the BS13 Thematic Review for an initial period of six months in response to the COVID-19 pandemic.

The RBNZ also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the disclosure statements.

In addition, the RBNZ has wide reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data, and forecasts be audited.

It also possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consults with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management.

If a registered bank is declared to be subject to statutory management, no person may, among other things:

- commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- take any steps to put that bank into liquidation; or
- exercise any right of set off against that bank.

As part of the RBNZ's supervisory powers, a person must obtain the written consent of the RBNZ before giving effect to a transaction resulting in that person acquiring or increasing a "significant influence" over a registered bank. "Significant influence" means the ability to appoint 25% or more of the board of directors of a registered bank or a qualifying interest (e.g., legal or beneficial ownership) in 10% or more of its voting securities.

In assessing applications for consent to acquire a significant influence over a registered bank, the RBNZ has stated that it will have regard to the same matters as are relevant in assessing an application for registration as a registered bank. In giving its consent, the RBNZ may impose such terms and conditions as it thinks fit.

**New Zealand Regulatory Developments**

***Regulatory Response to the COVID-19 Pandemic and Other Developments***

The exact ramifications of COVID-19 on the regulation and supervision of, and enforcement against, financial services groups such as the ANZ New Zealand Group are highly uncertain and, as of the date of this U.S. Disclosure Document, difficult to predict.

In response to the COVID-19 pandemic, the RBNZ and the New Zealand Government have implemented a broad range of measures to promote financial stability and ensure foreign exchange, debt and money markets continue operating efficiently and at low cost, many of which affect the ANZ New Zealand Group. As of the date of this U.S. Disclosure Document, it is unclear what the full impact of these measures will be on the ANZ New Zealand Group.

The RBNZ announced in March 2020 that it would defer external-facing work on most of its regulatory initiatives for an initial period of six months, and would delay the start date for the increased capital requirements for New Zealand-incorporated banks by 12 months. The RBNZ has also extended the transition period for its revised outsourcing policy ("BS11") by 12 months, and there have been delays to the commencement of some upcoming amendments to the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") and upcoming amendments to New Zealand's financial advice framework. The RBNZ has advised banks operating in New Zealand to ensure their systems and processes are prepared to function in a scenario where the official cash rate is zero or negative by December 1, 2020.

The RBNZ has amended ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, as follows:

- Effective from May 1, 2020, the RBNZ has removed LVR restrictions for residential mortgage lending for a period of 12 months. The previous LVR restrictions required New Zealand registered banks to restrict new non property-investment residential mortgage lending over 80% LVR to no more than 20% of the dollar value of a bank's new "non property-investment residential mortgage lending" (which is a standard residential mortgage loan secured over only owner-occupied residential property), and restrict "property investment residential mortgage" (which is a standard residential mortgage loan that is not a non-property-investment residential mortgage loan) lending over 70% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ will monitor lending activity and feedback from retail banks over a 12 month period, and then decide whether to reinstate the restrictions.
- Effective from April 2, 2020, various changes were made, including:
  - the addition of condition 1D, restricting ANZ New Zealand from paying dividends or other distributions, other than discretionary payments payable to holders of AT1 capital instruments;
  - the reduction of the minimum requirement for ANZ New Zealand's core funding ratio from 75% to 50%; and
  - updates to refer to the revised version of BS11 dated April 2020 and to reflect the extension of the transition period for existing outsourcing arrangements under BS11 to October 1, 2023.

The RBNZ has stated that the restrictions on dividends will remain in place until further notice, with the aim of relaxing them when the New Zealand economic outlook has sufficiently recovered.

The RBNZ has also informed New Zealand-incorporated registered banks (including ANZ New Zealand), that they should not redeem capital instruments at this time to further support the stability of the banking financial system. Accordingly, ANZ New Zealand was not permitted to redeem its NZ$500 million of Capital Notes in May 2020, although ANZ New Zealand may continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand did not exercise its option to convert the Capital Notes into a variable number of ANZBGL ordinary shares in May 2020. The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions).

The New Zealand Government and the RBNZ have implemented a financial support package for homeowners (known as the “Mortgage Repayment Deferral Scheme”) and businesses affected by the economic impacts of COVID-19, in which ANZ New Zealand, along with other New Zealand banks, has agreed to participate. The package includes a Mortgage Repayment Deferral Scheme for residential mortgage, agriculture and small to medium-sized business customers. The Mortgage Repayment Deferral Scheme is available to eligible ANZ New Zealand customers who are impacted by COVID-19. Under the Mortgage Repayment Deferral Scheme, repayments can be deferred for any period up to six months, as agreed between the bank and the borrower. The period of a repayment deferral under the Mortgage Repayment Deferral Scheme will not be treated as a period in arrears, and the granting of a repayment deferral will not be treated as a distressed restructuring. ANZ New Zealand will follow its usual processes for capitalizing interest on loans under the Mortgage Repayment Deferral Scheme.

The financial support package also includes a Wage Subsidy Scheme to help some employers adversely affected by COVID-19 to continue to pay their staff. The subsidy has been paid to employers as a lump sum for an initial 12 week period, for which applications closed in June 2020. The Wage Subsidy Scheme has since been extended, with two smaller lump sum payments available to employers that meet certain more restrictive criteria.

The New Zealand Government and certain New Zealand banks (including ANZ New Zealand) have implemented the Business Finance Guarantee Scheme (“BFGS’) to assist with the provision of credit to businesses for the purpose of managing liquidity needs as a result of COVID 19 and to help them to position themselves for the subsequent economic recovery. All businesses with annual revenues of up to NZ$200 million and who meet required criteria set by the New Zealand Treasury are eligible. A limit of NZ$5,000,000 per loan will apply and the loans will have a maximum term of five years. The New Zealand Government will take on 80% of the credit risk of each loan, with the other 20% to be retained by the banks.

The New Zealand Government has also announced a Small Business Cashflow Loan Scheme, under which the New Zealand Inland Revenue Department ("IRD") will provide loans of up to NZ$100,000 to assist small businesses impacted by the COVID-19 pandemic. The loans will be interest free for the first year, and thereafter the interest rate will be 3% per annum. The maximum term of the loans will be five years, and businesses will not be required to make repayments for the first two years. The scheme will apply the same eligibility criteria as the Wage Subsidy Scheme. Businesses will also have to declare that they are a viable business and that they will use the money for core business operating costs.

The RBNZ has announced a Term Lending Facility (“TLF”), a new longer-term funding scheme for the banking system, designed to support bank lending under the BFGS. BFGS participant banks, including ANZ New Zealand, are able to access collateralized funding equivalent to the amount of drawn down loans that those participant banks have extended under the BFGS for a term of up to five years at a fixed rate of the RBNZ official cash rate. The RBNZ launched its first TLF operation in May 2020.

In March 2020, the RBNZ announced a new weekly Corporate Open Market Operation ("Corporate OMO") auction to provide liquidity in exchange for eligible corporate and asset-backed securities. This facility is intended to provide another channel for banks to continue funding corporate clients and to support market functioning. The weekly Corporate OMO is seen as temporary, and the RBNZ will review its operation after 12 months or sooner if demand diminishes.

The RBNZ also began offering collateralized term funding through a Term Auction Facility (“TAF”) auction from March 2020. The TAF operates daily in a similar manner to the Corporate OMO and is intended to support banking system liquidity. The RBNZ can alter the minimum interest rate, volume and maturity dates offered at its discretion and will review this facility after 12 months or sooner if demand diminishes.

The RBNZ has implemented an up to NZ$100 billion Large Scale Asset Purchase (“LSAP”) program, under which it will purchase New Zealand Government bonds, New Zealand Government Inflation-Indexed Bonds and Local Government Funding Agency bonds, on the secondary market and inject cash into the banking system. The LSAP program aims to provide further support to the New Zealand economy, build confidence, and keep interest rates low. The LSAP program increases the amount of money circulating in the New Zealand banking system available to banks, including ANZ New Zealand, as deposits. The RBNZ will monitor the effectiveness of the LSAP program and make further adjustments and additions if needed.

The Companies Act 1993 and other legislation have been amended to help businesses facing insolvency due to COVID-19 to remain viable, including by introducing a COVID-19 Business Debt Hibernation ("BDH") regime. Under the regime, eligible entities (including companies, partnerships, incorporated societies, and other bodies) are able to submit a proposal to their creditors for putting their business debts into 'hibernation'. Creditors will have one month from the date the entity notifies the Registrar of Companies of its intention to enter into BDH to vote on the proposal, and the proposal will take effect if 50% of creditors (by number and value) agree. There will be a moratorium on the enforcement of debts during the initial one-month period following notification to the Registrar of Companies, and a further six month moratorium if the proposal is agreed to. The proposal, if agreed to, will be subject to any conditions agreed with creditors. The BDH regime does not limit enforcement action by creditors with security over the whole, or substantially the whole, of an entity’s property, and certain debts (including debts owed to employees) are excluded from the regime entirely.

The New Zealand Government has also made a number of tax reforms to provide relief to businesses. These include a temporary loss carry-back scheme (which will be replaced in time by a permanent scheme), under which businesses expecting to make a loss in either of the 2019-2020 or 2020-2021 income years can offset that loss against income from the preceding income year, and receive a refund of some or all of the tax paid for that preceding year. Several changes have been made to assist medium and smaller businesses, including raising the provisional tax threshold from NZ$2,500 to NZ$5,000, in order to lower compliance costs.

The New Zealand Government announced its 2020 Budget in May 2020. The Budget established a NZ$50 billion COVID-19 Response and Recovery Fund to support the economy and kick-start recovery. NZ$13.9 billion of this fund had already been allocated to previously announced initiatives, including the Wage Subsidy Scheme and the BFGS. NZ$15.9 billion of new initiatives were announced with the Budget, including an extension of the Wage Subsidy Scheme, support for the tourism sector, a training package for trades and apprenticeships, an environmental jobs package and a program to build more state housing. A further NZ$6 billion of new initiatives have been announced or allocated since. The remaining NZ$14 billion was put aside for future investment.

***RBNZ review of capital requirements***

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand-incorporated registered banks. The RBNZ's final decisions on the capital review are set out below.

- The total capital requirement for New Zealand-incorporated registered banks will increase to 18% of risk weighted assets ("RWA") for Domestic Systemically Important Banks ("D-SIBs") (including ANZ New Zealand), and 16% for other banks.
- The total capital requirement must include Tier 1 capital of at least 16% of RWA for D-SIBs, and 14% for all other banks. Up to 2.5% of Tier 1 capital can be made up of AT1 capital, with the remaining 13.5% made up of CET1 capital. AT1 capital must consist of redeemable perpetual preference shares. It is anticipated that the ANZ New Zealand Group will be able to refinance existing internal AT1 securities (issued to other entities within the Group) to external counterparties.
- The total capital requirement can also include Tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The Tier 1 capital requirement will include a CET1 Prudential Capital Buffer of 9% of RWA. This will include:
  - a 2% prudential capital buffer for D-SIBs;
  - a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and
  - a 5.5% conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at March 31, 2020, ANZ New Zealand had approximately NZ$2.7 billion of AT1 instruments that will progressively lose their eligible regulatory capital treatment over the seven year transition period.
- RWA outcomes for IRB-approach accredited banks (including ANZ New Zealand) will be increased to approximately 90% of what would be calculated under the Standardized approach. This will be achieved by applying an 85% output floor for banks using the IRB approach, and increasing their scalar from 1.06 to 1.2.
- IRB-approach accredited banks (including ANZ New Zealand) will be required to report RWA (and resulting capital ratios) using both the IRB approach and the Standardized approach.
- All banks will be required to calculate Operational Risk Capital ("ORC") using the Standardized approach.

The new regime is expected to be implemented in stages, with a transition period of seven years before banks are required to fully comply with the new rules. In response to the COVID-19 pandemic, the RBNZ delayed the start date of the seven year transition period for the increased capital requirements by 12 months to July 1, 2021 in order to support credit availability (with further delays possible if the conditions warrant in 2021).

The RBNZ's capital reforms will result in substantially higher capital requirements for New Zealand-incorporated registered banks operating under the Standardized approach, and even higher capital requirements for New Zealand-incorporated registered banks using the IRB approach (including ANZ New Zealand). The increased capital requirements may result in changes to affected banks' business objectives and result in changes to competitive behavior across the New Zealand banking industry. For example, there may be increased competition between banks using the IRB approach and banks using the Standardized approach, and between those banks affected by the reforms and offshore banks operating in New Zealand via branches that are not affected by the reforms. The increased capital requirements may also affect the price and volume of bank credit made available to affected banks' customers. This may affect customers' business prospects or creditworthiness, as well as the performance of the New Zealand economy.

The RBNZ's reforms will result in a material increase in the level of capital that the ANZ New Zealand Group is required to hold, although the amount of new capital required to meet the RBNZ's announced capital ratio requirements is currently uncertain. ANZ New Zealand's total capital as at March 31, 2020 was NZ$13,844 million. The reforms could have a material impact on the ANZ New Zealand Group and its business, including on its capital allocation and business planning. Additionally, the changes may require ANZ New Zealand's ultimate parent company, ANZBGL, to review and reconsider its size, nature and operations in New Zealand, including the total capital invested and business structure.

The ANZ New Zealand Group has begun preparing for the changes. Of the ANZ New Zealand Group's NZ$1.8 billion net profit after tax for the year ended September 30, 2019, approximately 80% was retained in response to the proposals. Also, no ordinary dividend was paid or declared during the half year ended March 31, 2020.

See "- Australia - Australian Regulatory Developments - ANZ Update on RBNZ Capital Requirements" for more information on the impact of these requirements on ANZBGL.

***Non-compliance with Conditions of Registration***

Set out below are outstanding and recent instances of non-compliance by the ANZ New Zealand Group with its Conditions of Registration.

*Condition of Registration 1B – compliance with BS2B*

The report completed under section 95 of the Reserve Bank Act regarding the ANZ New Zealand Group's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. ANZ New Zealand has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident the ANZ New Zealand will resolve this matter without issue, and has emphasised that the ANZ New Zealand Group remains sound and well capitalized.

ANZ New Zealand has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by RBNZ. Applying the last RBNZ approved methodologies to the affected exposures as at September 30, 2019 would have decreased RWA by NZ$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

Affected models and the initial dates of non-compliance are:

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) – 2011;
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) – 2009;
- Project and Structured Finance – 2009; and
- Bank, Country & Sovereigns – 2008.

ANZ New Zealand's model compendium required under section 1.3B of the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B) ("BS2B") is non-compliant as it includes these unapproved model changes. Further to the above, in May 2020 ANZ New Zealand identified that its approach to enhancing wholesale risk grades in the presence of a guarantee is not compliant with BS2B. The estimated impact as at March 31, 2020 is an understatement of RWA of NZ$26 million (0.03%), which is not sufficient to affect the reported capital ratios. ANZ New Zealand is working with the RBNZ to resolve this issue.

*Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)*

From time-to-time, ANZ New Zealand provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customer of the ANZBGL. ANZBGL provides a counter-guarantee or standby letter of credit to ANZ New Zealand, giving ANZ New Zealand recourse directly to ANZBGL if the guarantee or standby letter of credit ANZ New Zealand provides in respect of the customer's obligations is called upon. ANZ New Zealand charges ANZBGL a fee for this service. However, through an internal review, ANZ New Zealand identified that since January 2014 this fee had been lower than the fee charged for this same service provided to unrelated banks and, as a result, ANZ New Zealand has not complied with Condition of Registration 5. As at December 31, 2019, the value of the exposure under the previous pricing arrangements was NZ$374 million across 232 individual transactions. ANZ New Zealand has implemented a revised pricing methodology for all new transactions entered into from January 1, 2020.

*Condition of Registration 13 - Liquidity ratios (BS13)*

The following matters of non-compliance with BS13 were not sufficient to affect the reported liquidity ratios and processes have been updated with effect from January 31, 2020 to ensure the calculations comply with BS13.

- ANZ New Zealand calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error had existed since 2010.
- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference had been known since 2017.

*Condition of Registration 24 – Outsourcing (BS11 dated September 2017)*

BS11 requires ANZ New Zealand to apply specified risk mitigants against each outsourcing arrangement.

- During the year ended September 30, 2019, ANZ New Zealand outsourced two arrangements to the worldwide operations of ANZBGL including its controlled entities without the required prescribed contractual terms. These arrangements were remediated in December 2019.
- During the six months ended March 31, 2020, one of ANZ New Zealand's independent third party contracts expired nine days before a replacement contract was entered into. During those nine days the relevant outsourcing arrangement did not include the prescribed contractual terms.

BS11 requires ANZ New Zealand to have a compendium of information about outsourcing arrangements in place from October 1, 2019. In November 2019, ANZ New Zealand informed the RBNZ that minor data discrepancies had been identified for certain information entered in the compendium during the year ended September 30, 2019. The discrepancies were corrected in December 2019.

Additional minor data discrepancies and instances of potentially incomplete or incorrect information have been identified during the nine months ended June 30, 2020, which have been investigated and will be corrected by September 30, 2020.

*Other matters*

ANZ New Zealand has identified one counterparty that had been misclassified as sovereign, inconsistent with the definition in BS2B paragraph 4.5, since December 2017. The estimated impact as at March 31, 2020, is an understatement of RWA of NZ$383 million (0.38%), and an overstatement of the ANZ New Zealand Group's capital ratios of 0.05%. This did not result in non-compliance with the ANZ New Zealand's Conditions of Registration over the six months ended March 31, 2020. However, until December 31, 2018, Condition of Registration 1B required compliance with all aspects of BS2B and, as a result, ANZ New Zealand had not complied with Condition of Registration 1B in respect of this matter between December 2017 and December 31, 2018. ANZ New Zealand is working with the RBNZ to resolve this issue.

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation that ANZ New Zealand has applied, where appropriate, it will seek further guidance from the RBNZ on these matters. In ANZ New Zealand's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

***Section 95 Reviews***

In July 2019, the RBNZ gave ANZ New Zealand notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to engage an external reviewer to provide reports regarding:

- the effectiveness of ANZ New Zealand's director attestation and assurance framework; and
- ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements.

(together, the "Section 95 Reviews").

Review of the director attestation and assurance framework

The report regarding ANZ New Zealand's director attestation and assurance framework was completed in December 2019. It included four case studies covering: non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC; mischaracterization of the former CEO's expenses; transactions relating to the 2017 sale of a residential property to the wife of the former CEO (and earlier acquisition in 2010); and non-compliance with Conditions of Registration 1 and 1B relating to the treatment of commitments jointly held with ANZBGL.

The external reviewer's view was that three of the four case studies did not represent systemic failures in ANZ New Zealand's directors' attestation and assurance framework. The exception was the critical failures that led to the case study about the non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC. The external reviewer's view was that ANZ New Zealand's attestation practices, while functioning adequately, require improvement to become fully effective. The external reviewer made a number of recommendations to improve the director attestation and assurance framework, including: (1) addressing the immediate structural weaknesses within the directors' attestation program; (2) establishing a strategic program of improvement that is led by ANZ New Zealand's board of directors; (3) enhancing and completing the accountability matrix; (4) establishing a program to address the identified cultural issues; and (5) strengthening assurance and developing an integrated assurance plan.

ANZ New Zealand has accepted the findings of this review, and is committed to implementing the recommendations identified and addressing the issues raised. In December 2019, the RBNZ issued a further notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to obtain an external review of the improvements made to its directors' attestation and assurance framework. Due to the impacts of the COVID-19 pandemic, in May 2020, the RBNZ agreed to extend the time period for addressing the directors' attestation recommendations, subject to ANZ New Zealand obtaining an external interim review, assessed as at March 2021, with a final review of ANZ New Zealand's directors' attestation and assurance framework being assessed as at September 2021.

Review of compliance with capital adequacy requirements

The report regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. This report identified instances of both current and historical non-compliance with capital adequacy requirements. Areas of current non-compliance included the use of credit risk models and an ORC model that had not been approved by the RBNZ. The report also found that ANZ New Zealand failed to maintain its compendium of approved models in accordance with BS2B, and treated a minor portfolio of assets as standardized without RBNZ approval.

ANZ New Zealand has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident that ANZ New Zealand will resolve this matter without issue.

The Financial Markets Authority ("**FMA**") and the RBNZ, following their review of ANZ New Zealand's conduct and culture plan, informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. ANZ New Zealand has reviewed its conduct and culture plan in light of the findings of the first Section 95 Review. Following the recent release of the second Section 95 Review, ANZ New Zealand is considering these findings and will incorporate any relevant findings into its conduct and culture plan.

See "New Zealand Regulatory Developments - FMA and RBNZ conduct and culture review" below for further information.

***Loan calculator remediation***

In June 2017, ANZ New Zealand self-reported a problem with a loan calculator to the New Zealand Commerce Commission ("Commerce Commission"). The problem affected some of ANZ New Zealand customers' loans that were varied between May 2015 and May 2016. The loan calculator was used to calculate customer repayments and loan terms when customers asked for changes to their home, personal and business loans. The problem resulted in some customers being undercharged interest on affected loans. ANZ New Zealand fixed the calculator in May 2016. ANZ New Zealand has credited approximately NZ$8.4 million to affected customers to put the affected loans back into the position they would have been in had the error not occurred. In March 2020, the Commerce Commission announced it had agreed with ANZ New Zealand that ANZ New Zealand would pay some customers affected by the issue a further NZ$29.4 million. These payments have commenced.

***RBNZ's revised outsourcing policy***

BS11 requires large New Zealand-incorporated banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. The RBNZ has issued revised Conditions of Registration to ANZ New Zealand effective from April 2, 2020, which include an extension of the transition period to full compliance for existing outsourcing arrangements under BS11 from October 1, 2022 to October 1, 2023.

*Conditions of Registration*

The BS11 requirements form part of ANZ New Zealand's Conditions of Registration. If ANZ New Zealand does not comply with its Condition of Registration in relation to outsourcing, the RBNZ could take enforcement action, such as putting further restrictions on ANZ New Zealand's use of outsourcing.

A formal program has been established and is responsible for delivering ANZ New Zealand's compliance with BS11, as outlined in its Path-to-Compliance Plan. In order to be compliant with BS11, ANZ New Zealand must be able to meet the policy outcomes on a stand-alone basis without reliance on any other Group entity. The policy outcomes are defined as ANZ New Zealand being able to:

- continue to meet daily clearing, settlement, and other time-critical obligations;
- monitor and manage financial positions, including credit, liquidity and market risk positions;
- make available the systems and financial data necessary for the statutory manager and the RBNZ to have options available for managing the failed bank; and
- provide basic banking services to existing customers, including liquidity (both access to deposits and to credit lines as defined in basic banking services) and account activity reporting.

*Compliance obligations*

BS11 imposes a number of ongoing compliance requirements on ANZ New Zealand. In particular:

- ANZ New Zealand must have a compendium of outsourcing arrangements;
- all contracts to which BS11 applies must include prescribed contractual terms allowing the RBNZ access to details of the contract and service, and not allowing the vendor to terminate if ANZ New Zealand is under statutory management;
- the RBNZ must provide its non-objection for all new outsourcing arrangements (including with other Group entities), unless an exemption applies;
- ANZ New Zealand must have a separation plan that describes how it will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ New Zealand, or separation from ANZBGL. A final separation plan, fully compliant with BS11, must be in place by October 1, 2023 and will be subject to annual testing; and

- ANZ New Zealand must obtain an independent, external review of progress against its Path-to-Compliance Plan and compliance of new arrangements on an annual basis during the transition period and at least every three years thereafter.

***Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019 ("FMRA Act")***

The FMRA Act was enacted in August 2019, following industry consultation by the RBNZ and the New Zealand Ministry of Business, Innovation and Employment ("MBIE"), in co-ordination with the New Zealand Treasury, as well as engagement with overseas regulators.

Although New Zealand has no legislative margin requirements for over-the-counter ("OTC") derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. The FMRA Act addresses aspects of New Zealand law that impede the ability of certain New Zealand entities (including registered banks such as ANZ New Zealand) to comply with foreign derivative margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances). These legislative impediments had resulted in a reduction of the number of counterparties with which ANZ New Zealand was able to enter into uncleared OTC derivative transactions.

The amendments made under the FMRA Act allow derivative counterparties, which enter into derivatives with these New Zealand entities, to enforce their security interest over margin without undue delay, and ahead of other creditors, in the event of the other party to the derivative defaulting (provided that, prior to enforcement, the margin is in the possession or under the control of the enforcing counterparty or its agent). More specifically, the amendments:

- allow these derivative counterparties to enforce against the margin notwithstanding the general moratoria on claims that ordinarily apply in statutory management and voluntary administration; and
- ensure that when these derivatives counterparties enforce their security interest over margin, their claim ranks ahead of other potential claims under the New Zealand Companies Act 1993 and the New Zealand Personal Property Securities Act 1999.

The FMRA Act will also amend the Financial Markets Conduct Act 2013 ("FMCA") to establish a new licensing regime for administrators of financial benchmarks. These amendments aim to ensure that New Zealand's regulatory regime for financial benchmarks (including the New Zealand Bank Bill Benchmark Rate (“BKBM”)) meets the equivalence requirements for the purposes of the Benchmarks Regulation. As at the date of this U.S. Disclosure Document, the amendments in relation to financial benchmarks are yet to come into force.

***Replacement of the Financial Advisers Act 2008***

New Zealand's financial advice regime is being modified. The Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand, will be repealed by the Financial Services Legislation Amendment Act 2019 ("FSLAA"). The FSLAA will insert the provisions of the new financial advice regime into the FMCA and amend the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("FSP Act"). The key changes to the regime include:

- requiring financial advice providers to be licensed;
- removing the requirement that only a natural person can give financial advice (enabling robo-advice);
- expanding the minimum standards of competence, knowledge, and skill to all categories of people giving regulated financial advice to retail clients;
- requiring all people who give regulated financial advice to retail clients to comply with standards of ethical behavior, conduct, and client care;
- adding a requirement that anyone who gives financial advice must give priority to the interests of the client, ensure the client understands the nature and scope of advice and disclose prescribed information;
- limiting who can give regulated financial advice;
- simplifying the regime and its terminology, for example by simplifying financial adviser types and services they can provide; and
- amending the requirements to be registered on the New Zealand Financial Service Providers Register to prevent its misuse.

Financial advice providers will be required to hold a transitional license when the new regime comes into force and a full license will be required within a two year transitional period. The new regime was expected to come into force in June 2020, but the New Zealand Government has deferred its commencement to March 2021 due to the impacts of the COVID-19 pandemic. The ANZ New Zealand Group is undertaking a program of work in relation to its current financial advice processes and the upcoming FSLAA reforms.

***Review of the Reserve Bank Act***

The New Zealand Government is in the process of reviewing the Reserve Bank Act. The goal of the review is to modernize New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance and accountability settings.

Phase one of the review was completed in 2018, and resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which made several changes to New Zealand’s monetary policy framework

Phase two primarily involves a comprehensive review of the financial policy provisions of the Reserve Bank Act, including provisions that provide the legislative basis for the RBNZ’s prudential regulation and supervision functions and its crisis management framework. This phase also considers institutional matters such as the RBNZ’s legislative objectives, broader governance arrangements and its funding model. Phase two includes three rounds of public consultation.

The New Zealand Government has announced in-principle decisions relating to the regulation of deposit takers, including:

- introducing a formal depositor insurance scheme that will protect depositors' savings up to an insured limit of NZ$50,000 per depositor, per institution;
- making Non-Bank Deposit Takers (“NBDTs”) and banks subject to a single prudential regulatory regime;
- strengthening accountability requirements on directors of companies that are deposit takers;
- strengthening the RBNZ's supervision and enforcement tools, including with powers to undertake on-site inspections as part of its supervision activities; and

- clarifying and strengthening the RBNZ's crisis resolution framework, including providing the RBNZ with the ability to "bail-in" (that is, write-down or convert to equity) certain unsecured liabilities as a new mechanism for recapitalizing a failing bank.

The New Zealand Government intends to replace the Reserve Bank Act with two separate pieces of legislation – the "Reserve Bank of New Zealand Act" and the "Deposit Takers Act" – which will implement the decisions from this review. The Reserve Bank of New Zealand Act will set out the overall governance and accountability framework for the RBNZ across all its functions. It will also provide for the RBNZ's central banking functions, including the framework for monetary policy. The Deposit Takers Act will integrate the two different legislative frameworks for deposit taking institutions (banks and NBDTs) and establish the deposit insurance scheme.

The Reserve Bank of New Zealand Bill ("**RBNZ Bill**") was introduced into the New Zealand Parliament in July 2020. The RBNZ Bill provides for the objectives and functions of the RBNZ and its governance, accountability, transparency, and funding arrangements. The RBNZ Bill also increases coordination between public agencies responsible for the financial system and provides the new RBNZ board with a financial policy remit. The RBNZ Bill repeals and replaces parts of the Reserve Bank Act. The remainder of the Reserve Bank Act remains in force but is renamed the Banking (Prudential Supervision) Act 1989.

The Government plans to make final policy decisions on the Deposit Takers Act and deposit insurance scheme in late-2020, and to progress legislation after that.

***RBNZ review of mortgage bond collateral standards***

The RBNZ has undertaken consultation on the terms under which the RBNZ would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for the RBNZ's lending operations in the future, and is proposing a new Residential Mortgage Obligations ("RMO") standard. The RBNZ is proposing to gradually phase in RMO to replace internal residential mortgage backed securities over a five-year transition period.

In March 2020, the RBNZ announced that it would defer external-facing work on this initiative for an initial period of six months in response to the COVID-19 pandemic.

***FMA and RBNZ conduct and culture review***

Following the establishment of the Australian Royal Commission, the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector in 2018 and 2019. The FMA and RBNZ's industry report concluded that conduct and culture issues did not appear to be widespread in New Zealand banks. There were a small number of issues related to poor conduct by bank staff across the industry. Issues relating to system or process weaknesses were more commonplace. The industry report noted that the FMA and the RBNZ were concerned about the identification and remediation of conduct issues and risks in the banks' businesses, and potential weaknesses in the governance and management of conduct risks.

The FMA and RBNZ have continued to engage with banks that took part in the review, including ANZ New Zealand. In July 2019, the FMA and the RBNZ provided ANZ New Zealand with their specific feedback letter. In their letter, the FMA and the RBNZ noted that ANZ New Zealand's conduct and culture plan appeared to address the relevant issues identified in the feedback letters and published reports. In addition, the FMA and the RBNZ informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. See "—Section 95 Reviews" for further information.

ANZ New Zealand is continuing to provide regular progress updates on its conduct and culture plan to the FMA and the RBNZ.

***RBNZ's approach to supervision of financial institutions***

In June 2019, the RBNZ announced that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance.

***RBNZ breach disclosure and reporting regime***

A new framework for the reporting and publishing of regulatory breaches by banks was announced by the RBNZ in September 2019. The new policy will require a bank to report promptly to the RBNZ when there is a breach or possible breach of a regulatory requirement in a material manner, and report all minor breaches every six months. Actual material breaches will then be published on the RBNZ's website. The policy was planned to take effect from April 1, 2020. However, the RBNZ announced in March 2020 that this will be delayed for an initial period of six months in response to the COVID-19 pandemic.

***FMA review of sales incentives structures in the New Zealand banking industry***

In November 2018, the FMA released its findings from its review of incentive structures in the New Zealand banking industry. The industry review found that the incentives of salespeople across the New Zealand banking industry are highly sales focused and that there is a high risk of inappropriate sales practices occurring. The industry review also found that significant changes are being made to incentive schemes across the New Zealand banking industry.

From October 1, 2019, ANZ New Zealand removed sales incentives for all frontline staff and made changes to its remuneration structure to reduce the emphasis on variable remuneration and individual performance. Frontline Retail and Business Banking staff do not have incentives paid based on individual performance (including payments based on sales measures). Instead staff are eligible for a payment based on overall ANZ Group performance. Some staff will be eligible for variable remuneration which will include a component based on overall ANZ Group performance and a component based on individual performance. For any roles with an individual performance component, ANZ New Zealand is committed to ensuring that there are no incentives linked to sales measures.

In July 2019, the FMA and the RBNZ, in their feedback letter to ANZ New Zealand on its conduct and culture plan, noted the requirement for ANZ New Zealand to notify the FMA, in writing, if ANZ New Zealand intends to materially change its approach to incentives outlined in ANZ New Zealand's conduct and culture plan.

***Proposed conduct regulations for financial institutions***

The Financial Markets (Conduct of Institutions) Amendment Bill ("FMCIA Bill") was introduced to the New Zealand Parliament in December 2019. If enacted in its current form, the FMCIA Bill would require financial institutions (including registered banks, licensed insurers and NBDTs) that are in the business of providing relevant services to:

- obtain a license under Part 6 of the FMCA;
- comply with a fair conduct principle (requiring them to treat consumers fairly, including by paying due regard to their interests);
- establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle; and
- comply with regulations that regulate incentives.

Financial institutions and intermediaries would be subject to the FMCA's compliance and enforcement tools such as civil pecuniary penalties for contraventions of various obligations, and licensed financial institutions would be subject to licensing actions such as censure and the imposition of action plans.

These proposals are intended to form the basis of a broad conduct regime that could be expanded over time with further obligations on regulated entities.

***Amendments to the Credit Contracts and Consumer Finance Act 2003***

In December 2019, the Credit Contracts Legislation Amendment Act 2019 ("CCLA Act") was enacted. The CCLA Act makes a number of significant changes to the CCCFA, including:

- introducing a new duty on directors and senior managers of creditors under consumer credit contracts to exercise due diligence to ensure that the creditor complies with its duties and obligations under the CCCFA. Proposed remedies for failure to comply with this duty include compliance orders, civil pecuniary penalties, statutory damages and payment of compensation;
- strengthening enforcement provisions, including by providing civil pecuniary penalties and statutory damages for breaches of lender responsibility principles;
- requiring lenders to keep records of their inquiries in relation to their compliance with the responsible lending principles and how they calculate credit and default fees;
- amending the provisions relating to how disclosure is made, including in relation to electronic disclosure; and
- requiring debt collectors to disclose key information to the debtor at the commencement of debt collection action.

Certain amendments contained in the CCLA Act (including changes to electronic disclosure rules and the introduction of civil pecuniary penalties) have already come into effect. As a result of the COVID-19 pandemic, the commencement of Part 5A of the CCLA Act, relating to fit and proper person certification, will be delayed until no earlier than March 1, 2021, and the commencement of the remaining provisions of the CCLA Act and new regulations will be delayed until no earlier than October 1, 2021. This amended timeframe will be reviewed every three months, with further amendments to be advised by MBIE. The ANZ New Zealand Group is undertaking a program of work in relation to its current CCCFA processes and the upcoming CCLA Act reforms.

***Thematic review of registered banks' compliance with the RBNZ Liquidity Policy***

The RBNZ is undertaking a thematic review of compliance with BS13. The BS13 Thematic Review is expected to deliver an assessment of the compliance of registered banks in New Zealand with the quantitative and qualitative requirements of BS13 as well as provide useful insights into the banking industry's current liquidity management practices. The findings from the BS13 Thematic Review are also intended to provide input into a forthcoming review of BS13. In March 2020, the RBNZ announced that it would defer external-facing work on the BS13 Thematic Review for an initial period of six months in response to the COVID-19 pandemic. ANZ New Zealand is continuing to work with the RBNZ on the BS13 Thematic Review.

**UNITED STATES**

ANZBGL has elected to be treated as a Financial Holding Company (a "FHC") by the Board of Governors of the Federal Reserve System (the "FRB"). A FHC is allowed to engage, or acquire companies engaged, in the U.S. in activities that are determined by the FRB and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the FRB to be complementary to financial activities.

Under the Bank Holding Company Act of 1956 (the "BHC Act"), the activities of a FHC are subject to restrictions if it is determined that the FHC (in the case of ANZBGL, at the Group level or at the level of its U.S. bank subsidiary in Guam and American Samoa) ceases to be "well managed" or "well capitalized" or is the subject of an enforcement action requiring it to maintain a specific level of capital. The FRB is the "umbrella" supervisor with jurisdiction over FHCs, including ANZBGL.

ANZBGL is subject to U.S. federal laws and regulations, including the International Banking Act of 1978 (the "IBA"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies. As a federally-licensed branch regulated primarily by the Office of the Comptroller of the Currency in the United States (the "OCC"), ANZBGL’s New York branch (“New York Branch”) can engage in activities permissible for national banks, with the exception that the New York Branch may not accept retail deposits. The New York Branch does not accept retail deposits (only institutional and corporate deposits) and thus is not subject to the supervision of the Federal Deposit Insurance Corporation ("FDIC"). The U.S. bank subsidiary operating in Guam and American Samoa does accept retail deposits and is subject to supervision by the FDIC.

Most U.S. branches and agencies of foreign banks, including the New York Branch, are subject to reserve requirements on deposits pursuant to regulations of the FRB. The New York Branch must maintain its accounts and records separate from those of the Group generally and must comply with such additional requirements as may be prescribed by the OCC. The IBA and the BHC Act also affect the Group's ability to engage in non-banking activities in the United States.

Under the IBA, a federal branch of a non-U.S. bank is subject to receivership by the OCC to the same extent as a national bank. The Comptroller may take possession of the business and property of a federal branch. The Comptroller has at its disposal a wide range of supervisory and enforcement tools for addressing violations of laws and regulations, and breaches of safety and soundness, which can be imposed upon federal branches. The Comptroller may remove federal branch management and assess civil money penalties. In certain circumstances, the Comptroller may also terminate a federal branch license at its own initiative or at the recommendation of the FRB.

The Group is subject to certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"). Dodd-Frank regulates many aspects of the business of banking in the United States and internationally. At this time, a number of rules and regulations implementing Dodd-Frank are under review by U.S. regulators. This review may result in a modified compliance framework. The following summary discusses the key regulatory requirements that are expected to remain relevant to ANZBGL.

The "Volcker Rule" adopted under Dodd-Frank, among other things, prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions. Between August and October 2019, the agencies responsible for the Volcker Rule approved final rules (the “Final Rules”) amending the Volcker Rule to provide clarification, simplification and tailoring to certain of their requirements relating to proprietary trading, investments in covered funds and compliance programs. The effective date for the Final Rules was January 1, 2020, with a compliance date of January 1, 2021. Banking entities such as ANZBGL were required to continue to comply with the existing (2013) Volcker Rule until the effective date. Compliance with the Final Rules between the effective date and the compliance date is permitted but not required. On January 30, 2020, the agencies responsible for implementing the Volcker Rule approved a notice of proposed rulemaking principally focused on covered funds; the comment period was extended to May 1, 2020. On June 25, 2020, the agencies responsible for implementing the Volcker Rule adopted a final rule modifying certain aspects of the Volcker Rule. The changes, which take effect on October 1, 2020, principally relate to covered funds.

Other Dodd-Frank regulations impose minimum margin requirements on uncleared swaps, require the central execution and clearing of standardized over-the-counter ("OTC") derivatives on regulated trading platforms and clearing houses and provide for heightened supervision of OTC derivatives dealers and major market participants. ANZBGL is a provisionally registered swap dealer under the Commodity Exchange Act and Commodity Futures Trading Commission ("CFTC") regulations. In addition, other affiliated entities within the Group could become subject to registration, depending on the level of their swap dealing activities with counterparties that are U.S. persons. Even if not required to be registered with the CFTC, such entities are potentially subject to certain of the CFTC’s regulatory requirements, in connection with transactions that they enter into with counterparties that are U.S. persons.The CFTC has issued Cross-Border Guidance which, among other things, establishes a framework for the CFTC to permit “substituted compliance” by swap dealers located in non-U.S. jurisdictions with regulatory schemes determined by the CFTC to be comparable to its own. The CFTC has made such a determination with respect to certain aspects of Australian law and regulation and ANZBGL is able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions outside the U.S. with non-U.S. counterparties. The CFTC recently proposed rules regarding cross-border swap transactions that would, if adopted, replace the prior Cross-Border Guidance and provide for broader relief from CFTC regulations for non-U.S. swap dealers governed by a non-U.S. regulatory regime. It remains unclear at this time whether the proposed rules will be adopted, and what their final provisions will be if adopted. U.S. prudential regulators and the CFTC have implemented rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. As ANZBGL is supervised by the FRB and operates the New York Branch that is regulated by the OCC, it needs to comply with the uncleared swap margin rules promulgated by the FRB, Farm Credit Administration, FDIC, Federal Housing Financial Agency and the OCC. These rules impose requirements to collect and post initial and variation margin in respect of in-scope trading with in-scope counterparties. The rules of the prudential regulators and the CFTC also allow non-U.S. swap dealers, such as ANZBGL, to comply with the applicable laws of non-U.S. jurisdictions in lieu of compliance with their margin rules, or otherwise not to comply with U.S. margin rules, with respect to certain categories of transactions and counterparties.

Dodd-Frank also requires ANZBGL to submit U.S. resolution plans to the FRB and the FDIC. ANZBGL submitted its most recent U.S. resolution plan in December 2018. ANZBGL also is subject to “enhanced prudential regulations” under Reg. YY, Subpart N, which was adopted pursuant to Dodd-Frank Section 165, and which requires quarterly and annual certification of compliance with the financial and risk oversight requirements thereof. In October 2019, the FRB and the FDIC issued final rules that would apply tailored requirements on resolution planning and a modification of the enhanced prudential standards applicable to foreign banking organizations, depending on the size of their U.S. operations and their risk profile. Under the final rules, ANZBGL is projected to be a triennial reduced filer, and thus is required only to submit a reduced resolution plan if it continues to be a triennial reduced filer on October 1, 2020.

The U.S. Foreign Account Tax Compliance Act ("FATCA"), requires 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, 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% withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States, no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to the date that is two years after the date on which final U.S. regulations defining the term "foreign passthru payment" are enacted. There is currently no proposed or final definition of “foreign passthru payment” and it is therefore impossible to know whether certain payments could possibly be treated as foreign passthru payments.

The discussion above reflects recently proposed U.S. regulations that eliminate withholding on certain gross proceeds payments and delay the effective date for withholding on payments from sources outside the United States. The U.S. Treasury Department has indicated that taxpayers may rely on the proposed regulations. The discussion assumes that the regulations will be finalized in their current form and will be effective retroactively.

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 and/or its customers may face withholding tax if the Group does not provide such information in compliance with the applicable rules and regulations. Moreover, even if the Group does provide the required information, withholding may still be applicable to certain U.S. source payments.

In the event that any country in which ANZBGL operates does not finalize and enforce an Intergovernmental Agreement with the United States, and that country has local law impediments preventing compliance with FATCA, the Group may also be subject to broader compliance issues, significant withholding exposure and other operational impacts.

A major focus of U.S. governmental policies affecting financial institutions has been combating money laundering and terrorist financing. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act") substantially broadened the scope of U.S. anti-money laundering laws by imposing significant compliance and due diligence obligations, identifying crimes and stipulating penalties and expanding the extra-territorial jurisdiction of the U.S. The U.S. Treasury Department has issued a number of regulations implementing various requirements of the Patriot Act that apply to U.S. financial institutions, including subsidiaries and branches of foreign banks such as ANZBGL's U.S. broker-dealer subsidiary, the New York Branch and ANZBGL’s bank subsidiary that operates in Guam and American Samoa.

Those regulations require financial institutions operating in the United States to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies have imposed heightened standards and U.S. law enforcement authorities have been taking a more active role, resulting in intensified enforcement of such matters. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputational consequences for the financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

**OTHER REGULATORS**

The Group has ordinary shares listed on the ASX and the NZX and has other equity securities and debt securities listed on these and certain other overseas securities exchanges. As a result, the Group must comply with a range of listing and corporate governance requirements in Australia, New Zealand and overseas.

In addition to the prudential capital oversight that APRA conducts over ANZBGL and its branch operations and the supervision and regulation described above, local banking operations in all of the ANZBGL offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators, such as the RBNZ, the OCC, the FRB, the UK Prudential Regulatory Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking and Insurance Regulatory Commission and other financial regulatory bodies in those countries and in other relevant countries. These regulators, among other things, may impose minimum capitalization requirements on those operations in their respective jurisdictions.

The Group is also required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under the local laws of all the countries in which it operates.

## RISK FACTORS

### Introduction

The Group's activities are subject to risks, including risks arising from the coronavirus pandemic (COVID-19), 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 investment. These risk factors below should be considered together with "Forward Looking Statements" in "Section 1: Key Information".

### Risks related to the Issuer's business activities and industry

**1. The COVID-19 pandemic has, 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. Due to COVID-19, governments worldwide, including those in Australia and New Zealand, have imposed wide ranging restrictions on, suspensions of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions designed to stabilize sovereign nations and financial markets. Governments may in the foreseeable future implement and introduce further measures to contain the pandemic. The full extent of the duration and impact of the COVID-19 outbreak are unknown at this time, as is the efficacy of the government and central bank interventions.

Major disruptions to community health and economic activity are having 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 negatively impacted by the COVID-19 pandemic and the Group is exposed to an increased risk of credit loss from borrowers in the following sectors: transportation (including airlines, shipping, road and rail); ports, tourism and travel (including accommodation, food and beverage); healthcare; agriculture; education; retail (including e-commerce due to a reduction in logistics activity); property (particularly shopping malls and hotels); construction and contractors; and distribution and logistics. See Notes 1 and 9 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) and "Section 2 – Recent Developments – Third Quarter Trading Update" for details on the credit impairment charge.

In response to the COVID-19 pandemic, the Group has established a range of accommodations and measures 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. These 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 are anticipated to grow in the short term if the crisis deepens and the Group is addressing additional resourcing and process changes to enable it to support its customers. It is uncertain, at this stage, what percentage of its lending portfolio will be impacted. In the longer term, asset values may start to deteriorate if a large quantity of retail and business customers liquidate their investments, 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.

The prospect of substantially reduced global economic activity has caused substantial volatility in the financial markets and such volatility may continue. A deterioration of public finances of sovereigns in response to COVID-19 may lead to further increased volatility and widening credit spreads. COVID-19 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 ramifications of COVID-19 are highly uncertain and, as of the date of this document, it is difficult to predict the spread or duration of the 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 these occur, it is likely that they will result in a material adverse effect on the Group's Position.

Actions taken by regulators in response to the COVID-19 pandemic have impacted, and may continue to impact, the Group. As an example, regulators in some overseas jurisdictions have exercised their powers to prevent banks from declaring dividends or undertaking share buy-backs. In New Zealand, the RBNZ made the decision to freeze the distribution of dividends on ordinary shares by New Zealand incorporated registered banks during the period of economic uncertainty caused by COVID-19. This prevents the Group's subsidiary, ANZ New Zealand, from paying dividends and has a negative impact on the Group's Level 1 CET1 capital ratio.

In Australia, in July 2020, APRA updated their guidance on capital management, including capital distributions and indicated that for the remainder of the calendar year ADI's boards should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

To the extent the COVID-19 pandemic adversely affects the Group's Position, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

**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, United Kingdom, Europe and the U.S. (the "Relevant Jurisdictions").

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

The COVID-19 pandemic is having, and is expected to continue to have, a significant impact on the global economy and global markets, as well as on Australia and New Zealand. The imposition of travel restrictions, border controls, social distancing, quarantine protocols and other containment measures could contribute to a continuing slowdown in economic conditions across the world and suppress demand for commodities, interrupt the supply chain for many industries globally, dampen consumer confidence and suppress business earnings and growth prospects, all of which could contribute to ongoing volatility in global financial markets. See risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position."

A deep global recession is probable. Many countries are facing large declines in GDP as they restrict activities to manage the spread of the virus, with sharp increases in unemployment rates. Governments are responding with enormous fiscal stimulus as well as monetary easing and regulatory forbearance that is designed to offset at least some of the worst impact of the shock. Nevertheless, the Group believes that such stimulus is unlikely to prevent the drop in economic activity stemming from the widespread lockdowns aimed at stalling the spread of virus.

The impact of this shock on credit losses and asset values is very uncertain. Many of the policies being put in place are designed to 'hibernate' large parts of the economy so that activity can resume when the pandemic subsides. However, there is considerable uncertainty about both the length of this hibernation and the most appropriate economic structure once the crisis has passed. While the impact of the economic disruption caused by COVID-19, and the governmental responses to it, remain uncertain, the Group may be materially adversely affected by a protracted downturn in economic conditions globally and, in particular, in Australia and New Zealand.

The Australian bushfires in late 2019 and early 2020 also impacted a small portion of the Group's customers who are suppliers to the agricultural sector as well as those who reside in and operate businesses within regional and fire impacted communities.

Even before the Australian bushfires and COVID-19, the impact of the global financial crisis in 2007 and its aftermath continued to affect regional and global economic activity, confidence and capital markets. Prudential authorities implemented increased regulations in an attempt to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective. The Group believes that the global financial crisis has also had a lasting effect on consumer and business behavior in advanced economies, including the major countries and regions in which the Group or its customers or counterparties operate. Consumers in recent years have reduced their savings rates in the face of weak income growth, while businesses have been reluctant to invest and inflation has remained low. The potential for escalation in geopolitical risks has also contributed to vulnerability in consumer and business behavior. Monetary authorities responded to the global financial crisis by introducing close to zero or below zero interest rates across most countries, and the major central banks took unconventional steps to support growth and raise inflation.

This policy history has been an important precedent for the policy response to COVID-19. The changed behavior of consumers and businesses, higher debt levels and reduced monetary policy buffers also leave economies more vulnerable to disruptions that might develop from natural disasters such as bushfires or the transmission of new diseases.

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. Recent examples of events that have affected global political conditions include the United Kingdom's vote to leave the European Union ("EU") in a referendum (commonly referred to as "Brexit") in 2016, resulting in the United Kingdom formally leaving the EU on January 31, 2020, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries, including by those that are Australia's significant trading partners. Such global political conditions have contributed to economic uncertainty and volatility in the global financial markets and have negatively impacted and could continue to 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 need to adhere to.

Although there has been some de-escalation in trade tensions between the United States and some of its trading partners, such as China, there is the prospect of a re-escalation due to the global spread of COVID-19 and the U.S. presidential election campaign. The election is scheduled for November 2020. The implementation of further protectionist policies by Australia's key trading partners and allies may adversely impact the demand for Australian exports and may lead to declines in global growth.

In anticipation of Brexit, the Group made changes to the structure of its business operations in Europe, however the financial, trade and legal implications of Brexit remain uncertain and its impact may be more severe than expected given that the terms of the United Kingdom's future trading relationship with the EU are still not known and given the lack of comparable precedent. As a result, there can be no assurance that the changes the Group has made to the structure of its business operations in Europe will be sufficient to address the financial, trade and legal implications of Brexit, and the Group is subject to the risk that further changes may be required as a result of the final terms of Brexit.

Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which may adversely affect the Group's Position. These conditions may also adversely affect the Group's ability to raise medium or long-term funding in the international capital markets. In New Zealand, the RBNZ's Monetary Policy Committee has stated that it will hold the official cash rate at 0.25% until March 2021, but negative interest rates remain a possibility in the future.

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

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

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

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

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

The markets in which the Group operates are highly competitive and could become even more so.

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 different levels of regulation and regulatory activity. This could allow them to offer more competitive products and services, including because those different levels 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 behavior and the competitive environment and emerging competitors are increasingly utilizing 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 to provide financial services; and
- Open Banking (as described below) may lead to increased competition (see risk factor "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.

The COVID-19 pandemic and future economic disruptions could have a significant impact on competition in the financial services sector over the medium-term due to funding cost and provision increases, structurally low interest rates, insufficient liquidity, implementation of business continuity plans, changes to business strategies and temporary regulatory safe harbors. The low-growth environment will likely lead to heightened competitive intensity and margin compression.

Further, the Australian Government and its agencies have sought to lower lending and funding costs for both banks and non-banks. These actions may support providers that compete with the Group

Given the importance of a functioning and competitive banking sector, and the Australian Government's current 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 financial services will remain a focus area for the Australian Government. Possible future 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.

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

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

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

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to 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 metro east coast Australian and New Zealand markets, 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, although this trend has been disrupted by COVID-19 (see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position"). The social and economic impacts of the spread of the COVID-19 pandemic and the related measures in place to control it have the potential to drive a material decline in residential property prices due to, among other things, increased unemployment in Australia and New Zealand which, along with a number of other potential factors in the medium term, may result in reductions in house prices.

- A continued weakening, potentially compounded by the negative impacts of the COVID-19 pandemic as it unfolds, of real estate markets in Australia, New Zealand, and other markets where the Group does business could impact the Group in a number of ways. These include: declining asset prices could impact customers, counterparties and the value of security (including residential and commercial property) the Group holds against these loans, impacting the Group's ability to recover amounts owing if customers or counterparties were to default;

- declining demand for the Group's residential lending products due to buyer concerns about decreases in values or concerns about rising interest rates that may make the Group's lending products less attractive to potential homeowners and investors; and
- a material decline in residential housing prices may also cause losses in the Group's residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the Group is forced to re-sell these dwellings at a loss.

The Group's portfolio of commercial property loans may be particularly susceptible to asset price deflation, tenancy risk (comprising of underlying income generation from tenancy mix and vacancy levels), delivery risk and settlement risk, which may result in higher credit losses, refinance risk and deteriorating security values. A significant decrease in commercial property valuations or a significant slowdown in the commercial real estate markets in the Relevant Jurisdictions, or specific sectors, could result in a decrease in new lending opportunities or lower recovery rates. Furthermore, while there has yet to be a significant downturn of the real estate markets in the Group's core property jurisdictions (which comprises Australia and New Zealand) due to the impact of COVID-19, it is expected over time that this downturn will occur. At this point, it is unclear as to timing and magnitude of this downturn. It is expected however that the longer the pandemic continues the greater the impact will be. The impacts to both the residential and commercial property portfolios described above may cause a reduction in demand for the Group's products and services and/or increased costs through higher credit losses that may in turn materially and adversely impact the Group's Position.

**5. Sovereign risk events may destabilize 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 nationalize parts of their economy.

Sovereign risk exists in many economies, including the United States, the United Kingdom, 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. Significant uncertainties exist relating to the COVID-19 crisis that is currently unfolding globally. These COVID-19 related uncertainties, combined with pre-existing sovereign risk are significantly destabilizing global financial markets, which in turn could adversely affect the Group's Position. For more information on risks relating to the COVID-19 pandemic see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position".

**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.

As a result of COVID-19, in March 2020 there was a substantial impact to market liquidity across most asset classes as market volatility significantly increased. Over the past two months, market conditions have improved and volatility has reduced (but still remains above the levels observed during 2019). The future impact of COVID-19 on financial markets remains uncertain (see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and 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 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 the New Zealand dollar and 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 further appreciation may have an adverse impact upon the Group's Position.

**8. The regulation, reform and replacement of benchmark rates could have adverse consequences on the Group's securities issuances and its capital markets and investment activities**

Interest rate, equity, foreign exchange rate and other types of indices which are deemed to be "benchmarks" including those in widespread and long-standing use, have been the subject of ongoing international regulatory scrutiny, and initiatives and proposals for reform. Some of these reforms are already in effect while others are still to be implemented or are under consideration. These reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be fully anticipated.

Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of benchmarks, could also increase the costs and risks of administering or otherwise participating in the setting of benchmarks and complying with regulations or requirements relating to benchmarks. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the disappearance of certain benchmarks. Any of these developments, and any future initiatives to regulate, reform or change the administration 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.

Various regulators, industry bodies and other market participants globally are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. There is no assurance that these new rates will be accepted or widely used by market participants, or that the characteristics of any of these new rates will be similar to, or produce the economic equivalent of, the benchmarks that they seek to replace. If a particular benchmark were to be discontinued and an alternative rate is not successfully introduced to replace that benchmark, this 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. In addition, the transition of a particular benchmark to a replacement rate could affect hedge accounting relationships between financial instruments linked to that benchmark and any related derivatives, which could adversely affect the Group's Position.

In July 2017, the Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. There is no certainty as to whether, or on what basis, LIBOR will be calculated and published up to or after 2021. In a subsequent announcement in July 2018, the FCA emphasized the need for market participants to transition away from LIBOR before the end of 2021. Such announcements indicate that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021, and there is a substantial risk that LIBOR will be discontinued or modified by the end of 2021.

Vast amounts of loans, mortgages, securities, derivatives and other financial instruments are linked to the LIBOR benchmark, and any failure by market participants and regulators to successfully introduce benchmark rates to replace LIBOR and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets, suppress capital markets activities and give rise to litigation claims, all of which 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.

**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.

On June 2, 2020, ANZ announced the sale of UDC that was subject to regulatory approval and which has not yet completed.

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.

**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 honor its contractual obligations. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether.

The risk of credit-related losses may be increased by a number of factors, including 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, more expensive imports into Australia and New Zealand due to the reduced strength of the Australian and New Zealand dollars relative to other currencies, a deterioration of the financial condition of the Group's 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 favorable 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.

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

- industries impacted by the COVID-19 pandemic and adverse weather conditions (e.g. bushfires and drought), particularly: transportation (including airlines, shipping, road and rail); ports, tourism and travel (including accommodation, food and beverage); healthcare; agriculture; education; retail (including e-commerce due to a reduction in logistics activity); property (particularly shopping malls and hotels); construction and contractors; and distribution and logistics;
- commodity and energy prices with the outlook impacted due to increased geopolitical tensions, declining global growth, disruption to global supply chains and actions on climate change;
- the Australian natural resources sector, which is particularly exposed to any prolonged slowdown in the Chinese economy and could be materially and adversely impacted by a decline in natural resource prices;
- segments reliant on consumer discretionary spend in the markets in which the Group operates are exposed to a slowdown in spending levels, rising unemployment and a combination of a slowing housing market, low wage growth and high household debt or a potential loss in consumer confidence including in the tourism, specialty retail, travel, leisure and the automotive sectors; and
- segments exposed to the recent volatility of the United States Dollar as well as the Australian Dollar and New Zealand Dollar.

The recent decision by the Group to provide customers impacted by the COVID-19 pandemic the option of suspending or deferring certain mortgage or loan repayments may lead to an increase in the level of credit risk related losses. There can be no guarantee that at the conclusion of this 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 9 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) and "Section 2 – Recent Developments – Third Quarter Trading Update" for details on the credit impairment charge.

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 inaccurate or materially misleading.

The Group holds provisions for credit impairment that are determined based on current information and subjective and complex judgments 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 analyze 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 U.S., the United Kingdom and the countries in the Asia Pacific region. The Group is required by its primary regulator, APRA, (and the RBNZ for ANZ New Zealand) 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 3. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, 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 BCBS, the RBNZ's review of capital requirements and the RBNZ's amendments to ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments), are described in risk factor "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.

In light of the COVID-19 pandemic, Fitch and S&P have revised the Group's ratings and/or outlook as described below.

On April 8, 2020, ANZBGL confirmed that Fitch changed its ratings of the Australian major banks and their New Zealand bank subsidiaries, including the Group, resulting in the Group's Long-Term IDR decreasing one-notch to A+ from AA-. The Outlook on the Group's Long-Term IDR remains Negative. The Group's Short-Term IDR was also downgraded to F1 from F1+. The Group's subordinated debt was also downgraded to A-.

On April 9, 2020, ANZBGL confirmed that S&P revised the outlook on the long-term issuer credit rating for the Commonwealth of Australia to negative from stable. As a result of the sovereign action, S&P has also revised the credit rating outlook of the Australian major banks and their New Zealand bank subsidiaries, including the Group, to negative from stable. S&P reaffirmed the Group's 'AA-' long-term and 'A-1+' short term issuer credit ratings. S&P also reaffirmed all the ratings on debt issued by the Group, including senior and subordinated debt and hybrid Tier 1 capital instruments.

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 in market conditions, such as those currently being experienced as the COVID-19 pandemic unfolds, 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 it will be exposed to liquidity and funding risk. In such cases, the Group may be forced to seek alternative funding. The availability of such alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and the Group's credit ratings at that time (which are strongly influenced by Australia's and New Zealand's sovereign credit rating). Even if available, the cost of these funding alternatives may be more expensive or on unfavorable 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 that 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 15 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document)) are measured at fair value with changes in fair value recognized in earnings or equity.

Generally, in order to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other valuation techniques 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 recognized 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, capitalized 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.

In making these assessments, the Group considers relevant internal and external information available. This includes assessing the impact of COVID-19, and the 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 COVID-19 which may affect the recoverability of Group assets in future periods.

**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 must exercise judgment in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the Group's financial position. 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 2020 financial year is outlined in Note 1 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

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 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, and resources allocated to the regulation and supervision of financial services groups, such as the Group, and the enforcement of laws against them, 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 exact ramifications of COVID-19 on the regulation and supervision of, and enforcement against, financial services groups such as the Group are highly uncertain and, as of the date of this document, difficult to predict. There is some evidence of delays and proposed delays to the implementation of regulatory reforms in Australia and New Zealand and a re-ranking of priorities, including enforcement priorities. Governments worldwide have imposed wide ranging restrictions on, suspensions of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly interventions to stabilize sovereign nations and financial markets. Governments may in the foreseeable future implement and introduce further measures to contain the pandemic.

The current and 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 outbreak 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. 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.

***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:

- APRA is impacted by the evolving situation surrounding COVID-19. Certain engagements are being cancelled, deferred or restructured to limit direct contact. APRA has limited members of its supervision team from attending its office. Primary areas of interest include the impact on funding and liquidity, markets, operational resilience and payments.
- In October 2019, APRA released a discussion paper on draft revisions to the prudential standard APS111 "Capital Adequacy: Measurement of Capital" ("APS111") for consultation. The most material change from APRA's proposal 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 CET1 capital; and
  - the remainder of the investment will be treated as a CET1 capital deduction.

  ANZBGL is reviewing the implications for its current investments. The net impact on the Group is unclear and will depend upon a number of factors including the capitalization 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 current investment as at March 31, 2020 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$2.5 billion (approximately 75 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 of January 1, 2021 for these changes is currently under review by APRA.
- In August 2019, APRA announced that it will amend 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 to January 1, 2022 (12 month deferral from initial implementation date of January 1, 2021).
- 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 by January 2024. Based on the Group's capital position as at March 31, 2020, this represents an incremental increase in the total capital requirement of approximately A$9 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 risk weighted assets.
- Implementation of APRA's revisions to the capital framework for ADIs, resulting from the BCBS Basel 3 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 COVID-19, 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.
- Additionally, as further support for ADIs in dedicating time and resources to maintain their operations and support customers, APRA has also 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 January 1, 2022, but these have now been revised to January 1, 2023. APRA has announced that it does not expect that the changes to the risk weights, when implemented, will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements. On August 10, 2020, APRA announced it will recommence public consultations on select policy reforms and begin a phased resumption of the issuing of new licenses.
- As a result of the COVID-19 disruption, on April 7, 2020, APRA wrote to ADIs and indicated that during the period of the disruption (and at least in the next two months from the date of the guidance), APRA expects ADIs to seriously consider deferring decisions on the appropriate level of dividends until the outlook is clearer. In line with APRA's guidance, ANZBGL's Board of Directors deferred its decision on the 2020 interim dividend until there is greater clarity regarding the economic impact of COVID-19. In July 2020, APRA provided an update which replaces the above

guidance from April 2020. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs' financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, the ADIs' Board should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

- Subsequently on August 19, 2020 the Group announced that following the deferral of a decision on the interim dividend in April 2020, the Board of Directors proposed a 2020 interim dividend which will see a fully-franked (for Australian tax purposes) distribution of 25 cents per share paid to shareholders on September 30, 2020. The dividend decision took into account the updated regulatory guidance as discussed above.
- The RBNZ has completed a comprehensive review of the capital adequacy framework for registered banks in New Zealand, and released its final decisions on key components of the capital review in December 2019. The net impact on the Group is an increase in CET1 capital of approximately A$3 billion over the seven year transition period. The RBNZ has delayed the commencement date of the increased capital requirements by 12 months to July 1, 2021 in response to the uncertainties from the COVID-19 pandemic (with further delays possible if the conditions warrant in 2021).
- With effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments. This restriction applies to all New Zealand-incorporated registered banks, and is intended to support the stability of the financial system during the COVID-19 pandemic. The RBNZ also informed ANZ New Zealand, and other New Zealand-incorporated registered banks, that they should not redeem capital instruments at this time. Accordingly ANZ New Zealand was not permitted to redeem its NZ$500 million of Capital Notes in May 2020, although ANZ New Zealand can continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand announced that it would not exercise its option to convert the Capital Notes in May 2020. The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions). Conversion would result in an increase in the Group's CET1 capital (approximately 12 basis points) at Level 2.

***Recalibration of ASIC's Regulatory Priorities***

ASIC announced on March 23, 2020 that it will focus its regulatory efforts on challenges created by COVID-19. Until at least September 30, 2020, the other matters that ASIC will afford priority are, where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. ASIC immediately suspended a number of near-term activities, which are not time-critical. These included consultation, regulatory reports and 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 COVID-19, 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 COVID-19. 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 January 1, 2021 and October 5, 2021 respectively.

***Royal Commission***

The Royal Commission made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA. Some recommendations have already been implemented and the Australian Government Treasury has stated that most of the remainder are proposed to be implemented between 2020 and 2022. On May 8, 2020, the Treasurer announced a six month deferral to the implementation of certain commitments associated with the Royal Commission. In addition, the Royal Commission has led or may lead to regulators commencing investigations into various financial services entities, including the Group. The recommendations could result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The recommendations may also lead to adjustments in the competitive environment of the Group. The outcomes and total costs associated with these possible exposures and changes remain uncertain 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 financial services sector. In October 2019, the Australian Government directed the ACCC to immediately commence an inquiry into home loan pricing of the major Australian banks, which includes the Group. The ACCC released its interim report with respect to the inquiry on April 27, 2020 and reviewed factors influencing interest rate setting decisions and the pricing of mortgages, however the interim report did not contain recommendations. The final report is expected to examine the impediments consumers face when switching lenders and will provide recommendations focused on driving further competition in the home loan market. In light of the COVID-19 pandemic, the timeframe of the inquiry's final report has been extended to November 30, 2020. In July 2019, the ACCC released its final report of its Digital Platforms Inquiry. This report recommended reforms to privacy and certain consumer protections. The Australian Government in December 2019 committed to adopting the key recommendations from the inquiry, with reforms that will focus on promoting competition and enhancing consumer protections. A final report from the ACCC on customer loyalty schemes was released in December 2019. Legislative, regulatory or supervisory changes in response to these recommendations could adversely affect 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. Stricter anti-hawking laws are proposed in relation to financial products and a deferred sales model for add on insurance. ASIC published updated regulatory guidance on responsible lending laws in December 2019. The design and distribution obligation legislation 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, as well as increased powers to regulators and funding for regulators to prosecute breaches. Increasing regulatory powers include ASIC's product intervention power and proposed expansions of ASIC directions powers and breach reporting laws. The Australian Consumer Law was amended to increase penalties for breaches of consumer law from September 2018. The increased penalties relate to unconscionable conduct, false or misleading representations about goods or services, unfair practices, the safety of consumer goods and product-related services and information standards. 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, 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 specialized 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 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. 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 AUSTRAC 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). See also "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" below.

***Industry self-regulation***

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, is requiring considerable Group resources to implement and monitor compliance. A new Australian Banking Code came into effect from July 2019, with further changes to certain retail and small business products and processes introduced in March 2020. Industry guidance on working with vulnerable customers is also evolving. Such changes may impact the products that the Group is able to offer to its customers and the operational costs associated with delivery, which may adversely impact the Group's Position. Draft legislation implementing key recommendations of the Financial Services Royal Commission includes legislation under which certain industry code provisions (including the Banking Code of Practice) can be deemed as 'enforceable code provisions', the breach of which would attract civil penalties.

***Open Banking Laws***

Open Banking is part of a new consumer data right in Australia that was made law in August 2019. The consumer data right it establishes seeks to improve consumers' ability to compare and switch between products and services. From July 1, 2020, individual customers can request their bank share their data for deposit and transaction accounts and credit and debit cards. Additional data availability is scheduled over the coming months. 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.

***Outside of Australia:***

***New Zealand Developments***

There have been a series of releases from New Zealand regulatory authorities that have proposed significant regulatory changes for New Zealand financial institutions. These changes include, among other things: the RBNZ's reform of capital requirements, the RBNZ's revised outsourcing policy, ANZ New Zealand's revised conditions of registration, the enactment of the Financial Services Legislation Amendment Act 2019 and replacement of the Financial Advisers Act 2008, proposed conduct regulations for financial institutions under the Financial Markets (Conduct of Institutions) Amendment Bill, the New Zealand Government review and proposed 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. In response to COVID-19, the RBNZ announced in March 2020 that it would defer external-facing work on most of its regulatory initiatives for an initial period of six months, and would delay the start date for the increased capital requirements for New Zealand banks by 12 months. The RBNZ has also extended the transition period for its revised outsourcing policy by 12 months, and there have been delays to the commencement of the CCLA Act and the Financial Services Legislation Amendment Act 2019 ("FSLAA"). The New Zealand Government has determined that the RBNZ, the FMA and New Zealand banks provide an essential service and can continue to operate, but must operate in a way that minimizes the risk of COVID-19 transmission.

***Other Offshore Developments***

Other offshore regulatory developments include changes to financial regulations in the United States (including legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule), changes to senior executive accountability in Singapore, Hong Kong, and the United Kingdom, changes to English and European law in connection with Brexit, 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 SIBOR, and the discontinuation of LIBOR and other such interbank offered rates by transitioning to risk free rates.

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 licenses 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 prioritization, 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 "Litigation and contingent liabilities may adversely affect the Group's Position" and Note 20 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

**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 March 31, 2020 in respect of the matters outlined in Note 20 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

Note 20 includes, among other things, descriptions of:

- regulatory and customer exposures;
- bank fees litigation and periodical payment remediation and ASIC action;
- benchmark/rate actions;
- capital raising actions;
- consumer credit insurance litigation;
- franchisee 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 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, currently include 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 one of around fifty designated services to a customer, such as opening a bank account or providing a loan). In addition AUSTRAC has publicly communicated its view that Reporting Entities in Australia have under invested 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. This matter is currently subject to court proceedings and is the second such action taken against a major Australian bank in the past few years. 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.

While the COVID-19 pandemic continues to evolve at different paces in many of the jurisdictions in which the Group operates, it is expected that financial crime will increase. Examples of this include potential fraud and scams with criminals targeting vulnerable customers using COVID-19 as a cover, as well as identity theft and false applications for Government support. There is a risk that the management of alerts for potential money laundering or terrorism financing activities may also be slowed due to both resource availability and/or changed working arrangements. This, and the likelihood of challenges in accessing customers for information and identification, may warrant discussion with the regulators within the different jurisdictions within which the Group operates, to garner their support for temporary changes to rules or guidance. It is not expected that this will increase the risk of fines or penalties, however the Group will need to ensure adequate arrangements to remain compliant with AML/CTF laws.

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. For instance, since 2018 AUSTRAC has the power to issue infringement notices pursuant to which it can impose significant penalties. Further, AUSTRAC and other regulators have exhibited a willingness to promptly exercise their enforcement powers by instituting civil penalty proceedings. 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 been actively reducing official interest rates in jurisdictions in which the Group operates and are currently implementing or considering unconventional monetary policies. Central banks worldwide, including the RBA, the U.S. Federal Reserve and the RBNZ have cut interest rates during 2019 in response to slowing economic growth and again in early 2020 in response to emerging risks to growth from COVID-19. On March 19, 2020, the RBA cut the cash rate, to the Australian historic low rate of 0.25%, in response to the significant effect of the COVID-19 outbreak on the Australian economy. The RBNZ also cut the New Zealand official cash rate to a record low of 0.25% in March 2020. 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 tax reporting 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 tax transparency reporting regimes, including the U.S. Foreign Account Tax Compliance Act ("FATCA"), the OECD's Common Reporting Standard ("CRS") and similar anti-tax avoidance regimes. This includes enforcement and implementation of detailed global tax reporting rules and frameworks to close down global tax reporting regime circumventions and deter, detect and penalize non-compliance.

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

Increasing OECD Government level peer reviews and other regulatory financial institution compliance review requirements are increasing scrutiny on financial institutions, resulting in further tightening of existing obligations and focus on CRS compliance. Each country of adoption is being pushed to ensure its penalty regime is sufficient to deter and penalize 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 local regulatory 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 turn their focus from the initial establishment of the CRS to its effective implementation. This tightening of the regulatory focus can lead to significant negative experience for affected customers (including unilateral account blocking and closure), 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, COVID-19 challenges have resulted in limited staff access to systems, tools and information, and have impacted on the delivery of regulatory obligations to 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 lodgments and payments may similarly be impacted. While some level of leniency from global regulators is anticipated, there is 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 license 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, 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 events include:

- 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 behavior);
- business disruption (including systems failures);
- damage to physical assets; and
- execution, delivery and process management (for example, processing errors or data management failures).

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.

On a global scale, COVID-19 challenges has resulted in a number of changes in terms of how the Group is undertaking its operations. For the majority of the organization the Group's focus was to enable a work from home capability to allow all functions to continue to operate normally. However, no assurance can be given that the steps being taken will be adequate, nor can the Group predict the level of disruption which may occur. The decision to move the majority of staff globally to work from home required some updates to existing systems to support a significantly higher volume of users than had previously been planned. The number of staff working from home continues to vary in line with changing circumstances and associated government restrictions. As at the date of this U.S. Disclosure Document, excluding branch staff, the Group had approximately 95% of staff working from home.

Other challenges that the Group may face include:

- limited staff access to systems, tools and information, and/or impact on the delivery of customer services and regulatory obligations to requisite timeframes, including the day to day operations of the institution, financial reporting, management and oversight of internal controls, and resolution and action of regulatory recommendations; and
- ensuring ongoing availability of staff to undertake their requisite activities that may result from loss of physical access to branches or offices or due to health related issues.

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

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

Reputational risk may arise as a result of an external event or the Group's own actions, which include operational and regulatory compliance failures. 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. 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.

While the extent of the impacts of COVID-19 are yet to be fully realized, 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 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 behavior;
- 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 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.

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

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

Conduct-related risks can result from:

- the provision of unsuitable or inappropriate advice 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;
- 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.

There has been an increasing regulatory and community focus on conduct-related risk globally and in particular, in Australia and New Zealand. For example, the Group is currently undertaking a variety of customer remediation programs, of which some relate to conduct issues that have been identified from reviews to date and these reviews remain on-going. Conduct-related 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. 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.

The COVID-19 pandemic has led to rapid changes to employees working remotely which may impact employee behavior and / or Group systems and processes, which in turn may result in customer detriment, impact market integrity, or cause the Group to fail to live up to community expectations.

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

**25. 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 systems. Therefore, there is a risk that disruption of information technology systems, or the services the Group uses or is dependent upon, will result in the Group failing to meet customers' banking requirements and/its compliance obligations.

Threats to information technology systems are continuously evolving and cyber threats and the risk of attacks are increasing. The attacks against organizations can range from simple attacks up to state owned attacks, which are generally much more sophisticated. The Group may not be able to anticipate or implement effective measures to prevent or minimize disruptions caused by cyber threats due to the techniques used being highly sophisticated and those perpetuating the attacks being well-resourced.

The Group has an ongoing obligation to maintain its information technology systems and to identify, assess and respond to risk exposures caused by the use of technology including information technology asset lifecycle, information technology 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 required to work remotely or from alternative work sites, which has put additional stress on the Group's productivity and remote access to systems.

The Group has disaster recovery and business continuity measures in place to ensure that critical information technology systems will continue to operate during both short-lived and prolonged disruption events. The recent COVID-19 pandemic event has highlighted that these arrangements must cater for vast and improbable events, like a global pandemic, and ensure critical information systems can be supported and accessed by a large number of multi-jurisdictional technology and business users for an extended period. If such measures cannot be effectively implemented, then this may adversely affect the Group’s Position.

In addition, ANZ New Zealand relies on the Group to provide a number of information technology systems. A failure of the Group’s systems may affect ANZ New Zealand, which may in turn, adversely affect the Group's Position.

**26. 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 across multiple geographies that 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 organizations 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.

Any failure in the Group’s cybersecurity policies, procedures or controls, may result in major business disruption, an inability to deliver customer services, or 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.

**Environmental, social and governance risks**

**27. 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. The COVID-19 pandemic has resulted in a widespread health crisis that could continue to adversely affect the economies and financial markets of many countries, including Australia and New Zealand, resulting in an economic downturn that could affect the Group and its customers. See risk factor “The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group’s Position” for further details regarding the different impacts from COVID-19.

Depending on their severity, these extrinsic events may continue to interrupt or restrict the provision of some local services such as the Group branch or business centers or Group services, and may also adversely affect the Group’s financial condition or collateral position in relation to credit facilities extended to customers, which in turn may adversely affect the Group’s Position.

**28. 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 all of the Group’s activities and includes the identification and monitoring of the Group’s risk appetite and reporting on the Group’s risk exposure 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 has not anticipated or identified, and 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. If the remuneration structures are not designed or implemented effectively, then this 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 framework. 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 reputation damage, and failing to comply with regulatory obligations, which could adversely affect the Group’s Position.

While these principles still 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 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.

**29. 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. Embedding climate change risk into the Group’s risk management framework in line with 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.

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. This may result in credit-related losses as a result of the customer being unable or unwilling to repay debt, which may adversely affect the Group's Position.

## CURRENCY OF PRESENTATION AND EXCHANGE RATES

### Currency of presentation

ANZ publishes consolidated financial statements in Australian Dollars. In this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, references to "US$", "USD" and "U.S. dollars" are to U.S. Dollars and references to "$", "AUD" and "A$" are to Australian Dollars. For the convenience of the reader, this U.S. Disclosure Document contains translations of certain Australian Dollar amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Australian Dollar amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated. Unless otherwise stated, the translations of Australian Dollars into U.S. Dollars have been made at the rate of US$0.6139 = A$1.00, the Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on March 31, 2020.

### Major Exchange Rates

The major exchange rates used by the Group to translate the results of foreign subsidiaries, branches, investments in associates and issued debt to Australian Dollars were as follows:

| | Balance Sheet | | | Profit & Loss Average | | |
|---|---|---|---|---|---|---|
| | As of | | | Half Year | | |
| | **Mar 20** | **Sep 19** | **Mar 19** | **Mar 20** | **Sep 19** | **Mar 19** |
| Chinese Renminbi | **4.3895** | 4.8126 | 4.7700 | **4.7002** | 4.7917 | 4.8805 |
| Euro | **0.5619** | 0.6175 | 0.6313 | **0.6066** | 0.6197 | 0.6274 |
| Pound Sterling | **0.5017** | 0.5491 | 0.5425 | **0.5225** | 0.5503 | 0.5520 |
| Indian Rupee | **46.745** | 47.737 | 48.991 | **48.153** | 48.403 | 50.906 |
| Indonesian Rupiah | **10,126** | 9,578 | 10,099 | **9,487** | 9,814 | 10,329 |
| Japanese Yen | **67.015** | 72.816 | 78.550 | **72.937** | 75.069 | 79.629 |
| Malaysian Ringgit | **2.6611** | 2.8277 | 2.8963 | **2.7969** | 2.8782 | 2.9526 |
| New Taiwan Dollar | **18.707** | 20.960 | 21.863 | **20.315** | 21.580 | 22.028 |
| New Zealand Dollar | **1.0269** | 1.0794 | 1.0436 | **1.0488** | 1.0567 | 1.0578 |
| Papua New Guinean Kina | **2.1193** | 2.2971 | 2.3924 | **2.2845** | 2.3467 | 2.4051 |
| United States Dollar | **0.6189** | 0.6754 | 0.7094 | **0.6705** | 0.6923 | 0.7145 |

For the March 2020 half, 33% (Sep 19 half: 34%; Mar 19 half: 35%) of ANZ's operating income including discontinued operations was derived from the New Zealand and Asia Pacific, Europe and Americas ("APEA") geographic regions.

Operating income from the New Zealand and APEA geographic regions is denominated principally in the currencies outlined in the table below. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ's earnings through the translation of overseas profits to Australian Dollars. Movements in the major exchange rates used by the Group to translate the results of foreign subsidiaries, investments in associates and issued debt to Australian Dollars were as follows:

**Australian Dollar movement against foreign currencies[1]**

| | | Movement | |
|---|---|---|---|
| **Half year ended** | **Mar 20** | **Sep 19** | **Mar 19** |
| Chinese Renminbi | -2% | -2% | 0% |
| Euro | -2% | -1% | -1% |
| Pound Sterling | -5% | 0% | -1% |
| Indian Rupee | -1% | -5% | 0% |
| Indonesian Rupiah | -3% | -5% | -3% |
| Japanese Yen | -3% | -6% | -3% |
| Malaysian Ringgit | -3% | -3% | -1% |
| New Taiwan Dollar | -6% | -2% | -2% |
| New Zealand Dollar | -1% | 0% | -2% |
| Papua New Guinean Kina | -3% | -2% | -2% |
| United States Dollar | -3% | -3% | -4% |

1. *Movement is based on comparison of the fiscal half year average exchange rate to the immediately preceding fiscal half year average exchange rate.*

ANZ monitors its exposure to revenues, expenses and invested capital denominated in functional currencies other than Australian Dollars as these expose the Group to the risk of changes in foreign exchange rates. Variation in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity. These currency exposures are managed in accordance with established risk management policies.

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, U.S. Dollar and U.S. Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effects of changes in exchange rates.

## OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) prepared under AASs (refer to "Section 1: Key Information – Basis of Preparation" for a description of AASs).

ANZ's results for the past three fiscal half years are summarized below and are also discussed under the headings of "Analysis of major income and expense items" and "Results by division", which follow.

As a result of the sale transactions outlined in "Section 1: Key Information – Basis of Preparation – Discontinued Operations", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.

The presentation of divisional results has been impacted by the adoption of AASB 16 and AASB 2019-3, as described in "Section 1: Key Information – Basis of Preparation".

### Large/notable items – continuing operations

The Group recognized a number of large/notable items which impacted the Group's statutory profit after tax. These items are described below.

### Divestment impacts - continuing operations

No divestments were announced or completed in the March 2020 half.

In the September 2019 half and March 2019 half, the Group completed the following divestments. As these divestments did not qualify as discontinued operations under accounting standards they form part of continuing operations. The financial impacts from these divestments are summarized below including the business results for those divestments that have completed:

| | Gain/(Loss) on sale from divestments | | Completed divestment business results | |
|---|---|---|---|---|
| | Half Year | | Half Year | |
| **Statutory Profit Impact** | **Sep 19 $M** | **Mar 19 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Paymark | - | 37 | - | 4 |
| Cambodia JV | 10 | - | 10 | 21 |
| OPL NZ | 7 | 82 | 7 | 14 |
| PNG Retail, Commercial and SME | 1 | - | 4 | 5 |
| Profit/(Loss) before income tax | 18 | 119 | 21 | 44 |
| Income tax benefit/(expense) and non-controlling interests | - | (13) | (7) | (22) |
| **Profit/(loss) from continuing operations** | 18 | 106 | 14 | 22 |

- **Paymark Limited ("Paymark")**

  In January 2018, the Group entered into an agreement to sell its 25% shareholding in Paymark to Ingenico Group. The transaction was completed on January 11, 2019. The Group recognized a gain on sale of $37 million (before and after tax) during the March 2019 half.

- **ANZ Royal Bank (Cambodia) Ltd ("Cambodia JV")**

  In May 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV to J Trust Co., Ltd., a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction was completed on August 19, 2019 and the Group recognized a $10 million net gain on sale, comprising a $30 million release from foreign currency translation reserve, partially offset by a $17 million dividend withholding tax associated with the sale completion and $3 million of asset write-offs in the September 2019 half.

- **OnePath Life (NZ) Limited ("OPL NZ")**

  In May 2018, the Group announced that it had agreed to sell OPL NZ to Cigna Corporation. The transaction completed on November 30, 2018 and the Group recognized a $82 million gain before tax on sale in the March 2019 half, comprising a $56 million gain on sale, and a $26 million release from foreign currency translation reserve and a $7 million gain before tax on sale in the September 2019 half comprising a provision release of $7 million.

- **Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses ("PNG Retail, Commercial and SME")**

  In June 2018, the Group announced it had entered into an agreement to sell PNG Retail, Commercial and SME to Kina Bank. The transaction completed on September 23, 2019 and the Group recognized a gain of $1 million net of costs associated with the sale.

### Other large/notable items - continuing operations

- **Customer remediation**

  Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

  Customer remediation charges of $129 million have been recognized in the March 2020 half (Sep 19 half: $485 million; Mar 19 half: $100 million). $58 million relates to customer remediation impacting operating income (Sep 19 half: $148 million; Mar 19 half: $64 million), and $71 million relates to customer remediation impacting operating expenses (Sep 19 half: $337 million; Mar 19 half: $36 million).

- **Royal Commission legal costs**

  External legal costs associated with responding to the Royal Commission, which completed in February 2019, were nil for the March 2020 half (Sep 19 half: $2 million; Mar 19 half: $13 million). For further discussion regarding the Royal Commission, refer to the paragraph headed "Royal Commission" in "Section 2: Information on the Group - Supervision and Regulation – Australia – Australian Regulatory Developments" of this U.S. Disclosure Document.

- **Restructuring**

  The Group recognized restructuring expenses of $105 million in March 2020 half (Sep 19 half: $26 million; Mar 19 half: $51 million) largely relating to business and property changes in the Australia Retail and Commercial division.

- **Lease-related items**

  In the March 2020 half, the Group recognized $83 million of additional charges associated with the adoption of the new lease accounting standard on October 1, 2019. Comparative information has not been restated for the adoption of the new lease accounting standard.

- **Asian associate impairments**

  During the March 2020 half, the Group recognized a $815 million impairment in respect of two of the Group's equity accounted investments to adjust their carrying values in line with their value-in-use calculations (refer Note 1 (iv) of the Condensed Consolidated Financial Statements attached as the Annex to this U.S. Disclosure Document). AmBank was impaired by $595 million and PT Panin was impaired by $220 million.

## GROUP INCOME STATEMENT

| | Half Year | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M |
| Net interest income | **7,222** | 7,040 | 7,299 |
| Other operating income | **1,671** | 2,452 | 1,994 |
| Operating income | **8,893** | 9,492 | 9,293 |
| Operating expenses | **(4,605)** | (4,706) | (4,365) |
| Profit before credit impairment and income tax | **4,288** | 4,786 | 4,928 |
| Credit impairment charge | **(1,674)** | (402) | (392) |
| Profit before income tax | **2,614** | 4,384 | 4,536 |
| Income tax expense | **(978)** | (1,325) | (1,284) |
| Non-controlling interests | **(1)** | (6) | (9) |
| **Profit after income tax from continuing operations** | **1,635** | 3,053 | 3,243 |
| Profit/(Loss) after income tax from discontinued operations | **(90)** | (273) | (70) |
| **Profit after income tax** | **1,545** | 2,780 | 3,173 |

### Group results – continuing operations

#### Comparison of March 2020 with March 2019

Profit after income tax from continuing operations decreased $1,608 million (-50%) compared with the March 2019 half mainly due to:

- Net interest income decreased $77 million (-1%) largely due to higher Major Bank Levy and lower interest rates and competitive pressures resulting in a 11 basis point decrease in the net interest margin, partially offset by 6% growth in average interest earning assets. The lower net interest margin reflects deposit margin compression from lower interest rates, increased competition and lower earnings on capital, partially offset by the impact of home loans repricing in the Australia Retail and Commercial division. The increase in average interest earning assets reflects growth in Institutional banking lending and home loan growth in the New Zealand division and foreign currency translation movements. Refer to "Analysis of Major Income and Expense Items" on pages 63 and 64 for further details on key movements.
- Other operating income decreased $323 million (-16%) primarily due to a $815 million of impairment of AmBank and PT Panin, a $137 million decrease reflecting the net impact from divestments, a $84 million decrease in unrealized mark-to-market movement on revenue and expense hedges, a $83 million decrease in net fee and commission income and a $34 million decrease due to widening credit spread impacts on loans measured at fair value in the Institutional division. This was partially offset by $740 million increase in unrealized mark-to-market movement on economic hedges and higher Markets other operating income of $97 million. Refer to "Analysis of Major Income and Expense Items" on pages 65 and 66 for further details on key movements.
- Operating expenses increased $240 million (+5%) primarily due to an increase of $74 million as a result of a change in accounting treatment associated with the new leasing standard (comparatives not restated), higher restructuring charges of $54 million, higher personnel expenses driven by higher regulatory compliance spend in the New Zealand and Australia Retail and Commercial divisions and wage inflation, higher customer remediation charges of $35 million and higher investment spend. Refer to "Analysis of Major Income and Expense Items" on pages 67 for further details on key movements.
- Credit impairment charges increased $1,282 million due to higher collectively assessed credit impairment charges of $1,035 million, primarily as a result of the forward-looking impact of material deterioration in the economic outlook due to the COVID-19 pandemic, and higher individually assessed credit impairment charges of $247 million, primarily due to a small number of new single named impairments. Refer to "Analysis of Major Income and Expense Items" on pages 68 and 69 for further details on key movements.

#### Comparison of March 2020 with September 2019

Profit after income tax from continuing operations decreased $1,418 million (-46%) compared with the September 2019 half mainly due to:

- Net interest income increased $182 million (+3%) due to a 5% growth in average interest earning assets, partially offset by 3 basis point decrease in the net interest margin and higher Major Bank Levy. The increase in average interest earning assets reflects growth in Institutional lending, growth in home loans in the New Zealand division and foreign currency translation movements. This was partially offset by a reduction in lending in the Australia Retail and Commercial division. The lower net interest margin reflects deposit margin compression from lower interest rates, increased competition and lower earnings on capital. This was partially offset by the impact of re-pricing in Australia Retail and Commercial and New Zealand divisions. Refer to "Analysis of Major Income and Expense Items" on pages 63 and 64 for further details on key movements.
- Other operating income decreased $781 million (-32%) primarily due to a $815 million impairment of AmBank and PT Panin, a $280 million decrease in unrealized mark-to-market movement on revenue and expense hedges, a $140 million decrease in net fee and commission income, a $65 million net impact from divestments, a $44 million decrease due to widening credit spread impacts on loans measured at fair value in the Institutional division and a $27 million decrease due to dividend income from Bank of Tianjin in the September 2019 half. This was partially offset by $384 million increase in unrealized mark-to-market movement on economic hedges and higher Markets other operating income of $145 million. Refer to "Analysis of Major Income and Expense Items" on pages 65 and 66 for further details on key movements.
- Operating expenses decreased $101 million (-2%) largely driven by lower customer remediation of $284 million, and lower marketing spend which is typically higher in the September half. This was partially offset by an increase of $74 million as a result of a change in accounting treatment associated with the new leasing standard (comparatives not restated), higher restructuring charges of $79 million, higher personnel expenses due to higher regulatory compliance spend in the New Zealand and Australia Retail and Commercial divisions and wage inflation, higher customer remediation charges of $18 million and higher investment spend. Refer to "Analysis of Major Income and Expense Items" on pages 67 for further details on key movements.
- Credit impairment charges increased $1,272 million due to higher collectively assessed credit impairment charges of $1,044 million, primarily as a result of the forward-looking impact of material deterioration in the economic outlook due to the COVID-19 pandemic, and higher individually assessed credit impairment charges of $228 million, primarily due to a small number of new single named impairments. Refer to "Analysis of Major Income and Expense Items" on pages 68 and 69 for further details on key movements.

## ANALYSIS OF MAJOR INCOME AND EXPENSE ITEMS

### Net interest income – continuing operations

The following tables summarize net interest income, net interest margin, average interest earning assets and average deposits and other borrowings for the Group and for the Australia Retail and Commercial, Institutional and New Zealand divisions.

| | Half Year | | |
|---|---|---|---|
| **Group** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net interest income | **7,222** | 7,040 | 7,299 |
| Average interest earning assets[1,2] | **856,652** | 814,831 | 811,528 |
| Average deposits and other borrowings[1,2] | **669,342** | 642,448 | 635,822 |
| Net interest margin (%) | **1.69** | 1.72 | 1.80 |

| | Half Year | | |
|---|---|---|---|
| **Net interest margin by major division** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Australia Retail and Commercial / Australia | | | |
| Net interest margin (%) | **2.65** | 2.58 | 2.61 |
| Average interest earning assets[2] | **305,981** | 309,684 | 314,215 |
| Average deposits and other borrowings[2] | **210,214** | 204,791 | 202,765 |
| Institutional | | | |
| Net interest margin (%) | **0.78** | 0.80 | 0.85 |
| Average interest earning assets[1,2] | **415,490** | 375,573 | 372,270 |
| Average deposits and other borrowings[1,2] | **305,506** | 290,948 | 281,770 |
| New Zealand | | | |
| Net interest margin (%) | **2.31** | 2.27 | 2.39 |
| Average interest earning assets[1,2] | **121,955** | 118,714 | 116,201 |
| Average deposits and other borrowings[1,2] | **90,329** | 86,970 | 86,244 |

1. *Average balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations in the September 2019 half and March 2019 half.*
2. *Averages are calculated using predominantly daily averages.*

**Comparison of March 2020 with March 2019**

The decrease in net interest income of $77 million (-1%) was driven by:

**Net interest margin (-11 bps)**

- Asset mix and funding mix (-2 bps): unfavorable asset mix from the impacts of customer switching from interest only to principal and interest home loans in the Australia Retail and Commercial division, unfavorable mix impacts from a higher proportion of Institutional lending, partly offset by favorable deposit mix.
- Wholesale funding costs (+3 bps): favorable short term funding spreads and broadly stable long term funding costs.
- Deposit pricing (-9 bps): margin compression from lower interest rates in all divisions.
- Assets pricing (+5 bps): re-pricing of home loans in the Australia Retail and Commercial division, partially offset by increased competition in all divisions.
- Treasury (-6 bps): lower earnings on capital and replicated deposits reflecting a lower interest rate environment.
- Markets Balance Sheet activities (-1 bps): growth in lower interest margin Markets Balance Sheet trading activities and the impact of flattening yield curve. This was partially offset by higher net interest income from Rates and Balance Sheet activity.
- Large/notable items (-1 bps): the impact of lease-related items in the Mar 2020 half and divested businesses in the Mar 2019 half.

**Average interest earning assets (+$45.1 billion or +6%)**

- Average net loans and advances (+$18.7 billion or +3%): increase primarily driven by growth in Institutional lending, home loan growth in the New Zealand division, and foreign currency translation movements.
- Average trading and investment securities (+$12.1 billion or +11%): increase primarily driven by higher liquid assets and trading securities in Markets and the impact of foreign currency translation movements.
- Average cash and other liquids (+$14.3 billion or +13%): increase primarily driven by higher central bank cash balances, higher collateral balances and the impact of foreign currency translation movements.

**Average deposits and other borrowings (+$33.5 billion or +5%)**

- Average deposits and other borrowings (+$33.5 billion or +5%): increase driven by growth in deposits in all divisions, but particularly in Institutional division, and the impact of foreign currency translation movements.

**Comparison of March 2020 with September 2019**

The increase in net interest income of $182 million (+3%) was driven by:

**Net interest margin (-3 bps)**

- Asset mix and funding mix (0 bps): unfavorable product mix from the impacts of customer switching from interest only to principal and interest home loans in the Australia Retail and Commercial division, unfavorable mix impacts from a higher proportion of Institutional lending, broadly offset by favorable deposit mix.
- Wholesale funding costs (+1 bps): favorable short term funding spreads and broadly stable long term funding costs.
- Deposit pricing (-5 bps): margin compression from lower rates in all divisions.
- Assets pricing (+4 bps): re-pricing in Australia Retail and Commercial and New Zealand divisions, partially offset by increased competition applying to all divisions.
- Treasury (-4 bps): lower earnings on capital and replicated deposits reflecting a lower interest rate environment.
- Markets Balance Sheet activities (0 bps): the impact of growth in the lower margin Markets Balance Sheet trading activities offset by higher net interest income from Rates and Balance Sheet activity.
- Large/notable (+1 bps): the impact of higher customer remediation in the September 2019 half.

**Average interest earning assets (+$41.8 billion or +5%)**

- Average net loans and advances (+$14.7 billion or +2%): increase primarily driven by growth in Institutional lending, home loans in the New Zealand division, and the impact of foreign currency translation movements. This was partially offset by a reduction in lending in the Australia Retail and Commercial division.
- Average trading and investment securities (+$8.1 billion or +7%): increase primarily driven by an increase in liquid assets in Markets and the impact of foreign currency translation movements.
- Average cash and other liquids (+$19.0 billion or 18%): increase primarily driven by higher central bank cash balances, and the impact of foreign currency translation movements.

**Average deposits and other borrowings (+$26.9 billion or +4%)**

- Average deposits and other borrowings (+$26.9 billion or +4%): increase driven predominantly by growth in the Institutional division, and the impact of foreign currency translation movements.

**Other operating income – continuing operations**

| | Half Year | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net fee and commission income[1] | **1,135** | 1,275 | 1,218 |
| Markets other operating income | **764** | 619 | 667 |
| Share of associates profit[1] | **135** | 131 | 131 |
| Economic hedges[2] | **480** | 96 | (260) |
| Revenue and expense hedges[3] | **(169)** | 111 | (85) |
| Other[1,4] | **(674)** | 220 | 323 |
| **Total other operating income from continuing operations** | **1,671** | 2,452 | 1,994 |

| | Half Year | | |
|---|---|---|---|
| **Markets income** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net interest income | **400** | 211 | 280 |
| Other operating income | **764** | 619 | 667 |
| Markets income | **1,164** | 830 | 947 |

1. *Excluding the Markets business.*
2. *Represents gains and losses on economic hedges used to manage interest rate and foreign exchange risk and the ineffective portion of designated accounting hedges.*
3. *Represents unrealized gains and losses on revenue and expense hedges used to hedge large foreign exchange currency denominated revenue and expense streams.*
4. *Includes foreign exchange earnings, net income from insurance business and impairment of Asian associates.*

**Comparison of March 2020 with March 2019**

Other operating income decreased by $323 million (-16%). Key factors affecting the result were:

**Net fee and commission income (-$83 million or -7%)**

- $56 million decrease in the Australia Retail and Commercial division was primarily driven by the full period impact of fees removed in the prior period and lower volume related fees.
- $28 million decrease in the New Zealand division primarily due to an increase in commission costs and a reduction in rebates.
- $1 million increase due to other small items including lower customer remediation in the March 2020 half and higher commitment fees in the Transaction Banking business, partially offset by decreases due to the impact of divested business results and the slowdown of loan syndication activities.

**Markets income (+$217 million or 23%)**

- $48 million increase in Franchise Sales due to demand from large corporate customers and financial institutions for FX, Commodities and Rates products.
- $187 million increase in Franchise Trading across all asset classes primarily attributable to improved trading conditions and increased volumes, particularly in International and favorable derivative valuation adjustments.
- $18 million decrease in Balance Sheet trading primarily attributable to cuts in the Official Cash Rate in Australia.

**Share of associates' profit (+$4 million or +3%)**

- $4 million increase in profits from associates of which $4 million relates to PT Panin and $5 million relates to AmBank, partially offset by a $4 million reduction following the sale of Paymark.

**Economic hedges (+$740 million)**

- For the March 2020 half, the majority of the $480 million gain on economic hedges relates to funding related swaps, principally from widening basis spreads on AUD/USD and NZD/USD currency pairs and from the weakening of both the AUD and NZD against USD.
- For the March 2019 half, the majority of the $260 million loss on economic hedges relates to funding related swaps, principally from narrowing basis spreads on NZD/USD and USD/EUR currency pairs.

**Revenue and expense hedges (-$84 million)**

- For the March 2020 half, the loss of $169 million on revenue and expense hedges was mainly due to the weakening of the AUD against the USD and NZD.
- For the March 2019 half, the loss of $85 million on revenue and expense hedges was due to the weakening of the AUD against the NZD.

**Other (-$997 million)**

- $815 million decrease due to the impairment of PT Panin of $220 million and AmBank of $595 million.
- $137 million decrease due to gains on sale ($119 million) from One Path Life NZ and Paymark in the March 2019 half and the impact of divested business results ($18 million) in the March 2019 half.
- $34 million decrease in Institutional division due to widening credit spread impacts on loans measured at fair value.
- Other small items including a gain on sale of an investment security in the March 2019 half and higher customer remediation in the March 2020 half were offset by the gross up of sublease income on adoption of the new leasing standard (comparatives not restated).

**Comparison of March 2020 with September 2019**

Other operating income decreased by $781 million (-32%). Key factors affecting the result were:

**Net fee and commission income (-$140 million or -11%)**

- $84 million decrease in the Australia Retail and Commercial division was primarily driven by the timing of unsecured portfolio rebates and incentives and lower volume related fees.
- $38 million decrease in New Zealand division due to lower insurance commissions and higher commission costs.
- $18 million decrease due to other small items including the impact of divested business results and a decrease in the Institutional division due to higher merchant schemes fees in the March 2020 half.

**Markets income (+$334 million or +40%)**

- $46 million increase in Franchise Sales due to demand from large corporate customers and financial institutions for FX, Commodities and Rates products.
- $240 million increase in Franchise Trading across all asset classes. Trading conditions supported the franchise from the start of the year, and then the increase in volatility in the second quarter drove higher risk premiums, which was combined with trading volume growth across all asset classes. This was partially offset by lower derivative valuation adjustments.
- $48 million increase in Balance Sheet trading driven by steepening of yield curves.

**Share of associates' profit (+$4 million or +3%)**

- $4 million increase in profits from associates of which a $11 million increase relates to PT Panin partially offset by a decrease of $9 million relating to AmBank.

**Economic hedges (+$384 million)**

- For the March 2020 half, the majority of the $480 million gain on economic hedges relates to funding related swaps, principally from widening basis spreads on AUD/USD and NZD/USD currency pairs and from the weakening of both the AUD and NZD against USD.
- For the September 2019 half, the majority of the $96 million gain on economic hedges relates to funding related swaps, principally from the weakening of both the AUD and NZD against USD.

**Revenue and expense hedges (-$280 million)**

- For the March 2020 half, the loss of $169 million on revenue and expense hedges was mainly due to the weakening of AUD against the USD and NZD.
- For the September 2019 half, the gain of $111 million on revenue and expense hedges was due to the strengthening of the AUD against the NZD.

**Other (-$894 million)**

- $815 million decrease due to the impairment of PT Panin of $220 million and AmBank of $595 million.
- $44 million decrease in the Institutional division primarily due to widening credit spread impacts on loans measured at fair value.
- $27 million decrease due to dividend income from Bank of Tianjin in the September 2019 half.
- $21 million decrease due to gains on sale ($18 million) from Cambodia and OnePath Life (NZ) in the September 2019 half and the impact of divested business results ($3 million) in the September 2019 half.
- $13 million increase due to other smaller items including an increase from the gross up of sublease income on the adoption of the new leasing standard and higher incentive receipts, partially offset by higher customer remediation in the March 2020 half.

**Operating expenses – continuing operations**

| | Half Year | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M |
| Personnel[1] | **2,465** | 2,395 | 2,370 |
| Premises | **405** | 389 | 406 |
| Technology (excluding personnel) | **839** | 770 | 764 |
| Restructuring | **105** | 26 | 51 |
| Other | **791** | 1,126 | 774 |
| **Total operating expenses from continuing operations[1]** | **4,605** | 4,706 | 4,365 |
| Full time equivalent staff from continuing operations | **37,834** | 37,588 | 37,364 |
| Average full time equivalent staff from continuing operations | **37,759** | 37,405 | 37,558 |

1. *Includes customer remediation expenses of $71 million for the March 2020 half (Sep 19 half: $337 million; Mar 19 half: $36 million).*

**Comparison of March 2020 with March 2019**

Operating expenses increased by $240 million (+5%):

- Personnel expenses increased $95 million (+4%) largely driven by higher investment spend in the New Zealand and Australia Retail and Commercial divisions, along with wage inflation, higher customer remediation ($48 million) and adverse foreign currency translation movements. This was partially offset by lower variable remuneration and business as usual personnel expenses.
- Premises expense decreased $1 million largely driven by the consolidation of our property footprint offset by a change in accounting treatment associated with the new leasing standard (comparatives not restated).
- Technology expenses increased $75 million (+10%) largely as a result of a change in accounting treatment associated with the new leasing standard (comparatives not restated) and an increase in investment spend.
- Restructuring expenses increased $54 million largely relating to business and property changes in the Australia Retail and Commercial division.
- Other expenses increased $17 million (+2%) largely due to higher investment spend offset by lower customer remediation ($13 million).

**Comparison of March 2020 with September 2019**

Operating expenses decreased by $101 million (-2%):

- Personnel expenses increased $70 million (+3%) largely driven by wage inflation, higher customer remediation ($18 million), higher investment spend in the New Zealand and Australia Retail and Commercial divisions and adverse foreign currency translation movements. This was partially offset by lower variable remuneration and business as usual personnel expenses.
- Premises expenses increased $16 million (+4%) largely as a result of a change in accounting treatment associated with the new leasing standard (comparatives not restated). This was partially offset by lower premises expense in our International network.
- Technology expenses increased $69 million (+9%) largely as a result of a change in accounting treatment associated with the new leasing standard (comparatives not restated) and an increase in investment spend.
- Restructuring expenses increased $79 million largely relating to business and property changes in the Australia Retail and Commercial division.
- Other expenses decreased $335 million (-30%) largely driven by lower customer remediation ($284 million), a reduction in consulting spend and lower marketing spend which is typically higher in the September half.

### Credit risk – continuing operations

The tables below provide information about the credit provision of the Group.

The impact and duration of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. The Expected Credit Loss (ECL) charge for the half year and ECL provisions as at March 31, 2020 are therefore largely based on management judgement with respect to the impacts of COVID-19 on the Group's credit exposures. The judgements and assumptions made by management are based on a variety of internal and external information, as well as the Group's experience with respect to the performance of the portfolio under previous stressed conditions. The Group also considers applying temporary adjustments to the ECL for recent and transitory conditions applying to segments of the portfolio. For further details on key estimates, assumptions and judgements that have changed during the March 31, 2020 half year described above refer to Note 1 of the Condensed Consolidated Financial Statements attached to this U.S. Disclosure Document as the Annex.

**Credit impairment charge/(release)**

| | Collectively assessed | | |
|---|---|---|---|
| | Half Year | | |
| **Division** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Australia Retail and Commercial | **525** | **(39)** | **46** |
| Institutional | **369** | **33** | **(23)** |
| New Zealand | **144** | **17** | **(5)** |
| Pacific | **10** | **(6)** | **(6)** |
| TSO & Group Centre | **-** | **(1)** | **1** |
| **Total** | **1,048** | **4** | **13** |

| | Individually assessed | | |
|---|---|---|---|
| | Half Year | | |
| **Division** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Australia Retail and Commercial | **318** | **355** | **350** |
| Institutional | **272** | **-** | **(12)** |
| New Zealand | **35** | **40** | **35** |
| Pacific | **1** | **3** | **8** |
| TSO & Group Centre | **-** | **-** | **(1)** |
| **Total** | **626** | **398** | **380** |

| | Total | | |
|---|---|---|---|
| | Half Year | | |
| **Division** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Australia Retail and Commercial | **843** | **316** | **396** |
| Institutional | **641** | **33** | **(35)** |
| New Zealand | **179** | **57** | **30** |
| Pacific | **11** | **(3)** | **2** |
| TSO & Group Centre | **-** | **(1)** | **-** |
| **Total** | **1,674** | **402** | **393** |

**Credit risk – continuing operations, cont'd**

| March 2020 Half Year | Collectively assessed | | | | Individually assessed | | | |
|---|---|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 - New and increased $M** | **Stage 3 - Recoveries and write-backs $M** | **Total $M** | **Total $M** |
| Australia Retail and Commercial | 105 | 395 | 25 | **525** | 511 | (193) | **318** | **843** |
| Institutional | 203 | 177 | (11) | **369** | 327 | (55) | **272** | **641** |
| New Zealand | 39 | 86 | 19 | **144** | 59 | (24) | **35** | **179** |
| Pacific | 7 | 3 | - | **10** | 3 | (2) | **1** | **11** |
| TSO and Group Centre | - | - | - | **-** | - | - | **-** | **-** |
| **Total** | 354 | 661 | 33 | **1,048** | 900 | (274) | **626** | **1,674** |

| September 2019 Half Year | Collectively assessed | | | | Individually assessed | | | |
|---|---|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 - New and increased $M** | **Stage 3 - Recoveries and write-backs $M** | **Total $M** | **Total $M** |
| Australia Retail and Commercial | (14) | (69) | 44 | **(39)** | 637 | (282) | **355** | **316** |
| Institutional | 8 | 22 | 3 | **33** | 37 | (37) | **-** | **33** |
| New Zealand | 5 | 15 | (3) | **17** | 71 | (31) | **40** | **57** |
| Pacific | (3) | (2) | (1) | **(6)** | 5 | (2) | **3** | **(3)** |
| TSO and Group Centre | (1) | - | - | **(1)** | - | - | **-** | **(1)** |
| **Total** | (5) | (34) | 43 | **4** | 750 | (352) | **398** | **402** |

| March 2019 Half Year | Collectively assessed | | | | Individually assessed | | | |
|---|---|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 - New and increased $M** | **Stage 3 - Recoveries and write-backs $M** | **Total $M** | **Total $M** |
| Australia Retail and Commercial | (21) | 43 | 24 | **46** | 536 | (186) | **350** | **396** |
| Institutional | 19 | (35) | (7) | **(23)** | 18 | (30) | **(12)** | **(35)** |
| New Zealand | (4) | (5) | 4 | **(5)** | 60 | (25) | **35** | **30** |
| Pacific | (1) | (4) | (1) | **(6)** | 11 | (3) | **8** | **2** |
| TSO and Group Centre | 1 | - | - | **1** | (1) | (1) | **(2)** | **(1)** |
| **Total** | (6) | (1) | 20 | **13** | 624 | (245) | **380** | **392** |

**Comparison of March 2020 with March 2019**

- The collectively assessed credit impairment charge increased by $1,035 million primarily driven by a $479 million increase in the Australia Retail and Commercial division, a $392 million increase in the Institutional division and a $149 million increase in the New Zealand division. The significant increases across all divisions are primarily due to forward-looking impact of material deterioration in the economic outlook due to the COVID-19 pandemic.
- The individually assessed credit impairment charge increased by $246 million primarily due to a small number of new single name impairments in the Institutional division. This was partially offset by improved mortgage delinquencies in the Australia retail portfolios combined with ongoing lower portfolio growth in the unsecured portfolio.

**Comparison of March 2020 with September 2019**

- The collectively assessed credit impairment charge increased by $1,044 million primarily driven by a $564 million increase in the Australia Retail and Commercial division, a $336 million increase in the Institutional division and a $127 million increase in the New Zealand division. The significant increases across all divisions are primarily due to forward-looking impact of material deterioration in the economic outlook due to the COVID-19 pandemic.
- The individually assessed credit impairment charge increased by $228 million primarily due to a small number of new single name impairments in the Institutional division. This was partially offset by improved mortgage delinquencies in the Australia retail portfolios combined with ongoing lower portfolio growth in the unsecured portfolio.

**Allowance for expected credit losses[1,2]**

| Division | Collectively assessed As at Mar 20 $M | Sep 19 $M | Mar 19 $M |
|---|---|---|---|
| Australia Retail and Commercial | **2,320** | 1,795 | 1,834 |
| Institutional | **1,590** | 1,169 | 1,132 |
| New Zealand | **541** | 374 | 369 |
| Pacific | **50** | 38 | 43 |
| **Total** | **4,501** | 3,376 | 3,378 |

| Division | Individually assessed As at Mar 20 $M | Sep 19 $M | Mar 19 $M |
|---|---|---|---|
| Australia Retail and Commercial | **582** | 558 | 586 |
| Institutional | **406** | 160 | 208 |
| New Zealand | **79** | 72 | 73 |
| Pacific | **26** | 24 | 24 |
| **Total** | **1,093** | 814 | 891 |

| Division | Total provision As at Mar 20 $M | Sep 19 $M | Mar 19 $M |
|---|---|---|---|
| Australia Retail and Commercial | **2,902** | 2,353 | 2,420 |
| Institutional | **1,996** | 1,329 | 1,340 |
| New Zealand | **620** | 446 | 442 |
| Pacific | **76** | 62 | 67 |
| **Total** | **5,594** | 4,190 | 4,269 |

1. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortized cost and Off-balance sheet commitments - undrawn and contingent facilities.*
2. *Balance Sheet amounts include assets and liabilities reclassified as held for sale.*

**Allowance for expected credit losses, cont'd [1,2]**
**As at Mar 20**

| | Collectively assessed | | | | Individually assessed | |
|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 $M** | **Total $M** |
| Australia Retail and Commercial | 474 | 1,477 | 369 | **2,320** | 582 | **2,902** |
| Institutional | 1,115 | 444 | 31 | **1,590** | 406 | **1,996** |
| New Zealand | 200 | 279 | 62 | **541** | 79 | **620** |
| Pacific | 26 | 13 | 11 | **50** | 26 | **76** |
| **Total** | 1,815 | 2,213 | 473 | **4,501** | 1,093 | **5,594** |

**As at Sep 19**

| | Collectively assessed | | | | Individually assessed | |
|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 $M** | **Total $M** |
| Australia Retail and Commercial | 370 | 1,082 | 343 | **1,795** | 558 | **2,353** |
| Institutional | 872 | 257 | 40 | **1,169** | 160 | **1,329** |
| New Zealand | 152 | 182 | 40 | **374** | 72 | **446** |
| Pacific | 18 | 9 | 11 | **38** | 24 | **62** |
| **Total** | 1,412 | 1,530 | 434 | **3,376** | 814 | **4,190** |

**As at Mar 19**

| | Collectively assessed | | | | Individually assessed | |
|---|---|---|---|---|---|---|
| **Division** | **Stage 1 $M** | **Stage 2 $M** | **Stage 3 $M** | **Total $M** | **Stage 3 $M** | **Total $M** |
| Australia Retail and Commercial | 384 | 1,150 | 300 | **1,834** | 586 | **2,420** |
| Institutional | 859 | 234 | 39 | **1,132** | 208 | **1,340** |
| New Zealand | 152 | 173 | 44 | **369** | 73 | **442** |
| Pacific | 20 | 11 | 12 | **43** | 24 | **67** |
| **Total** | 1,415 | 1,568 | 395 | **3,378** | 891 | **4,269** |

1. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortized cost and Off-balance sheet commitments - undrawn and contingent facilities.*
2. *Balance Sheet amounts include assets and liabilities reclassified as held for sale.*

### Gross Impaired assets[1]

| | As of | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M |
| **Gross impaired assets** | | | |
| Impaired loans[2] | **2,209** | 1,711 | 1,803 |
| Restructured items[3] | **226** | 267 | 264 |
| Non-performing commitments and contingencies[2] | **164** | 51 | 61 |
| **Gross impaired assets** | **2,599** | 2,029 | 2,128 |
| **Individually assessed provisions** | | | |
| Impaired loans | **(1,055)** | (791) | (865) |
| Non-performing commitments and contingencies | **(38)** | (23) | (26) |
| **Net impaired assets** | **1,506** | 1,215 | 1,237 |

| | As of | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M |
| **Gross impaired assets by division** | | | |
| Australia Retail and Commercial | **1,544** | 1,468 | 1,463 |
| Institutional | **742** | 265 | 373 |
| New Zealand | **264** | 245 | 238 |
| Pacific | **49** | 51 | 53 |
| TSO and Group Centre | **-** | - | 1 |
| **Gross impaired assets** | **2,599** | 2,029 | 2,128 |

| | As of | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M |
| **Gross impaired assets by size of exposure** | | | |
| Less than $10 million | **1,680** | 1,593 | 1,611 |
| $10 million to $100 million | **349** | 247 | 328 |
| Greater than $100 million | **570** | 189 | 189 |
| **Gross impaired assets** | **2,599** | **2,029** | **2,128** |

1. *Balance sheet amounts include assets reclassified as held for sale.*
2. *Impaired loans and non-performing commitments and contingencies do not include exposures which are included in collectively assessed Stage 3 ECL, which comprise unsecured retail exposures greater than 90 days past due and defaulted but well secured exposures.*
3. *Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered for new facilities with similar risk.*

**Comparison of March 2020 with March 2019**

- Gross impaired assets increased $471 million (22%) driven by the Institutional division ($369 million), Australia Retail and Commercial division ($81 million) and New Zealand division ($26 million). The increase in the Institutional division relates to impairments on a small number of single name exposures. The Australia Retail and Commercial division increase was driven by the implementation of a more market responsive collateral valuation methodology for the Australian home loan portfolio combined with a single name exposure in the commercial portfolio. The increase in New Zealand is driven by impairments on a small number of single name commercial exposures.

**Comparison of March 2020 with September 2019**

- Gross impaired assets increased $570 million (28%) driven by the Institutional division ($477 million), Australia Retail and Commercial division ($76 million) and New Zealand division ($19 million). The increase in the Institutional division relates to impairments on a small number of single name exposures. The Australia Retail and Commercial division increase was driven by the implementation of a more market responsive collateral valuation methodology for the Australian home loan portfolio combined with a single name exposure in the commercial portfolio.

The Group's individually assessed provision coverage ratio on impaired assets was 42.1% at 31 March 2020 (Sep 19: 40.1%; Mar 19: 41.9%).

**New impaired assets**[1]

| | Half Year | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| **New impaired assets** | | | |
| Impaired loans | **1,407** | 1,070 | 857 |
| Restructured items | **23** | 29 | 13 |
| Non-performing commitments and contingencies | **140** | 18 | 20 |
| **Total new impaired assets** | **1,570** | **1,117** | **890** |

| | Half Year | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M**[1] |
| **New impaired assets by division** | | | |
| Australia Retail and Commercial | **870** | 916 | 715 |
| Institutional | **571** | 37 | 41 |
| New Zealand | **125** | 158 | 120 |
| Pacific | **4** | 6 | 14 |
| **Total new impaired assets** | **1,570** | **1,117** | **890** |

1. *Balance sheet amounts include assets reclassified as held for sale.*

**Comparison of March 2020 with March 2019**

- New impaired assets increased $680 million (76%) with increases in Institutional division ($530 million) related to a small number of impairments of single name exposures. Australia Retail and Commercial division increases ($155 million) driven by the implementation of a more market responsive collateral valuation methodology for the Australian home loan portfolio combined with a single name exposure in the commercial portfolio.

**Comparison of March 2020 with September 2019**

- New impaired assets increased by $453 million (41%) with increases in Institutional division ($534 million) related to a small number of impairments of single name exposures. This was partially offset by Australia Retail and Commercial division (-$46 million) driven by ongoing lower growth in the unsecured and small business banking portfolio.

**Other potential problem loans**

ANZ does not use the category "potential problem loans" for loans that continue to accrue interest. ANZ's risk grading systems identify customers that attract a higher probability of default and where necessary these customers receive specialist management attention.

**Accruing loans – past due 90 days or more**[1]

Set out below are loans that are past due by over 90 days. A facility is past due when a contracted payment (principal or interest) has not been met or the facility is outside of contractual arrangements (e.g. an overdraft is over the limit). This category comprises accrual loans that are past due 90 days or more and that are well secured, or loans that are past due 90 days or more and are portfolio managed (typically unsecured personal loans and credit cards) that can be held on an accrual basis for up to 180 days.

| | As of | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Australia Retail and Commercial | **3,212** | 3,409 | 3,009 |
| Institutional | **4** | 4 | 14 |
| New Zealand | **376** | 309 | 276 |
| Pacific | **24** | 17 | 24 |
| TSO and Group Centre | **5** | 5 | 5 |
| **Total accruing loans - past due 90 days or more** | **3,621** | 3,744 | 3,328 |

1. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*

**Comparison of March 2020 with March 2019**

- The accruing loans – past due 90 days or more increased by $293 million (9%) primarily driven by portfolio deterioration in the September 2019 half in the Australia home loan ($203 million) and the New Zealand division home loan portfolios ($100 million).

**Comparison of March 2020 with September 2019**

- The accruing loans – past due 90 days or more decreased by $123 million (-3%) primarily driven by improved mortgage delinquencies in the Australia division.

**Concentrations of credit risk/loans and advances by industry category**

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, these customers may be similarly affected by changes in economic or other conditions. The Group monitors its credit portfolios to manage risk concentration and rebalance the portfolio. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

For further information relating to the Group's credit risk exposures, refer to Note 16 of the 2019 Financial Report (attached as part of Annex A to ANZ's 2019 Annual U.S. Disclosure Document).

## Income tax expense – continuing operations

| | Half Year | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Income tax expense charged to the income statement | **978** | 1,325 | 1,284 |
| Effective tax rate | **37.4%** | 30.2% | 28.3% |
| Australian corporate tax rate | **30.0%** | 30.0% | 30.0% |

**Comparison of March 2020 with March 2019**

- The effective tax rate has increased from 28.3% to 37.4%. The increase of 910 bps is primarily due to non-tax deductible impairment of investments in AmBank and PT Panin (+937 bps).

**Comparison of March 2020 with September 2019**

- The effective tax rate has increased from 30.2% to 37.4%. The increase of 720 bps is primarily to non-tax deductible impairment of investments in AmBank and PT Panin (+937 bps) partially offset by the impact of customer remediation (-151 bps) in the September 2019 half.

**CONDENSED BALANCE SHEET – INCLUDING DISCONTINUED OPERATIONS**

| | As of | | |
|---|---|---|---|
| | Mar 20 $B | Sep 19 $B | Mar 19 $B |
| **Assets** | | | |
| Cash / Settlement balances owed to ANZ / Collateral paid | **166.8** | 100.3 | 109.9 |
| Trading and investment securities/available-for-sale assets | **135.0** | 126.9 | 121.8 |
| Derivative financial instruments | **173.7** | 120.7 | 79.4 |
| Net loans and advances | **656.6** | 615.3 | 609.3 |
| Assets held for sale[1] | **-** | 1.8 | 43.5 |
| Other | **17.9** | 16.1 | 16.4 |
| **Total assets** | **1,150.0** | 981.1 | 980.3 |
| **Liabilities** | | | |
| Settlement balances owed by ANZ / Collateral received | **39.8** | 18.8 | 18.1 |
| Deposits and other borrowings | **726.9** | 637.7 | 635.0 |
| Derivative financial instruments | **167.4** | 121.0 | 80.9 |
| Liabilities held for sale[2] | **-** | 2.1 | 46.6 |
| Debt issuances | **140.2** | 129.7 | 129.7 |
| Other | **14.3** | 11.0 | 10.0 |
| **Total liabilities** | **1,088.6** | 920.3 | 920.3 |
| **Total equity** | **61.4** | 60.8 | 60.0 |

1. *The September 30, 2019 balance of assets held for sale comprises: $1.8 billion for discontinued operations. The March 31, 2019 balance of assets held for sale comprises: $42.2 billion for discontinued operations; $1.2 billion for Cambodia JV and $0.2 billion for PNG Retail, Commercial & SME.*
2. *The September 30, 2019 balance of liabilities held for sale comprises: $2.1 billion for discontinued operations. The March 31, 2019 balance of liabilities held for sale comprises: $44.9 billion for discontinued operations; $1.2 billion for Cambodia JV and $0.5 billion for PNG Retail, Commercial & SME.*

**Comparison of March 2020 with March 2019**

- Cash/Settlement balances owed to ANZ/Collateral paid increased $56.9 billion (+52%) driven by an increase in balances with central banks in Markets, increased overnight bank deposits in Treasury, increase in short term reverse repurchase agreements in Markets and Treasury, increase in collateral paid associated with higher derivative liability position and foreign currency translation movements.
- Trading and investment securities increased $13.2 billion (+11%) driven by an increase in liquid assets in Markets and the impact of foreign currency translation movements.
- Derivative financial assets and liabilities increased $94.3 billion and $86.5 billion respectively as interest rate and foreign exchange movements resulted in higher derivative volumes and fair values, particularly in interest rate and foreign exchange swap products.
- Net loans and advances increased $47.3 billion (+8%), driven by lending growth in the Institutional division (+$39.3 billion), growth in home loans in the New Zealand division (+$4.6 billion) and the impact of foreign currency translation movements, partially offset by the decrease in Australia Retail and Commercial division (-$6.8 billion) across home loans and unsecured portfolios.
- Assets and liabilities held for sale decreased $43.5 billion (-100%) and $46.6 billion (-100%) respectively driven by the sale completion of the life insurance business to IOOF and Zurich, Cambodia JV and PNG Retail, Commercial and SME.
- Settlement balances owed by ANZ/Collateral received increased $21.7 billion driven by higher cash clearing account balances in the Institutional division, an increase in collateral received associated with higher derivative asset position and foreign currency translation movements.
- Deposits and other borrowings increased $91.9 billion (+14%) driven by increased customer deposits in the Institutional division (+$37.5 billion), Australia Retail and Commercial division (+$9.6 billion) and New Zealand division (+$4.4 billion), an increase in deposits from banks and repurchase agreements (+$10.9 billion), an increase in commercial paper issued (+$6.3 billion) and the impact of foreign currency translation movements. This was partially offset by reduction in certificates of deposit (-$6.2 billion).
- Debt issuances increased $10.5 billion (+8%) driven by senior debt issuances and the impact of foreign currency translation movements.

**Comparison of March 2020 with September 2019**

- Cash/Settlement balances owed to ANZ/Collateral paid increased $66.5 billion (+66%) driven by an increase in balances with central banks in Markets, increased overnight bank deposits in Treasury, increase in short term reverse repurchase agreements in Markets and Treasury, increase in collateral paid associated with higher derivative liability position and foreign currency translation movements.
- Trading and investment securities increased $8.1 billion (+6%) driven by an increase in liquid assets in Markets and the impact of foreign currency translation movements.
- Derivative financial assets and liabilities increased $53.0 billion (+44%) and $46.4 billion (+38%) respectively as interest rate and foreign exchange movements resulted in higher derivative volumes and fair values, particularly in interest rate and foreign exchange swap products.
- Net loans and advances increased $41.3 billion (+7%), driven by lending growth in the Institutional division (+$29.2 billion), growth in home loans in the New Zealand division (+$2.8 billion) and the impact of foreign currency translation movements, partially offset by the decrease in Australia Retail and Commercial division (-$2.1 billion) across home loans and unsecured portfolios.
- Settlement balances owed by ANZ/Collateral received increased $21.0 billion driven by higher cash clearing account balances in the Institutional division, an increase in collateral received associated with higher derivative asset position and foreign currency translation movements.
- Deposits and other borrowings increased $89.2 billion (+14%) driven by increased customer deposits in the Institutional division (+$29.2 billion), Australia Retail and Commercial division (+$5.0 billion) and New Zealand division (+$3.5 billion), an increase in deposits from banks and repurchase agreements (+$20.2 billion), an increase in commercial paper issued (+$9.8 billion) and the impact of foreign currency translation movements.
- Debt issuances increased $10.5 billion (+8%) driven by senior debt issuances and the impact of foreign currency translation movements.

## RESULTS BY DIVISION – CONTINUING OPERATIONS

For further information on the composition of the divisions refer to “Section 2: Information on the Group – Principal Activities of the Group”.

This Results by division section is reported on a continuing operations basis. For information on discontinued operations please refer to “Section 1: Key Information - Basis of Preparation – Discontinued Operations”.

The divisions reported are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

| March 2020 Half Year | Australia Retail and Commercial $M | Institutional $M | New Zealand $M | Pacific $M | TSO & Group Centre $M | Group $M |
|---|---|---|---|---|---|---|
| Net interest income | 4,048 | 1,624 | 1,410 | 65 | 75 | **7,222** |
| Other operating income | 595 | 1,167 | 247 | 50 | (388) | **1,671** |
| Operating income | 4,643 | 2,791 | 1,657 | 115 | (313) | **8,893** |
| Operating expenses | (2,065) | (1,290) | (690) | (76) | (484) | **(4,605)** |
| Profit/(Loss) before credit impairment and income tax | 2,578 | 1,501 | 967 | 39 | (797) | **4,288** |
| Credit impairment (charge)/release | (843) | (641) | (179) | (11) | - | **(1,674)** |
| Profit/(Loss) before income tax | 1,735 | 860 | 788 | 28 | (797) | **2,614** |
| Income tax (expense)/benefit and non-controlling interests | (521) | (250) | (221) | (8) | 21 | **(979)** |
| **Profit/(Loss) after income tax from continuing operations** | 1,214 | 610 | 567 | 20 | (776) | **1,635** |
| **Balance Sheet** | | | | | | |
| Net loans and advances | 329,812 | 199,410 | 125,195 | 2,176 | 16 | **656,609** |
| Other external assets | 3,836 | 461,548 | 4,567 | 1,630 | 21,765 | **493,346** |
| **External assets** | 333,648 | 660,958 | 129,762 | 3,806 | 21,781 | **1,149,955** |
| Customer deposits | 212,990 | 258,517 | 91,175 | 3,845 | (32) | **566,495** |
| Other external liabilities | 9,478 | 326,250 | 31,692 | 166 | 154,499 | **522,085** |
| **External liabilities** | 222,468 | 584,767 | 122,867 | 4,011 | 154,467 | **1,088,580** |

| September 2019 Half Year | Australia Retail and Commercial $M | Institutional $M | New Zealand $M | Pacific $M | TSO & Group Centre $M | Group $M |
|---|---|---|---|---|---|---|
| Net interest income | 4,000 | 1,501 | 1,351 | 60 | 128 | **7,040** |
| Other operating income | 696 | 1,066 | 278 | 54 | 358 | **2,452** |
| Operating income | 4,696 | 2,567 | 1,629 | 114 | 486 | **9,492** |
| Operating expenses | (2,161) | (1,347) | (674) | (80) | (444) | **(4,706)** |
| Profit before credit impairment and income tax | 2,535 | 1,220 | 955 | 34 | 42 | **4,786** |
| Credit impairment (charge)/release | (316) | (33) | (57) | 3 | 1 | **(402)** |
| Profit before income tax | 2,219 | 1,187 | 898 | 37 | 43 | **4,384** |
| Income tax expense and non-controlling interests | (727) | (371) | (252) | (11) | 30 | **(1,331)** |
| **Profit/(loss) after income tax from continuing operations** | 1,492 | 816 | 646 | 26 | 73 | **3,053** |
| **Balance Sheet**[1] | | | | | | |
| Net loans and advances | 331,871 | 164,526 | 116,729 | 2,120 | 12 | **615,258** |
| Other external assets | 4,350 | 346,094 | 3,690 | 1,403 | 10,342 | **365,879** |
| **External assets** | 336,221 | 510,620 | 120,419 | 3,523 | 10,354 | **981,137** |
| Customer deposits | 208,005 | 217,259 | 83,387 | 3,546 | (385) | **511,812** |
| Other external liabilities | 9,610 | 230,917 | 25,792 | 140 | 142,072 | **408,531** |
| **External liabilities** | 217,615 | 448,176 | 109,179 | 3,686 | 141,687 | **920,343** |

| March 2019 Half Year | Australia Retail and Commercial $M | Institutional $M | New Zealand $M | Pacific $M | TSO & Group Centre $M | Group $M |
|---|---|---|---|---|---|---|
| Net interest income | 4,092 | 1,579 | 1,385 | 68 | 175 | **7,299** |
| Other operating income | 651 | 1,126 | 302 | 50 | (135) | **1,994** |
| Operating income | 4,743 | 2,705 | 1,687 | 118 | 40 | **9,293** |
| Operating expenses | (1,913) | (1,320) | (612) | (70) | (450) | **(4,365)** |
| Profit before credit impairment and income tax | 2,830 | 1,385 | 1,075 | 48 | (410) | **4,928** |
| Credit impairment (charge)/release | (396) | 35 | (30) | (2) | 1 | **(392)** |
| Profit before income tax | 2,434 | 1,420 | 1,045 | 46 | (409) | **4,536** |
| Income tax expense and non-controlling interests | (731) | (408) | (292) | (13) | 151 | **(1,293)** |
| **Profit/(loss) after income tax from continuing operations** | 1,703 | 1,012 | 753 | 33 | (258) | **3,243** |
| **Balance Sheet**[1] | | | | | | |
| Net loans and advances | 336,584 | 152,548 | 118,841 | 2,135 | 61 | **610,169** |
| Other external assets | 4,151 | 307,198 | 3,401 | 1,285 | 54,066 | **370,101** |
| **External assets** | 340,735 | 459,746 | 122,242 | 3,420 | 54,127 | **980,270** |
| Customer deposits | 203,366 | 205,364 | 85,372 | 3,474 | (4,203) | **493,373** |
| Other external liabilities | 9,665 | 198,501 | 24,717 | 87 | 193,956 | **426,926** |
| **External liabilities** | 213,031 | 403,865 | 110,089 | 3,561 | 189,753 | **920,299** |

1. *Balance Sheet amounts includes asset and liabilities reclassified as held for sale from continuing operations.*

**Australia Retail and Commercial – continuing operations**

| | Half Year | | |
|---|---|---|---|
| **Australia Retail and Commercial** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net interest income | **4,048** | 4,000 | 4,092 |
| Other operating income | **595** | 696 | 651 |
| Operating income | **4,643** | 4,696 | 4,743 |
| Operating expenses | **(2,065)** | (2,161) | (1,913) |
| Profit before credit impairment and income tax | **2,578** | 2,535 | 2,830 |
| Credit impairment (charge)/release | **(843)** | (316) | (396) |
| Profit before income tax | **1,735** | 2,219 | 2,434 |
| Income tax expense and non-controlling interests | **(521)** | (727) | (731) |
| **Profit after income tax** | **1,214** | 1,492 | 1,703 |
| **Consisting of:** | | | |
| Retail | **913** | 980 | 1,152 |
| Commercial / Business & Private Bank | **301** | 512 | 551 |
| **Profit after income tax** | **1,214** | 1,492 | 1,703 |
| **Balance Sheet** | | | |
| Net loans and advances | **329,812** | 331,871 | 336,584 |
| Other external assets | **3,836** | 4,350 | 4,151 |
| External assets | **333,648** | 336,221 | 340,735 |
| Customer deposits | **212,990** | 208,005 | 203,366 |
| Other external liabilities | **9,478** | 9,610 | 9,665 |
| External liabilities | **222,468** | 217,615 | 213,031 |
| Risk weighted assets | **161,758** | 162,060 | 159,310 |
| Average gross loans and advances[1] | **333,617** | 336,302 | 341,282 |
| Average deposits and other borrowings[1] | **210,214** | 204,791 | 202,765 |
| **Ratios** | | | |
| Return on average assets | **0.72%** | 0.88% | 0.99% |
| Net interest margin | **2.65%** | 2.58% | 2.61% |
| Operating expenses to operating income | **44.5%** | 46.0% | 40.3% |
| Operating expenses to average assets | **1.23%** | 1.28% | 1.12% |
| Individually assessed credit impairment charge/(release) | **318** | 355 | 350 |
| Individually assessed credit impairment charge/(release) as a % of average GLA[2] | **0.19%** | 0.21% | 0.21% |
| Collectively assessed credit impairment charge/(release) | **525** | (39) | 46 |
| Collectively assessed credit impairment charge/(release) as a % of average GLA[2] | **0.31%** | (0.02%) | 0.03% |
| Gross impaired assets | **1,544** | 1,468 | 1,463 |
| Gross impaired assets as a % of GLA | **0.46%** | 0.44% | 0.43% |
| Total full time equivalent staff | **14,061** | 13,903 | 13,660 |

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge used in the ratios relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

**Comparison of March 2020 with March 2019**

Profit after income tax decreased by $489 million (-29%).

Key factors affecting the result were:

- Lending volumes declined particularly in home loans due to faster principal reductions in a low rate environment and competition. This was partially offset by recovery in lending volumes following the launch of a number of marketing campaigns and improvements in operational processes.
- Net interest margin increased 4 basis points driven by lower funding costs and home loan repricing benefits largely offset by headwinds from official cash rate decreases on low rate deposits and earnings on capital.
- Other operating income decreased $56 million (-9%) driven by the full period impact of fees removed in the prior period and lower volumes.
- Operating expenses increased $152 million (8%) driven by higher restructuring expenses relating to business and property changes, additional charges for lease-related items, higher customer remediation expenses and higher investment spend. Inflation increases were offset by productivity benefits.
- Credit impairment charges increased $447 million driven by an additional collectively assessed credit impairment charge for COVID-19 impacts.

**Comparison of March 2020 with September 2019**

Profit after income tax decreased by $278 million (-19%).

Key factors affecting the result were:

- Lending volumes declined particularly in home loans due to faster principal reductions in a low rate environment and competition. This was partially offset by recovery in lending volumes following the launch of a number of marketing campaigns and improvements in operational processes.
- Net interest margin increased 7 basis points driven by lower funding costs, home loan repricing benefits and lower impact from customer remediation partially offset by headwinds from official cash rate decreases on low rate deposits and earnings on capital.
- Other operating income decreased $101 million (-15%) driven by the timing of cards rebates and incentives and lower volumes.
- Operating expenses decreased $96 million (-4%) driven by lower customer remediation expense, partially offset by higher restructuring expenses relating to business and property changes, additional charges for lease-related items and higher investment spend. Inflation increases were offset by productivity benefits.
- Credit impairment charges increased $527 million driven by an additional collectively assessed credit impairment charge for COVID-19 impacts.

**Institutional – continuing operations**

| | Half Year | | |
|---|---|---|---|
| **Institutional** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net interest income | **1,624** | 1,501 | 1,579 |
| Other operating income | **1,167** | 1,066 | 1,126 |
| Operating income | **2,791** | 2,567 | 2,705 |
| Operating expenses | **(1,290)** | (1,347) | (1,320) |
| Profit before credit impairment and income tax | **1,501** | 1,220 | 1,385 |
| Credit impairment (charge)/release | **(641)** | (33) | 35 |
| Profit before income tax | **860** | 1,187 | 1,420 |
| Income tax expense and non-controlling interests | **(250)** | (371) | (408) |
| **Profit after income tax** | **610** | 816 | 1,012 |
| **Consisting of:** | | | |
| Transaction Banking | **61** | 343 | 352 |
| Loans & Specialized Finance | **92** | 349 | 387 |
| Markets | **465** | 186 | 283 |
| Central Functions | **(8)** | (62) | (10) |
| **Profit after income tax** | **610** | 816 | 1,012 |
| **Balance Sheet**[1] | | | |
| Net loans and advances | **199,410** | 164,526 | 152,548 |
| Other external assets | **461,548** | 346,094 | 307,198 |
| External assets | **660,958** | 510,620 | 459,746 |
| Customer deposits | **258,517** | 217,259 | 205,364 |
| Other external liabilities | **326,250** | 230,917 | 198,501 |
| External liabilities | **584,767** | 448,176 | 403,865 |
| Risk weighted assets | **207,028** | 181,088 | 167,406 |
| Average gross loans and advances[2] | **175,366** | 159,355 | 153,982 |
| Average deposits and other borrowings[2] | **305,506** | 290,948 | 281,770 |
| **Ratios**[1] | | | |
| Return on average assets | **0.23%** | 0.33% | 0.44% |
| Net interest margin | **0.78%** | 0.80% | 0.85% |
| Net interest margin (excluding Markets) | **1.81%** | 2.02% | 2.10% |
| Operating expenses to operating income | **46.2%** | 52.5% | 48.8% |
| Operating expenses to average assets | **0.48%** | 0.54% | 0.58% |
| Individually assessed credit impairment charge/(release) | **272** | - | (12) |
| Individually assessed credit impairment charge/(release) as a % of average GLA[3] | **0.31%** | 0.00% | (0.02%) |
| Collectively assessed credit impairment charge/(release) | **369** | 33 | (23) |
| Collectively assessed credit impairment charge/(release) as a % of average GLA[3] | **0.42%** | 0.04% | (0.03%) |
| Gross impaired assets | **742** | 265 | 373 |
| Gross impaired assets as a % of GLA | **0.37%** | 0.16% | 0.24% |
| Total full time equivalent staff | **5,350** | 5,468 | 6,085 |

1. *Balance Sheet amounts includes asset and liabilities reclassified as held for sale from continuing operations.*
2. *Averages are calculated using predominantly daily averages.*
3. *Credit impairment charge used in the ratios relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

**Comparison of March 2020 with March 2019**

Profit after income tax decreased by $402 million (-40%).

Key factors affecting the result were:

- Net loans and advances grew across all portfolios. Customer deposits grew in Markets and Transaction Banking subdivisions.
- Net interest margin (excluding the Markets business) decreased 29 basis point mainly due to lower deposit margins as a result of lower interest rates and increased competition impacting asset pricing.
- Other operating income increased $41 million (+4%) mainly due to higher Markets income across Franchise Sales and Franchise Trading.
- Operating expenses decreased $30 million (-2%) mainly due to automation and simplification initiatives that resulted in lower FTE, lower discretionary spend and lower property charges.
- Credit impairment charges increased $676 million due to an increase in individually assessed credit impairment charges in Transaction Banking and an additional collectively assessed credit impairment charge for COVID-19 impacts.

**Comparison of March 2020 with September 2019**

Profit after income tax decreased by $206 million (-25%).

Key factors affecting the result were:

- Net loans and advances grew across all portfolios. Customer deposits grew in Markets and Transaction Banking.
- Net interest margin (excluding the Markets business) decreased 21 basis points mainly due to lower deposit margins as a result of lower interest rates.
- Other operating income increased $101 million (+9%) primarily due to higher Markets income across Franchise Sales and Franchise Trading.
- Operating expenses decreased $57 million (-4%) mainly due to automation and simplification initiatives that resulted in lower FTE, lower discretionary spend and lower property charges.
- Credit impairment charges increased $608 million due to an increase in individually assessed credit impairment charges in Transaction Banking and an additional collectively assessed credit impairment charge for COVID-19 impacts.

**New Zealand – continuing operations**

*Table reflects NZD for New Zealand.*

*AUD results shown on page 84.*

| | Half Year | | |
|---|---|---|---|
| **New Zealand** | **Mar 20 NZD M** | **Sep 19 NZD M** | **Mar 19 NZD M** |
| Net interest income | **1,479** | 1,428 | 1,464 |
| Other operating income | **259** | 294 | 300 |
| Net income from insurance business | **-** | - | 19 |
| Operating income | **1,738** | 1,722 | 1,783 |
| Operating expenses | **(724)** | (713) | (647) |
| Profit before credit impairment and income tax | **1,014** | 1,009 | 1,136 |
| Credit impairment (charge)/release | **(188)** | (61) | (31) |
| Profit before income tax | **826** | 948 | 1,105 |
| Income tax expense and non-controlling interests | **(232)** | (265) | (309) |
| **Profit after income tax** | **594** | 683 | 796 |
| **Consisting of:** | | | |
| Retail | **374** | 424 | 510 |
| Commercial | **217** | 256 | 286 |
| Central Functions | **3** | 3 | - |
| **Profit after income tax** | **594** | 683 | 796 |
| **Balance Sheet** | | | |
| Net loans and advances | **128,560** | 125,991 | 124,025 |
| Other external assets | **4,690** | 3,983 | 3,549 |
| External assets | **133,250** | 129,974 | 127,574 |
| Customer deposits | **93,626** | 90,004 | 89,096 |
| Other external liabilities | **32,544** | 27,838 | 25,795 |
| External liabilities | **126,170** | 117,842 | 114,891 |
| Risk weighted assets | **72,412** | 70,727 | 62,260 |
| Average gross loans and advances[1] | **127,968** | 125,521 | 123,000 |
| Average deposits and other borrowings[1] | **94,740** | 91,898 | 91,231 |
| Net funds management income | **113** | 109 | 113 |
| Funds under management ("FUM") | **32,504** | 34,145 | 31,403 |
| Average funds under management | **34,472** | 32,726 | 30,389 |
| **Ratios** | | | |
| Return on average assets | **0.90%** | 1.06% | 1.26% |
| Net interest margin | **2.31%** | 2.27% | 2.39% |
| Operating expenses to operating income | **41.7%** | 41.4% | 36.3% |
| Operating expenses to average assets | **1.10%** | 1.10% | 1.03% |
| Individual credit impairment charge/(release) | **37** | 42 | 37 |
| Individual credit impairment charge/(release) as a % of average GLA[2] | **0.06%** | 0.07% | 0.06% |
| Collective credit impairment charge/(release) | **151** | 19 | (6) |
| Collective credit impairment charge/(release) as a % of average GLA[2] | **0.24%** | 0.03% | (0.01%) |
| Gross impaired assets | **271** | 265 | 249 |
| Gross impaired assets as a % of GLA | **0.21%** | 0.21% | 0.20% |
| Total full time equivalent staff | **6,103** | 6,121 | 6,003 |

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

New Zealand results and commentary are reported in NZD. AUD results are shown on page *84*.

**Comparison of March 2020 with March 2019**

Profit after income tax decreased by NZD 202 million (-25%).

Key factors affecting the result were:

- Lending and customer deposit volumes grew across all portfolios and funds under management increased during the period.
- Net interest margin decreased 8 basis points due to compressed deposit margins, partially offset by improved lending margins.
- Other operating income decreased NZD 60 million (-20%) primarily due to the loss of income as the result of the One Path Life (NZ) divestment in the prior period and fee reduction impacts.
- Operating expenses increased NZD 77 million (+12%) primarily due to investment spend on compliance projects.
- Credit impairment charges increased NZD 157 million primarily due to an additional collectively assessed credit impairment charge for COVID-19 impacts.

**Comparison of March 2020 with September 2019**

Profit after income tax decreased by NZD $89 million (-13%).

Key factors affecting the result were:

- Home loan and customer deposits volumes grew while funds under management decreased during the period.
- Net interest margin increased 4 basis points due to improved lending margins, portfolio mix changes and one-off items in the prior period offset by compressed deposit margins.
- Other operating income decreased NZD 35 million (-12%) primarily due to fee reduction impacts and one off items in the prior period
- Operating expenses increased NZD 11 million (+2%) primarily due to investment spend on compliance projects, partly offset by lower customer remediation costs and one-off items in the prior period.
- Credit impairment charges increased NZD 127 million due to an additional collectively assessed credit impairment charge for COVID-19 impacts.

**New Zealand – continuing operations**

*Table reflects AUD for New Zealand.*
*NZD results shown on page 82.*

| New Zealand | Half Year<br>Mar 20<br>$M | <br>Sep 19<br>$M | <br>Mar 19<br>$M |
|---|---|---|---|
| Net interest income | **1,410** | 1,351 | 1,385 |
| Other operating income | **247** | 278 | 284 |
| Net income from insurance business | **-** | - | 18 |
| Operating income | **1,657** | 1,629 | 1,687 |
| Operating expenses | **(690)** | (674) | (612) |
| Profit before credit impairment and income tax | **967** | 955 | 1,075 |
| Credit impairment (charge)/release | **(179)** | (57) | (30) |
| Profit before income tax | **788** | 898 | 1,045 |
| Income tax expense and non-controlling interests | **(221)** | (252) | (292) |
| **Profit after income tax** | **567** | 646 | 753 |
| **Consisting of:** | | | |
| Retail | **357** | 401 | 482 |
| Commercial | **207** | 242 | 271 |
| Central Functions | **3** | 3 | - |
| **Profit after income tax** | **567** | 646 | 753 |
| **Balance Sheet** | | | |
| Net loans and advances | **125,195** | 116,729 | 118,841 |
| Other external assets | **4,567** | 3,690 | 3,401 |
| External assets | **129,762** | 120,419 | 122,242 |
| Customer deposits | **91,175** | 83,387 | 85,372 |
| Other external liabilities | **31,692** | 25,792 | 24,717 |
| External liabilities | **122,867** | 109,179 | 110,089 |
| Risk weighted assets | **70,516** | 65,527 | 59,658 |
| Average gross loans and advances[1] | **122,011** | 118,789 | 116,278 |
| Average deposits and other borrowings[1] | **90,329** | 86,970 | 86,244 |
| Net funds management income | **107** | 103 | 107 |
| Funds under management | **31,653** | 31,633 | 30,090 |
| Average funds under management | **32,868** | 30,970 | 29,119 |
| **Ratios** | | | |
| Return on average assets | **0.90%** | 1.06% | 1.26% |
| Net interest margin | **2.31%** | 2.27% | 2.39% |
| Operating expenses to operating income | **41.7%** | 41.4% | 36.3% |
| Operating expenses to average assets | **1.10%** | 1.10% | 1.03% |
| Individual credit impairment charge/(release) | **35** | 40 | 35 |
| Individual credit impairment charge/(release) as a % of average GLA[2] | **0.06%** | 0.07% | 0.06% |
| Collective credit impairment charge/(release) | **144** | 17 | (5) |
| Collective credit impairment charge/(release) as a % of average GLA[2] | **0.24%** | 0.03% | (0.01%) |
| Gross impaired assets | **264** | 245 | 238 |
| Gross impaired assets as a % of GLA | **0.21%** | 0.21% | 0.20% |
| Total full time equivalent staff | **6,103** | 6,121 | 6,003 |

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

## LIQUIDITY AND CAPITAL RESOURCES – INCLUDING DISCONTINUED OPERATIONS

### Liquidity Risk

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. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group and managed in accordance with the risk appetite set by ANZBGL's Board of Directors.

The Group's approach to liquidity risk management incorporates two key components:

- **Scenario modeling of funding sources**

  ANZ's liquidity risk appetite is defined by the ability to meet a range of regulatory requirements and internal liquidity metrics mandated by ANZBGL's Board of Directors. The metrics cover a range of scenarios of varying duration and level of severity. The objective of this framework is to:

  - Provide protection against short-term extreme market dislocation and stress.
  - Maintain structural strength in the balance sheet by ensuring that an appropriate amount of longer-term assets are funded with longer-term funding.
  - Ensure no undue timing concentrations exist in the Group's funding profile.

  A key component of this framework is the LCR, which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, ANZ has a CLF with the RBA. The CLF has been established to offset the shortage of available High Quality Liquid Assets ("HQLA") in Australia and provides an alternative form of contingent liquidity. The total amount of the CLF available to a qualifying ADI is set annually by APRA. From January 1, 2020, ANZ's CLF was $35.7 billion (2019 calendar year end: $48.0 billion).

- **Liquid assets**

  The Group holds a portfolio of high quality unencumbered liquid assets in order to protect the Group's liquidity position in a severely stressed environment, as well as to meet regulatory requirements. HQLA is comprised of three categories, with the definitions consistent with Basel 3 LCR:

  - Highest-quality liquid assets ("HQLA1"): Cash, highest credit quality government, central bank or public sector securities eligible for repurchase with central banks to provide same-day liquidity.
  - High-quality liquid assets ("HQLA2"): High credit quality government, central bank or public sector securities, high quality corporate debt securities and high quality covered bonds eligible for repurchase with central banks to provide same-day liquidity.
  - Alternative liquid assets ("ALA"): Assets qualifying as collateral for the CLF and other eligible securities listed by the RBNZ.

  The Group monitors and manages the size and composition of its liquid assets portfolio on an ongoing basis in line with regulatory requirements and the risk appetite set by ANZBGL's Board of Directors.

  COVID-19 has impacted the normal operations of financial markets including funding markets, however the actions of governments globally and central banks including; the RBA, RBNZ and the US Federal Reserve have provided significant liquidity support to the system and financial markets generally. ANZ's liquidity measures have remained above management targets throughout this period and have strengthened further following the actions of central banks.

| | Half Year Average[1] | | |
|---|---|---|---|
| | **Mar 20 $B** | **Sep 19 $B** | **Mar 19 $B** |
| **Market Values Post Discount** | | | |
| HQLA1 | **159.3** | 131.5 | 134.5 |
| HQLA2 | **9.6** | 9.5 | 7.6 |
| Internal Residential Mortgage Backed Securities | **27.7** | 34.5 | 34.2 |
| Other ALA[2] | **12.8** | 12.2 | 12.9 |
| Total liquid assets | **209.4** | 187.7 | 189.2 |
| **Cash flows modeled under stress scenario** | | | |
| Cash outflows | **191.9** | 176.6 | 176.3 |
| Cash inflows | **41.2** | 45.4 | 38.6 |
| Net cash outflows | **150.7** | 131.2 | 137.7 |
| **Liquidity Coverage Ratio[3]** | **139%** | 143% | 137% |

1. *Half year average basis, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.*
2. *Comprised of assets qualifying as collateral for the CLF, excluding internal RMBS, up to approved facility limit; and any liquid assets contained in the RBNZ's Liquidity Policy - Annex: Liquidity Assets - Prudential Supervision Department Document BS13A12.*
3. *All currency Level 2 LCR.*

## LIQUIDITY AND CAPITAL RESOURCES – INCLUDING DISCONTINUED OPERATIONS

### Funding – including discontinued operations

ANZ targets a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.

$11.9 billion of term wholesale debt with a remaining term greater than one year as of March 31, 2020 was issued during the fiscal half year ended March 31, 2020.

The following table shows the Group's total funding composition:

| | As of | | |
|---|---|---|---|
| | **Mar 20 $B** | **Sep 19 $B** | **Mar 19 $B** |
| **Customer deposits and other liabilities** | | | |
| Australia Retail and Commercial | **213.0** | 208.0 | 203.4 |
| Institutional | **258.5** | 217.3 | 205.4 |
| New Zealand | **91.2** | 83.4 | 85.4 |
| Pacific | **3.8** | 3.5 | 3.5 |
| TSO and Group Centre[1] | **-** | (0.4) | (4.3) |
| Customer deposits | **566.5** | 511.8 | 493.4 |
| Other funding liabilities[2,3] | **11.1** | 9.6 | 8.6 |
| **Total customer liabilities (funding)** | **577.6** | 521.4 | 502.0 |
| **Wholesale funding** | | | |
| Debt issuances | **119.1** | 113.1 | 113.4 |
| Subordinated debt | **21.1** | 16.6 | 16.3 |
| Certificates of deposit | **37.9** | 36.6 | 43.6 |
| Commercial paper | **21.8** | 11.7 | 14.7 |
| Other wholesale borrowings[4,5] | **130.0** | 92.3 | 100.1 |
| **Total wholesale funding** | **329.9** | 270.3 | 288.1 |
| Shareholders' equity | **61.4** | 60.8 | 60.0 |
| **Total funding** | **968.9** | 852.5 | 850.1 |

1. *Includes term deposits, other deposits and an adjustment recognized in prior periods in Group Centre to eliminate Wealth Australia discontinued operations investments in ANZ deposit products.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia discontinued operations.*
3. *Excludes liability for acceptances as they do not provide net funding.*
4. *Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.*
5. *Includes RBA open repurchase arrangement netted down by the exchange settlement account cash balance.*

### Net Stable Funding Ratio

The following table shows the Level 2 Net Stable Funding Ratio ("NSFR") composition:

| | As of | | |
|---|---|---|---|
| | **Mar 20 $B** | **Sep 19 $B** | **Mar 19 $B** |
| **Required Stable Funding[1]** | | | |
| Retail & small and medium enterprises, corporate loans <35% risk weight[2] | **187.4** | 182.2 | 182.9 |
| Retail & small and medium enterprises, corporate loans >35% risk weight[2] | **193.2** | 180.7 | 189.1 |
| Other lending[3] | **26.9** | 27.6 | 23.2 |
| Liquid assets | **16.0** | 12.4 | 10.7 |
| Other assets[4] | **45.3** | 40.0 | 40.2 |
| **Total Required Stable Funding** | **468.8** | 442.9 | 446.1 |
| **Available Stable Funding[1]** | | | |
| Retail & small and medium enterprise customer deposits | **257.3** | 241.3 | 236.6 |
| Corporate, public sector entities & operational deposits | **110.0** | 93.5 | 91.5 |
| Central bank & other financial institution deposits | **5.5** | 6.2 | 6.1 |
| Term funding | **95.8** | 95.6 | 101.2 |
| Short term funding & other liabilities | **1.4** | 2.0 | 3.7 |
| Capital | **82.1** | 76.9 | 73.9 |
| **Total Available Stable Funding** | **552.1** | 515.5 | 513.0 |
| **Net Stable Funding Ratio** | **118%** | 116% | 115% |

1. *NSFR factored balance as per APRA Prudential Regulatory Standard APS 210 Liquidity.*
2. *Risk weighting as per APRA Prudential Regulatory Standard APS 112 Capital Adequacy: Standardized Approach to Credit Risk.*
3. *Includes financial institution and central bank loans.*
4. *Includes off-balance sheet items, net derivatives and other assets.*

**Term debt maturity profile**

The amounts disclosed below represent the outstanding principal of term debt issued by the Group under its term funding programs on or before March 31, 2020. For the avoidance of doubt, this excludes commercial paper issuance and short dated issuance off ANZ's long term programs, and the amounts do not include interest cash flows. For the purposes of this maturity profile, foreign currency denominated term debt has been translated into Australian Dollars using spot foreign exchange rates as of March 31, 2020.

| Contractual maturity ($m)[1] | FY20 | FY21 | FY22 | FY23 | FY24 | After 2024 | Total |
|---|---|---|---|---|---|---|---|
| Debt issuances[2] | 15,492 | 29,671 | 22,595 | 19,909 | 16,601 | 15,629 | 119,897 |
| Subordinated debt[3] | 0 | 849 | 767 | 149 | 3,043 | 7,497 | 12,305 |
| **Total** | **15,492** | **30,520** | **23,362** | **20,058** | **19,644** | **23,126** | **132,202** |

1. *The maturity profile is presented as the total amount of term debt scheduled to mature in the relevant fiscal year ending September 30. Maturities for the fiscal year ending September 30, 2020 ("FY20") relate to term debt maturing in the period April 1, 2020 to September 30, 2020.*
2. *Debt issuances include transferable certificate of deposits included as "Deposits and other borrowings" in the balance sheet.*
3. *The maturity profile for all non-perpetual subordinated debt is presented based on the next callable date. The maturity profile excludes additional Tier 1 capital.*

| | As of March 20 | | |
|---|---|---|---|
| **Credit Ratings of ANZBGL** | **Short-Term** | **Long-Term** | **Outlook** |
| Moody's Investor Services | P1 | Aa3 | Stable |
| Standard & Poor's | A-1+ | AA- | Stable |
| Fitch Ratings | F1+ | AA- | Negative |

On April 7, 2020, Fitch Ratings downgraded the Short-term credit rating to F1 and the Long-term credit rating to A+. The outlook remains negative.

On April 8, 2020, Standard & Poor's revised the outlook to negative.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

### Capital management – including discontinued operations

| | APRA Basel 3 As of | | |
|---|---|---|---|
| **Qualifying Capital** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| **Tier 1** | | | |
| Shareholders' equity and non-controlling interests | **61,375** | 60,794 | 59,971 |
| Prudential adjustments to shareholders' equity | **(66)** | 120 | (43) |
| Gross Common Equity Tier 1 capital | **61,309** | 60,914 | 59,928 |
| Deductions | **(12,978)** | (13,559) | (14,400) |
| **Common Equity Tier 1 capital** | **48,331** | 47,355 | 45,528 |
| Additional Tier 1 capital | **7,964** | 7,866 | 7,547 |
| **Tier 1 capital** | **56,295** | 55,221 | 53,075 |
| **Tier 2 capital** | **13,112** | 8,549 | 7,569 |
| **Total qualifying capital** | **69,407** | 63,770 | 60,644 |
| **Capital adequacy ratios (Level 2)** | | | |
| Common Equity Tier 1 | **10.8%** | 11.4% | 11.5% |
| Tier 1 | **12.5%** | 13.2% | 13.4% |
| Tier 2 | **2.9%** | 2.1% | 1.9% |
| **Total capital ratio** | **15.5%** | 15.3% | 15.3% |
| **Risk weighted assets** | **449,012** | 416,961 | 396,291 |

### APRA implementation of Basel 3 capital reforms

APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios will not be directly comparable with international peers.

ANZ's interpretation of the material differences in APRA's implementation of Basel 3 and Basel 3 as implemented in major offshore jurisdictions (referred to below as "Internationally Comparable basis") include:

Deductions

- Investments in insurance and banking associates – APRA requires full deduction against CET1. On an Internationally Comparable basis, these investments are subject to a concessional threshold before a deduction is required.
- Deferred tax assets – A full deduction is required from CET1 for deferred tax assets ("DTA") relating to temporary differences. On an Internationally Comparable basis, this is first subject to a concessional threshold before the deduction is required.

RWA

- Mortgages RWA - APRA imposes a floor of 20% on the downturn LGD used in credit RWA calculations for residential mortgages. The Internationally Comparable Basel 3 framework requires a downturn LGD floor of 10%. Additionally, from July 2016, APRA also requires a higher correlation factor than the Basel framework.
- IRRBB RWA – APRA requires inclusion of Interest Rate Risk in the Banking Book ("IRRBB") within the RWA base for the CET1 ratio calculation. This is not required on an Internationally Comparable basis.
- Specialized Lending - APRA requires the supervisory slotting approach be used in determining credit RWA for specialized lending exposures. The Internationally Comparable basis allows for the advanced internal ratings based approach to be used when calculating RWA for these exposures.
- Unsecured Corporate Lending LGD – an adjustment to align ANZ's unsecured corporate lending LGD to 45% to be consistent with banks in other jurisdictions. The 45% LGD rate is also used in the Foundation Internal Ratings-Based approach ("FIRB").
- Undrawn Corporate Lending Exposure at Default ("EAD") – an adjustment to ANZ's credit conversion factors ("CCF") for undrawn corporate loan commitments to 75% (used in FIRB approach) to align with banks in other jurisdictions.

Refer also to the Third Quarter Trading Update in "Section 2: Information on the Group - Recent Developments" for further information.

**Comparison of March 2020 with September 2019**

ANZ's CET1 ratio decreased 60 bps to 10.8% during the half year. Key drivers of the movement in the CET1 ratio were:

- Statutory profit excluding large/notable items (which are included in 'other' with the exception of Asian associate impairments which are nil impact to capital since it results in an equivalent reduction in capital deduction) and credit impairment charge increased the CET1 ratio by +92 bps.
- The above however was offset by:
  - The impact from increases in credit impairment charge including the associated DTA increase, along with the impact of RWA risk migration, which totalled -43 bps. These increases were primarily driven by the COVID-19 impact.
  - Higher underlying RWA usage of -44 bps (excluding foreign currency translation movements, regulatory changes and other one-offs) from strong lending growth, mainly within the Institutional division.
  - Capital deductions reduced the CET1 ratio by -5 bps, representing the movements in retained earnings in deconsolidated entities, capitalised software and other intangible movements during the half.
  - Payment of the September 2019 final dividend (net of Bonus Option Plan ("BOP") issuance, neutralised Dividend Reinvestment plan ("DRP") which reduced the CET1 ratio by 53 bps.
  - Other impacts of -7 bps. This included the capital benefits from sale of the Pension and Investment business to IOOF (+19 bps), but was more than offset by the impacts from net increase in RWA imposts (-5 bps) which included the implementation of AASB 16, large/notable adjustments, (-7 bps) and various other movements (-14 bps).

**Leverage Ratio – including discontinued operations**

At March 31, 2020, the Group's APRA Leverage Ratio was 5.0% which is above the 3.5% APRA proposed minimum for internal ratings-based approach ADI (IRB ADI) which includes ANZ. The following table summarizes the Group's Leverage Ratio calculation:

| | As of | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| **Tier 1 Capital (net of capital deductions)** | **56,295** | 55,221 | 53,075 |
| On-balance sheet exposures (excluding derivatives and securities financing transaction exposures) | **899,411** | 810,644 | 810,915 |
| Derivative exposures | **42,868** | 34,258 | 31,439 |
| Securities financing transaction exposures | **67,443** | 36,923 | 37,287 |
| Other off-balance sheet exposures | **114,677** | 107,400 | 105,942 |
| **Total exposure measure** | **1,124,399** | 989,225 | 985,583 |
| **APRA Leverage Ratio** | **5.0%** | 5.6% | 5.4% |

**Comparison of March 2020 with September 2019**

APRA leverage ratio decreased 57 bps during the year. Key drivers of the movement were:

- Net organic capital generation (largely from statutory profit excluding large/notable and one-off items) less dividends paid during the year increased the leverage ratio by 2 bps.
- On balance sheet exposures growth primarily from higher liquid assets and loan growth in the Institutional business (-32 bps).
- Growth in securities financing transactions further decreased the leverage ratio by 15 bps.
- Increase in derivatives exposures and non-market other off-balance sheet exposures reduced the leverage ratio by 6 bps.
- Net other impacts of -6 bps. This included the benefits from sale of the Pension and Investment business to IOOF (+8 bps) but is more than offset by impacts from increased deferred tax assets (-4 bps), large and notable adjustments (-3 bps), impact from implementation of AASB 16 (-2 bps) and other items (-5 bps).

### DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are contracts whose value is derived from one or more underlying variables or indices defined in the contract, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading and sales activities. Derivatives are also used to manage the Group's own exposure to fluctuations in foreign exchange and interest rates as part of its asset and liability management activities.

The following table provides an overview of the Group's interest rate, foreign exchange, commodity and credit derivatives. They include all trading and balance sheet risk management contracts. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market rates relative to the terms of the derivative.

| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
|---|---|---|---|---|---|---|
| **Fair Values** | **Mar 20 $M** | **Mar 20 $M** | **Sep 19 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 19 $M** |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | **255** | **(250)** | 74 | (78) | 13 | (14) |
| Futures contracts | **78** | **(160)** | 41 | (136) | 66 | (205) |
| Swap agreements | **112,934** | **(108,736)** | 86,965 | (84,575) | 55,832 | (56,028) |
| Options purchased | **2,436** | **-** | 1,454 | - | 1,111 | - |
| Options sold | **-** | **(3,865)** | - | (2,317) | - | (1,789) |
| **Total** | **115,703** | **(113,011)** | 88,534 | (87,106) | 57,022 | (58,036) |
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | **26,038** | **(23,964)** | 15,987 | (15,427) | 11,303 | (10,419) |
| Swap agreements | **27,624** | **(27,138)** | 13,912 | (16,326) | 9,288 | (11,087) |
| Options purchased | **837** | **-** | 405 | - | 366 | - |
| Options sold | **-** | **(937)** | - | (514) | - | (506) |
| **Total** | **54,499** | **(52,039)** | 30,304 | (32,267) | 20,957 | (22,012) |
| **Commodity contracts** | **3,449** | **(2,288)** | 1,807 | (1,553) | 1,328 | (738) |
| **Credit default swaps** | | | | | | |
| Structured credit derivatives purchased | **16** | **-** | 16 | - | 16 | - |
| Other credit derivatives purchased | **4** | **(6)** | 4 | (3) | 14 | (59) |
| Credit derivatives purchased | **20** | **(6)** | 20 | (3) | 30 | (59) |
| Structured credit derivatives sold | **-** | **(17)** | - | (19) | - | (20) |
| Other credit derivatives sold | **6** | **(3)** | 2 | (3) | 38 | (6) |
| Credit derivatives sold | **6** | **(20)** | 2 | (22) | 38 | (26) |
| **Total** | **26** | **(26)** | 22 | (25) | 68 | (85) |
| **Derivative financial instruments** | **173,677** | **(167,364)** | 120,667 | (120,951) | 79,375 | (80,871) |

## Summary

Refer to "Section 4: Directors, Senior Management/Executives and Employees" on pages 77 to 81 of ANZ's 2019 Annual U.S. Disclosure Document for a comprehensive discussion of the Group's Directors, Senior Management and Executives, and Corporate Governance.

During the period since the 2019 Annual U.S. Disclosure Document to the date of this U.S. Disclosure Document, there were no material changes to these matters with the exception of the following:

### Changes to Directors

There have been no further director appointments or resignations since the 2019 Annual U.S. Disclosure Document.

### Changes to Senior Management and Executives

Effective December 18, 2019, Ms. Antonia Watson was appointed Group Executive and Chief Executive Officer, New Zealand. Ms. Watson joined ANZ New Zealand in 2009 as financial controller before becoming Chief Financial Officer in 2012. In 2017 she was appointed Managing Director Retail and Business Banking, and from June 2019 acted in the Group Executive and Chief Executive Officer, New Zealand role.

Effective May 1, 2020, Mrs. Emma Gray was appointed Group Executive, Data and Automation. Mrs. Gray joined ANZ in 2017 as Chief Data Officer and has led ANZ's data strategy, including how data is defined, gathered, managed and protected. Prior to joining ANZ, she was Chief Loyalty and Data Officer at Woolworths.

### Industrial Relations Developments

#### *Australia*

In Australia, terms and conditions of employment of most non-management staff, including salaries, may be negotiated between unions and management as part of a collective enterprise bargaining agreement ("EBA") subject to majority employee approval.

The *ANZ Enterprise Agreement 2015-2016 (Australia)* commenced operation on December 29, 2015. The agreement was approved by the Fair Work Commission following an employee ballot in which a majority of 89% voted to endorse it. The agreement replaced the *ANZ Enterprise Agreement 2013-2014 (Australia)* and set the minimum terms and conditions of employment for ANZ's Australian Group 4, 5 and 6 employees (i.e. junior management and non-management employees). The agreement also governed the pay increase arrangements for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2015 and 2016 performance and remuneration reviews and contains the salary ranges applicable to these employees.

On September 19, 2017, a 94% majority of employees voted to endorse a proposed variation to the agreement which would extend its operation for another year and provide pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2017 performance and remuneration reviews and include updated salary ranges for these employees. The Fair Work Commission approved this variation on October 31, 2017. As of the date of this U.S Disclosure Document, the agreement continues to apply and will do so indefinitely – although in 2018 and 2019 the pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) were managed outside of the agreement given that the agreement's pay increase provisions have now expired.

In Australia, there are no significant disputes between management and labor unions.

#### *New Zealand*

The large majority of New Zealand employees are covered by individual employment agreements. ANZ's collective employment agreement with FIRST Union, which covers approximately 12% of New Zealand employees, was renewed in August 2018 and expired on July 31, 2020. Negotiations for renewal of the collective agreement are in progress and the current agreement continues in force in the meantime. There are no anticipated issues with finalising the renewal of the agreement, which is expected to occur by the end of August 2020.

#### *Asia Pacific, Europe & America*

There are no significant disputes between management and labor unions in any of the countries located in the Asia Pacific, Europe or America geography.

## Major Shareholders

We are not directly or indirectly controlled by another corporation, any government or any other natural or legal person(s), separately or jointly.

As of August 18, 2020, we are aware of two entities which are the beneficial owners of 5% or more of our ordinary shares.

We were made aware on May 12, 2017 that BlackRock Group became a substantial shareholder, with an interest in 148,984,864 ordinary shares (5.07%) in the Company, and on December 2, 2019, BlackRock Group's interest increased to 172,225,527 ordinary shares (6.07%) in the Company.

We were made aware on July 3, 2018, that The Vanguard Group, Inc. became a substantial shareholder, with an interest in 144,730,016 ordinary shares (5.001%) in the Company, and on March 17, 2020, The Vanguard Group, Inc's interest increased to 170,502,797 ordinary shares (6.012%) in the Company.

Refer to the 2019 Remuneration Report (attached as part of Annex A to ANZ's 2019 Annual U.S. Disclosure Document) for further information (as of the relevant dates referred to therein) regarding share and option holdings by key management personnel (including directors).

Refer to "Section 6: Additional Information - Limitations affecting security holders" for details of the Australian law limitations on the right of non-residents or non-citizens of Australia to hold, own or vote on shares in the Company.

## Description of Ordinary Shares and Constituent Documents

*Constitution*

A copy of the Company's Constitution, as adopted by shareholders on December 18, 2007 and incorporating amendments approved by shareholders on December 17, 2010 and December 19, 2018 is available on the Company's website at: *https://www.anz.com/shareholder/centre/reporting/supplementary-disclosures/usdebtinvestors-files/*. There have been no changes to the Constitution subsequently. The Company's Constitution does not contain a limit on how many shares the Company may have on issue at any time.

*Dividend rights*

Holders of ordinary shares are entitled to receive such dividends as may be determined by the directors from time to time in accordance with the Company's Constitution. Dividends that are not claimed are required to be dealt with in accordance with laws relating to unclaimed monies.

The Company must not pay a dividend unless:

- the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- the payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
- the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

Payment of a dividend on ordinary shares may also be restricted by the terms of preference shares and other hybrid securities carrying a prior right to the payment of a dividend or distribution. Before paying any dividend, directors must ensure that they are in compliance with APRA prudential standards. See "Information on the Group - Supervision and Regulation" for more information on APRA prudential standards.

*Voting rights*

Subject to any applicable laws, as described further below in "Section 6: Additional Information - Limitations affecting security holders" and agreements to the contrary, each ordinary shareholder present at a general meeting (whether in person or by proxy, attorney or representative) is entitled to one vote on a show of hands (unless the shareholder has appointed two proxies in which case neither can vote) or, on a poll, one vote for each fully paid ordinary share held.

*Right to share in surplus assets*

In the event of a winding-up of the Company, ordinary shareholders rank after creditors and preference shareholders and are fully entitled to any surplus proceeds on liquidation.

*Rights to redemption*

Ordinary shareholders have no right to redeem their shares.

*Further calls*

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. There are no partly paid ordinary shares.

There is no provision of the Company's Constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares on issue.

*Preference shares*

The Company's Constitution authorizes the Board of Directors to issue preference shares with any rights attaching to them that the Board of Directors determines prior to their issue. These include rights to dividends that are cumulative or non-cumulative and that are in priority to the rights of ordinary shareholders, and rights to a return of capital and to participate in surplus assets in a winding up in priority to the rights of ordinary shareholders. Preference shareholders have rights to vote only in limited circumstances unless the Board of Directors otherwise determines prior to issue of the preference shares. There is no limit on the amount of preference shares which the Company may issue.

*Changes to the rights of shareholders*

The Company's Constitution has effect as a contract between the Company and each shareholder, and between each shareholder, under which each person agrees to observe and perform the Company's Constitution as it applies to that person. In accordance with the Corporations Act, the Company may modify or repeal its Constitution, or a provision of its Constitution, by a special resolution that has been passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

A Banking Act statutory manager appointed by APRA has power under the Banking Act to, among other things, cancel shares or rights to acquire shares in the Company or vary or cancel rights or restrictions attached to shares, notwithstanding the Constitution, the Corporations Act, the terms of any contract or arrangement to which the Company is party or the listing rules of any financial market in whose official list the Company is included.

*Share rights – American Depositary Shares ("ADSs")*

Each ADS confers an interest in 1 fully paid ordinary share in the Company which has been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share represented by an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are legally vested in the custodian or depositary as the holder of the fully paid ordinary shares, although holders of American Depositary Receipts ("ADRs"), which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

*Convening of and admission to general meetings*

The Board of Directors may call a meeting of the Company's shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting. Shareholders who hold at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days' notice must be given of a meeting of the Company's shareholders. Written notice must be given to all shareholders entitled to attend and vote at a meeting. All ordinary shareholders except for holders of partly paid ordinary shares (if any) who have failed to pay a call in respect of such shares are entitled to attend to vote at general meetings of the Company. Voting rights attaching to other classes of shares in the Company may differ.

The directors may, in accordance with the Constitution and the Corporations Act, determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holding of shares that are quoted on the stock market of the ASX.

*Transfer*

A holder of a share may transfer it by any means permitted by the Corporations Act, subject to limited restrictions in the Constitution and applicable law. See further "Limitations Affecting Security Holders" below.

*Limitations on ownership and changes in control*

The Constitution contains certain limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in "Section 6: Limitations affecting security holders".

The Constitution requires any sale or disposal of the Company's main undertaking to be subject to ratification by the Company in a general meeting. The ASX Listing Rules may also require ANZ to obtain shareholder approval to effect any such sale or disposal. Except for that provision, there are no provisions in the Constitution which would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

If the Company issues partly paid shares to a person and that person fails to pay a call on those shares when required, the Board of Directors may give that person a notice which requires the member to pay the called amount and provides information in respect of how and when the called amount is to be paid. If the requirements of the notice are not satisfied, the Board of Directors, via resolution, may forfeit the partly paid share (and all dividends, interest and other money payable in respect of that share and not actually paid before the forfeiture) by resolution before the called amount is paid.

In addition, unless the terms of issue provide otherwise, under the Constitution the Company has a first and paramount lien on each share for all money called or payable at a fixed time in respect of that share that is due and unpaid, and certain amounts paid by the Company for which the Company is indemnified under the terms of the Constitution. If the Company has a lien on a share, and an amount secured by the lien is due and payable, the Company may give notice to the person registered as the holder of the share requiring payment of the amount and specifying how and when the payment must be made. If the requirements of that notice are not fulfilled, the Company may sell the share as if it had been forfeited.

The Board of Directors may also direct the sale of a share that is part of a "non-marketable parcel". For these purposes, a "non-marketable parcel" is a parcel of shares of a single class registered in the same name or same joint names which is less than the number that constitutes a marketable parcel of shares of that class under the ASX Listing Rules, or, subject to applicable law as specified in the Constitution, any other number determined by the Board of Directors from time to time.

*Constitution provisions governing disclosure of shareholdings*

There are no provisions of the Constitution which provide an ownership threshold above which share ownership must be disclosed. However, the Corporations Act requires a person to disclose certain prescribed information to the Company and the ASX if the person has or ceases to have a "substantial holding" in the Company. The term 'substantial holding' is defined in the Corporations Act as broadly, a relevant interest in 5% or more of the total number of votes attaching to voting shares and is not limited to direct shareholdings.

The Corporations Act also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company's shares and the interest held by any other person in those shares.

*Changes in capital*

The Constitution does not make any provision governing changes in the capital of the Company that is more stringent than is required by Australian law.

**Change in Control**

There are no arrangements known to ANZ, the operation of which may at a subsequent date result in a change in control of ANZ.

**Related Party Transactions**

*Key management personnel loan transactions*

Loans made to directors of the Company and other Key Management Personnel ("KMP") of the Group are made in the ordinary course of business and on normal commercial terms and conditions that are no more favorable than those given to other employees or customers, including: the term of the loan, security required and the interest rate.  No amounts have been written off during the period, or individual provision raised in respect of these balances.

*Other transactions of key management personnel and their related parties*

All other transactions with KMP and their related parties included amounts paid to the Group in respect of insurance premiums, investment management service fees, brokerage and bank fees and charges. The Group has reimbursed KMP for the costs incurred for secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions no more favorable than those given to other employees or customers.

There have been no transactions with related parties that are significant to understanding the changes in financial position and performance of the Group since September 30, 2019.

*Associates*

Transactions conducted with all associates were on terms equivalent to those made on an arm's length basis.

For further information on related party transactions, refer to Note 32 of the 2019 Financial Report (attached as part of Annex A to ANZ's 2019 Annual U.S. Disclosure Document).

**CHESS**

CHESS stands for the "Clearing House Electronic Subregister System" and is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. ASX Settlement Pty Limited authorizes certain participants such as brokers, custodians, institutional investors and settlement agents to access CHESS and settle trades made by themselves or on behalf of clients. ASX is currently consulting on a replacement for CHESS, with a go-live date of April 2022 currently proposed for the replacement system.

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

**LEGAL PROCEEDINGS**

There are outstanding court proceedings, claims and possible claims for and against the Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 11 of the Condensed Consolidated Financial Statements (attached to this U.S. Disclosure Document as part of the Annex)) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

Refer to Note 33 of ANZ's 2019 Financial Report (attached as part of Annex A to ANZ's 2019 Annual U.S. Disclosure Document) for a description of contingent liabilities and contingent assets as of September 30, 2019. Refer to Note 20 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for a description of contingent liabilities and contingent assets as of March 31, 2020.

A summary of some of those contingent liabilities is set out below.

- **Regulatory and customer exposures**

  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 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, currently include 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.

- **Bank fees litigation and periodical payment remediation and ASIC action**

  A litigation funder commenced a class action against ANZBGL in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honor, dishonor and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. The claims in the March 2013 class action failed and have been dismissed.

  The original claims in the 2010 class action have been dismissed. In 2017, a new claim was added to the 2010 class action, in relation to ANZBGL's entitlement to charge certain periodical payment non-payment fees. Part of the class of customers had already received remediation payments from ANZBGL. An agreement to settle the claim was reached in December 2018. The settlement was approved by the court in December 2019.

  In July 2019, ASIC commenced civil penalty proceedings against ANZBGL in relation to the charging of fees for periodical payments in certain circumstances between August 2003 and February 2016. ASIC seeks civil penalties in respect of alleged false or misleading representations and unconscionable conduct. ASIC also alleges that ANZBGL engaged in misleading or deceptive conduct and breached certain statutory obligations as a financial services licensee. The trial of the matter is scheduled to commence on September 14, 2020. The outcomes and total costs remain uncertain. ANZBGL is defending the allegations.

- **Benchmark/rate actions**

  In July and August 2016, class action complaints were brought in the U.S. District Court against local and international banks, including ANZBGL - one action relating to the bank bill swap rate ("BBSW"), and one action relating to the Singapore Interbank Offered Rate ("SIBOR") and the Singapore Swap Offer Rate ("SOR"). The class actions are expressed to apply to persons and entities that engaged in U.S.-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZBGL, violated U.S. anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. ANZBGL is defending the proceedings. The SIBOR matter is at an early stage.

  In February 2017, the South African Competition Commission commenced proceedings against local and international banks including ANZBGL alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain. The matter is at an early stage.

- **Capital raising actions**

  In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against ANZBGL and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of ANZBGL's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. ANZBGL and its senior employee are defending the allegations.

  In September 2018, ASIC commenced civil penalty proceedings against ANZBGL alleging failure to comply with continuous disclosure obligations in connection with ANZBGL's August 2015 underwritten institutional equity placement. ASIC alleges ANZBGL should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. ANZBGL is defending the allegations.

- **Consumer credit insurance litigation**

  In February 2020, a class action was brought against ANZBGL alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. ANZBGL is defending the allegations. The matter is at an early stage.

- **Franchisee litigation**

  In February 2018, two related class actions were brought against ANZBGL alleging breaches of contract and unconscionable conduct in relation to lending to 7-Eleven franchisees. An agreement to settle the claims against ANZBGL was reached in March 2019. The settlement was approved by the Court in August 2020.

- **Royal Commission**

  The Royal Commission released its final report on February 4, 2019. The findings and recommendations of the Royal Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain. See also "*Section 2: Information on the Group - Supervision and Regulation - Australia - Australian Regulatory Developments*" for further information.

- **Security recovery actions**

  Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

- **Warranties and Indemnities**

  The Group has provided warranties, indemnities and other commitments in favor of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

## DIVIDEND DISTRIBUTION POLICY

The Board of Directors of ANZ will determine the amount and timing of dividend distributions to holders of ordinary shares based on the financial performance and financial position of the Group.

ANZ has a DRP and a BOP that will operate in respect of the 2020 interim dividend. For the 2020 interim dividend, new ANZ ordinary shares will be issued to satisfy ANZ's obligations under the DRP and BOP. The "Acquisition Price" to be used in determining the number of shares to be provided under the DRP and BOP will be calculated by reference to the arithmetic average of the daily volume weighted average sale price of all fully paid ANZ ordinary shares sold in the ordinary course of trading on the ASX and Chi-X during the ten trading days commencing on August 28, 2020, and then rounded to the nearest whole cent. Shares provided under the DRP and BOP will rank equally in all respects with existing fully paid ANZ ordinary shares. Eligibility criteria applies to the participation in the DRP and BOP. In particular, until the Board otherwise determines, participation in the DRP and BOP is not available directly or indirectly to any entity or person, including any legal or beneficial owner of the ordinary shares of ANZBGL, who is (or who is acting on behalf of or for the account or benefit of an entity or person who is) in or resident in the U.S. its possessions or territories, or in Canada.

## EXCHANGE CONTROLS

There are currently no general Australian exchange control regulations in force that restrict the payment of dividends, interest or other remittances to holders of our securities. Economic and trade sanctions are, however, implemented in Australia from time to time to reflect Australian public policy, and operate to prohibit the entry into certain transactions with specified persons or entities without the consent of the applicable Australian regulatory body. These include the following:

1. The Autonomous Sanctions Act 2011 of Australia and Autonomous Sanctions Regulations 2011 of Australia prohibit dealing with certain "sanctioned" vessels, "designated" persons or entities by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit, including:
   (a) persons who have been indicted for an offence by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia ("ICTY") or who are subject to an Interpol arrest warrant related to such an offence within the jurisdiction of the ICTY, persons who are suspected of assisting persons who have been indicted by the ICTY and are not currently detained by the ICTY, as well as certain supporters of the former Milosevic regime;
   (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
   (c) certain persons or entities associated with the weapons of mass destruction or missiles program of North Korea, or have assisted or are assisting North Korea to violate or evade certain United Nations Resolutions;
   (d) certain persons associated with the Myanmar regime, including current and former ministers, senior officials in security or corrections agencies, senior officials or executives in a state-owned or military owned enterprise and current or former military officers of particular ranks, and immediate family members of such persons;
   (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;
   (f) certain close associates of the former Qadhafi regime, entities under the control of the Qadhafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya and immediate family members of such persons;
   (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and

(h) persons or entities responsible for, or complicit in, the threat to the sovereignty and territorial integrity of Ukraine.

The Minister for Foreign Affairs also has the ability to designate a person or entity that contributes to the proliferation of weapons of mass destruction for the purposes of the Autonomous Sanctions Regulations 2011 of Australia.

2. Under Part 4 of the Charter of the United Nations Act 1945 of Australia, the Charter of the United Nations (Dealing with Assets) Regulations 2008 of Australia provide for sanctions against using or dealing with financial or other assets of persons or entities listed by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette from time to time. Under Part 3 of the Charter of the United Nations Act 1945 of Australia and pursuant to specific regulations, it is prohibited to make certain supplies (which may include financial supplies) in respect of certain countries, including:

(a) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008 of Australia);

(b) North Korea (see the Charter of the United Nations (Sanctions – Democratic People's Republic of Korea) Regulations 2008 of Australia);

(c) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008 of Australia);

(d) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulation 2016 of Australia);

(e) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008 of Australia);

(f) Al-Qaida and the Taliban (see the Charter of the United Nations (Sanctions – Al-Qaida) Regulations 2008 of Australia and the Charter of the United Nations (Sanctions – the Taliban) Regulation 2013 of Australia);

(g) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008 of Australia);

(h) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008 of Australia);

(i) Libya (see the Charter of the United Nations (Sanctions – Libya) Regulations 2011 of Australia);

(j) Central African Republic (see the Charter of the United Nations (Sanctions – Central African Republic) Regulation 2014 of Australia);

(k) Yemen (see the Charter of the United Nations (Sanctions – Yemen) Regulation 2014 of Australia);

(l) South Sudan (see the Charter of the United Nations (Sanctions – South Sudan) Regulation 2015 of Australia);

(m) Syria (see the Charter of the United Nations (Sanctions – Syria) Regulation 2015 of Australia); and

(n) Mali (see the Charter of the United Nations (Sanctions – Mali) Regulations 2018 of Australia).

3. Under the AML Act (or, where applicable, the Financial Transaction Reports Act 1988 of Australia), transfer of physical currency or digital currency (cryptocurrency) of $10,000 (or the foreign equivalent) and above must be reported by certain persons (including ANZ) to AUSTRAC. The Australian Government has introduced a bill to prohibit individuals and entities from making or accepting cash payments of $10,000 or more (or the foreign equivalent). Such payments will include those made offshore by certain types of entities with sufficient connection to Australia and where the cash payment is made or accepted for a supply that is wholly or partly supplied in Australia. As at the date of this U.S. Disclosure Document, it is anticipated that the bill will be passed and come into effect some time in 2020.

**LIMITATIONS AFFECTING SECURITY HOLDERS**

The following Australian laws impose limitations on the right of persons to hold, own or vote on shares in our company.

- Foreign Acquisitions and Takeovers Act 1975 of Australia

  The acquisition of shares in Australian companies by foreign interests is regulated by the Foreign Acquisitions and Takeovers Act 1975 of Australia. The Foreign Acquisitions and Takeovers Act 1975 of Australia applies (subject to certain monetary thresholds) to, among other things, any acquisition or issue of shares which results in either:

  - a foreign person or foreign-controlled corporation alone or together with any associates being in a position to control 20% or more of the voting power or potential voting power or hold any legal or equitable interest in 20% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business; or
  - two or more foreign persons or foreign-controlled corporations, together with any associates of any of those foreign persons or foreign-controlled corporations being in a position to control 40% or more of the voting power or potential voting power or hold any legal or equitable interest in 40% or more of the issues shares or rights to issued shares in a corporation carrying on an Australian business.

  In either of these cases, and in certain other circumstances, the Federal Treasurer may prohibit the acquisition if it would be contrary to the Australian national interest.

- Financial Sector (Shareholdings) Act 1998 of Australia

  The Financial Sector (Shareholdings) Act 1998 of Australia prohibits a person (together with their associates, if any), or two or more persons under an arrangement, from acquiring shares in a financial sector company if the acquisition would result in a person, together with their associates, holding a stake in the company of more than 20%. However, the Federal Treasurer may grant approval to a person to hold a stake of greater than 20% but only if satisfied that it is in the Australian national interest. No such approvals have been granted in respect of our shares.

- Corporations Act and ASX Listing Rules

  *Shareholding restrictions*

  Any person acquiring voting shares in a listed company or an unlisted company with more than 50 members is subject to the provisions contained in Chapter 6 of the Corporations Act relating to the acquisition of relevant interests in voting shares. Subject to certain exceptions (and among other prohibitions), section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in such a company if, because of the acquisition, the person's or someone else's voting power in the company increases:

  - from 20% or below to more than 20%; or

- from a starting point that is above 20% and below 90%.

One of the exceptions to section 606 allows a person to acquire voting power of an additional 3% in a company if:

- throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and
- as a result of the acquisition, neither that person, nor any other person who has had voting power of at least 19% in the preceding six months, would have voting power in the company more than 3% higher than they had six months before the acquisition.

For the purposes of the Corporations Act, a person's voting power in a company is the total number of votes attached to voting shares in respect of which the person and its associates (which are broadly defined) have a ‘relevant interest’ as a proportion of the total number of votes attached to all voting shares in the company. Broadly speaking, subject to certain qualifications, a person has a ‘relevant interest’ in securities if the person is the holder of the securities; has the power to exercise, or control the exercise of, a right to vote attached to the securities; or has the power to dispose of, or control the exercise of a power to dispose of, a security.

In addition, under the Corporations Act, any person who begins to have or ceases to have, a substantial holding in us, or who already has a substantial holding and there is a movement of at least 1% in their holding, or who makes a takeover bid for our securities, is required to give a notice to the Company and to ASX Limited providing certain prescribed information, including their name and address and details or their relevant interests in our voting shares. Generally, such notice must be provided within two business days after the person becomes aware of the information.

The sale of shares may also be restricted by applicable Australian law, including restrictions under the Corporations Act on the sale of shares to investors within 12 months of their issue (except where certain exemptions apply) on account of the shares, or the securities which convert into those shares, being issued without disclosure as required by the Corporations Act.

*Divestment of shares in relation to control transactions*

The Corporations Act also enables persons to compulsorily acquire shares in a company in certain circumstances, including where they obtain a relevant interest in 90% or more of the issued voting shares of a company through a takeover bid or other means. A person may also compulsorily acquire shares pursuant to a court order in connection with a scheme of arrangement under the Corporations Act, following approval of the scheme of arrangement by the requisite number of shareholders at a prior vote.

The Australian Takeovers Panel also has the ability to make orders requiring persons to divest interests in shares, or to seize shares from persons, or restrict voting rights, where the Takeovers Panel finds (on an application by an interested party) where they make a decision that unacceptable circumstances exist in relation to the affairs of a company that warrant the granting of such an order.

*Restrictions on voting under the Corporations Act and ASX Listing Rules*

The Corporations Act and ASX Listing Rules impose restrictions on certain persons and their associated or related entities from voting at general meetings of the Company in certain circumstances. These restrictions include, to the extent applicable to a shareholder, voting on: related party transactions involving the shareholder; change of control transactions involving the shareholder; capital actions involving the shareholder (including issues of shares requiring shareholder approval, share consolidations, splits and buy-backs); remuneration related resolutions presented to shareholders for approval, and other similar corporate actions.

*Other restrictions relating to shares*

Australian securities laws impose prohibitions of general application on misconduct in financial markets and dealings relating to financial products in Australia. These laws may prevent a person from acquiring or selling shares in the Company in certain circumstances (for example, where such conduct would constitute “insider trading”).

- Competition and Consumer Act 2010 of Australia

  The Competition and Consumer Act 2010 of Australia regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia.

**WITHHOLDING TAXES**

Australia imposes withholding taxes on certain payments to recipients outside Australia including certain dividend payments (to the extent such dividends are unfranked) and certain interest payments.

**CONSTITUTION**

The Company’s Constitution was most recently amended on December 19, 2018. There have been no changes to the Constitution subsequently.

**MATERIAL CONTRACTS**

There have been no material contracts entered into by the Group in the past two years, other than in the ordinary course of its business, upon which it is substantially dependent.

**AASB** - Australian Accounting Standards Board. The term "AASB" is commonly used when identifying Australian Accounting Standards issued by the AASB.

**APRA** - Australian Prudential Regulation Authority.

**APRA Leverage Ratio** compares Tier 1 Capital to the "exposure measure" (expressed as a percentage) as defined by APS 110. It is a designed as a non-risk based supplement or backstop to the current risk based capital requirements and is intended to restrict the build-up of excessive leverage in the banking system.

**APS** - ADI Prudential Standard.

**Cash and cash equivalents** comprise coins, notes, money at call, balances held with central banks, liquid settlement balances (readily convertible to known amounts of cash which are subject to insignificant risk of changes in value) and securities purchased under agreements to resell (reverse repos) in less than three months.

**Collectively assessed allowance for expected credit loss** represents collectively assessed ECL. These incorporate forward looking information and do not require an actual loss event to have occurred for an impairment provision to be recognized.

**Coronavirus (COVID-19)** is a respiratory illness caused by a new virus and declared a Public Health Emergency of International Concern. COVID-19 was characterized as a pandemic by the World Health Organization on March 11, 2020.

**Covered bonds** are bonds issued by an ADI to external investors secured against a pool of the ADI's assets (the cover pool) assigned to a bankruptcy remote special purpose entity. The primary assets forming the cover pool are mortgage loans. The mortgages remain on the issuer's balance sheet. The covered bond holders have dual recourse to the issuer and the cover pool assets. The mortgages included in the cover pool cannot be otherwise pledged or disposed of but may be repurchased and substituted in order to maintain the credit quality of the pool. The Group issues covered bonds as part of its funding activities.

**Credit risk** is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honor or perform fully the terms of a loan or contract.

**Credit risk weighted assets ("CRWA")** represent assets which are weighted for credit risk according to a set formula as prescribed in APS 112/113.

**Customer deposits** represent term deposits, other deposits bearing interest, deposits not bearing interest and borrowing corporations' debt excluding securitization deposits.

**Customer remediation** includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

**Derivative credit valuation adjustment ("CVA")** - Over the life of a derivative instrument, ANZ uses a model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of probability of default, loss given default, expected credit risk exposure and an asset correlation factor. Impaired derivatives are also subject to a CVA.

**Dividend payout ratio** is the total ordinary dividend payment divided by profit attributable to shareholders of the Company.

**FX** means foreign exchange.

**Gross loans and advances ("GLA")** is made up of loans and advances, capitalized brokerage/mortgage origination fees less unearned income.

**Impaired assets** - facilities are classified as impaired when there is doubt as to whether the contractual amounts due, including interest and other payments, will be met in a timely manner. Impaired assets include impaired facilities, and impaired derivatives. Impaired derivatives have a credit valuation adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.

**Impaired loans** comprise of drawn facilities where the customer's status is defined as impaired.

**Individually assessed allowance for expected credit loss** is assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realizable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries.

**Interest rate risk in the banking book ("IRRBB")** relates to the potential adverse impact of changes in market interest rates on ANZ's future net interest income. The risk generally arises from:

1. Repricing and yield curve risk - the risk to earnings or market value as a result of changes in the overall level of interest rates and/or the relativity of these rates across the yield curve;
2. Basis risk - the risk to earnings or market value arising from volatility in the interest margin applicable to banking book items; and
3. Optionality risk - the risk to earnings or market value arising from the existence of stand-alone or embedded options in banking book items.

**Level 1** in the context of APRA supervision, Australia and New Zealand Banking Group Limited consolidated with certain approved subsidiaries.

**Level 2** in the context of APRA supervision, the consolidated ANZ Group excluding associates, insurance and funds management entities, commercial non-financial entities and certain securitization vehicles.

**Major Bank Levy** refers to a levy that was introduced by the Australian Government with effect from July 2017 and is imposed on liabilities for certain large banks, including the Group.

**Net interest margin** is net interest income as a percentage of average interest earning assets.

**Net loans and advances** represent gross loans and advances less allowance for credit losses.

**Net Stable Funding Ratio ("NSFR")** is the ratio of the amount of available stable funding ("ASF") to the amount of required stable funding ("RSF") defined by APRA. The amount of ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. The amount of RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities. ADIs must maintain an NSFR of at least 100%.

**Net tangible assets** equal share capital and reserves attributable to shareholders of the Company less unamortized intangible assets (including goodwill and software).

**Regulatory deposits** are mandatory reserve deposits lodged with local central banks in accordance with statutory requirements.

**Restructured items** comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

**Return on average assets** is the profit attributable to shareholders of the Company, divided by average total assets.

**Return on average ordinary shareholders' equity** is the profit attributable to shareholders of the Company, divided by average ordinary shareholders' equity.

**Risk weighted assets ("RWA")** are risk weighted according to each asset's inherent potential for default and what the likely losses would be in the case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.

**Settlement balances owed to/by ANZ** represent financial assets and/or liabilities which are in the course of being settled. These may include trade dated assets and liabilities, vostro accounts and securities settlement accounts.

**Annex: Condensed Consolidated Financial Statements for the half year ended March 31, 2020 and independent auditor's review report on the Condensed Consolidated Financial Statements.**

**Australia and New Zealand Banking Group Limited**

***CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***

**Fiscal half year ended March 31, 2020**

**CONTENTS** **Page**

The Directors present their report on the Condensed Consolidated Financial Statements for the half year ended 31 March 2020.

**Directors**

The names of the Directors of the Company who held office during and since the end of the half year are:

| | |
|---|---|
| Mr DM Gonski, AC | Chairman |
| Mr SC Elliott | Director and Chief Executive Officer |
| Ms IR Atlas, AO | Director |
| Ms PJ Dwyer | Director |
| Ms SJ Halton, AO PSM | Director |
| Mr GR Liebelt | Director |
| Rt Hon Sir JP Key, GNZM AC | Director |
| Mr JT MacFarlane | Director |
| Mr P O'Sullivan | Director, appointed 4 November 2019 |

**Result**

The consolidated profit attributable to shareholders of the Company was $1,545 million, and consolidated profit attributable to shareholders of the Company from continuing operations was $1,635 million. Further details are contained in Group Results on pages 19 to 46 which forms part of this report, and in the Condensed Consolidated Financial Statements.

**Review of operations**

A review of the operations of the Group during the half year and the results of those operations are contained in the Group Results on pages 19 to 46 which forms part of this report.

**Lead auditor's independence declaration**

The lead auditor's independence declaration given under section 307C of the *Corporations Act 2001* (as amended) is set out on page 125 which forms part of this report.

**Rounding of amounts**

The amounts contained in these Condensed Consolidated Financial Statements have been rounded to the nearest million dollars, except where otherwise indicated, as permitted by *ASIC Corporations Instrument 2016/191*.

**Significant events since balance date**

With effect from 2 April 2020, the Reserve Bank of New Zealand (RBNZ) amended the conditions of registration for ANZ Bank New Zealand Limited (ANZ Bank NZ), a New Zealand subsidiary of ANZ Banking Group Limited (ANZBGL) to (among other things) prohibit ANZ Bank NZ from making distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments. These amendments were also applied to other locally incorporated banks in New Zealand to further support the stability of the New Zealand banking financial system during this period of economic uncertainty. These requirements prevent ANZ Bank NZ from redeeming its NZ$500 million Capital Notes in May 2020, although it can continue making coupon payments on those Capital Notes. As ANZ Bank NZ has announced that it will not be exercising its option to convert in May 2020, the terms of the Capital Notes provide for their conversion into a variable number of ANZBGL shares in May 2022 subject to certain conditions (refer to note 13). Conversion would result in an increase in the Group's CET1 capital (~12 bps) at Level 2. The amendments will also prevent ANZ Bank NZ from paying dividends to ANZBGL.

Other than the matter above there have been no other significant events from 31 March 2020 to the date of signing this report that have not been adjusted or disclosed.

Signed in accordance with a resolution of the Directors.

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

**Shayne C Elliott**
*Director*

29 April 2020

**Australia and New Zealand Banking Group Limited**

| | | Half Year | | | Movement | |
|---|---|---|---|---|---|---|
| | Note | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Interest income | | **13,800** | 15,107 | 15,970 | -9% | -14% |
| Interest expense | | **(6,578)** | (8,067) | (8,671) | -18% | -24% |
| Net interest income | 2 | **7,222** | 7,040 | 7,299 | 3% | -1% |
| Other operating income | 2 | **1,489** | 2,272 | 1,786 | -34% | -17% |
| Net income from insurance business | 2 | **47** | 49 | 77 | -4% | -39% |
| Share of associates' profit | 2, 18 | **135** | 131 | 131 | 3% | 3% |
| Operating income | | **8,893** | 9,492 | 9,293 | -6% | -4% |
| Operating expenses | 3 | **(4,605)** | (4,706) | (4,365) | -2% | 5% |
| Profit before credit impairment and income tax | | **4,288** | 4,786 | 4,928 | -10% | -13% |
| Credit impairment charge | 9 | **(1,674)** | (402) | (392) | large | large |
| Profit before income tax | | **2,614** | 4,384 | 4,536 | -40% | -42% |
| Income tax expense | 4 | **(978)** | (1,325) | (1,284) | -26% | -24% |
| **Profit after tax from continuing operations** | | **1,636** | 3,059 | 3,252 | -47% | -50% |
| Profit/(Loss) after tax from discontinued operations | 12 | **(90)** | (273) | (70) | -67% | 29% |
| **Profit for the period** | | **1,546** | 2,786 | 3,182 | -45% | -51% |
| Comprising: | | | | | | |
| Profit attributable to shareholders of the Company | | **1,545** | 2,780 | 3,173 | -44% | -51% |
| Profit attributable to non-controlling interests | | **1** | 6 | 9 | -83% | -89% |
| **Earnings per ordinary share (cents) including discontinued operations** | | | | | | |
| Basic | 6 | **54.6** | 98.3 | 111.7 | -44% | -51% |
| Diluted | 6 | **51.5** | 94.7 | 106.4 | -46% | -52% |
| **Earnings per ordinary share (cents) from continuing operations** | | | | | | |
| Basic | 6 | **57.8** | 107.9 | 114.1 | -46% | -49% |
| Diluted | 6 | **54.3** | 103.6 | 108.7 | -48% | -50% |
| **Dividend per ordinary share (cents)**[1] | 5 | **TBD** | 80 | 80 | n/a | n/a |

[1.] *The decision on the payment of a 2020 interim dividend has been deferred until the economic outlook is clearer and an update will be provided at the August 2020 market update.*

*The notes appearing on pages 84 to 120 form an integral part of the Condensed Consolidated Financial Statements.*

### Australia and New Zealand Banking Group Limited

| | As at | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v Sep 19** | **Mar 20 v Mar 19** |
| **Profit for the period from continuing operations** | **1,636** | 3,059 | 3,252 | -47% | -50% |
| **Other comprehensive income** | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | |
| Investment securities - equity securities at FVOCI | **(115)** | (131) | 176 | -12% | large |
| Other reserve movements | **236** | 56 | 11 | large | large |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Foreign currency translation reserve[1] | **1,281** | (137) | 834 | large | 54% |
| Other reserve movements | **83** | 392 | 517 | -79% | -84% |
| **Income tax attributable to the above items** | **(76)** | (101) | (187) | -25% | -59% |
| **Share of associates' other comprehensive income[2]** | **10** | 13 | 13 | -23% | -23% |
| **Other comprehensive income after tax from continuing operations** | **1,419** | 92 | 1,364 | large | 4% |
| Profit/(Loss) after tax from discontinued operations | **(90)** | (273) | (70) | -67% | 29% |
| Other comprehensive income after tax from discontinued operations | **-** | (139) | 42 | -100% | -100% |
| **Total comprehensive income for the period** | **2,965** | 2,739 | 4,588 | 8% | -35% |
| Comprising total comprehensive income attributable to: | | | | | |
| Shareholders of the Company | **2,965** | 2,729 | 4,578 | 9% | -35% |
| Non-controlling interests | **-** | 10 | 10 | -100% | -100% |

1. *Includes foreign currency translation differences attributable to non-controlling interests of $1 million loss (Sep 19 half: $4 million gain; Mar 19 half: $1 million gain).*
2. *Share of associates' other comprehensive income includes a FVOCI reserve gain of $7 million (Sep 19 half: $15 million gain; Mar 19 half: $5 million gain), defined benefits gain of $3 million (Sep 19 half: nil; Mar 19 half: $7 million gain), cash flow hedge reserve of nil (Sep 19 half: $2 million loss; Mar 19 half: nil) and a foreign currency translation reserve gain of nil (Sep 19 half: nil; Mar 19 half: $1 million gain) that may be reclassified subsequently to profit or loss.*

*The notes appearing on pages 84 to 120 form an integral part of the Condensed Consolidated Financial Statements.*

## Australia and New Zealand Banking Group Limited

| | | As At | | | Movement | |
|---|---|---|---|---|---|---|
| **Assets** | **Note** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Cash and cash equivalents[1] | | **143,093** | 81,621 | 93,996 | 75% | 52% |
| Settlement balances owed to ANZ | | **6,961** | 3,739 | 4,041 | 86% | 72% |
| Collateral paid | | **16,762** | 15,006 | 11,860 | 12% | 41% |
| Trading securities | | **49,068** | 43,169 | 42,857 | 14% | 14% |
| Derivative financial instruments | | **173,677** | 120,667 | 79,375 | 44% | large |
| Investment securities | | **85,923** | 83,709 | 78,882 | 3% | 9% |
| Net loans and advances | 8 | **656,609** | 615,258 | 609,281 | 7% | 8% |
| Regulatory deposits | | **804** | 879 | 944 | -9% | -15% |
| Assets held for sale | 12 | **-** | 1,831 | 43,549 | -100% | -100% |
| Investments in associates | | **2,313** | 2,957 | 2,737 | -22% | -15% |
| Current tax assets | | **452** | 265 | 500 | 71% | -10% |
| Deferred tax assets[2] | | **1,816** | 1,356 | 1,146 | 34% | 58% |
| Goodwill and other intangible assets | | **4,957** | 4,861 | 5,017 | 2% | -1% |
| Premises and equipment[2] | | **3,211** | 1,924 | 1,863 | 67% | 72% |
| Other assets | | **4,309** | 3,895 | 4,222 | 11% | 2% |
| **Total assets** | | **1,149,955** | 981,137 | 980,270 | 17% | 17% |
| | | | | | | |
| **Liabilities** | | | | | | |
| Settlement balances owed by ANZ | | **22,314** | 10,867 | 12,371 | large | 80% |
| Collateral received | | **17,463** | 7,929 | 5,726 | large | large |
| Deposits and other borrowings | 10 | **726,909** | 637,677 | 634,989 | 14% | 14% |
| Derivative financial instruments | | **167,364** | 120,951 | 80,871 | 38% | large |
| Current tax liabilities | | **244** | 260 | 159 | -6% | 53% |
| Deferred tax liabilities | | **94** | 67 | 48 | 40% | 96% |
| Liabilities held for sale | 12 | **-** | 2,121 | 46,555 | -100% | -100% |
| Payables and other liabilities[2] | | **10,536** | 7,968 | 7,641 | 32% | 38% |
| Employee entitlements | | **635** | 588 | 567 | 8% | 12% |
| Other provisions | 11 | **2,773** | 2,224 | 1,680 | 25% | 65% |
| Debt issuances | 13 | **140,248** | 129,691 | 129,692 | 8% | 8% |
| **Total liabilities** | | **1,088,580** | 920,343 | 920,299 | 18% | 18% |
| **Net assets** | | **61,375** | 60,794 | 59,971 | 1% | 2% |
| | | | | | | |
| **Shareholders' equity** | | | | | | |
| Ordinary share capital | 16 | **26,440** | 26,490 | 26,048 | 0% | 2% |
| Reserves | 16 | **2,851** | 1,629 | 1,709 | 75% | 67% |
| Retained earnings[2] | 16 | **32,073** | 32,664 | 32,064 | -2% | 0% |
| **Share capital and reserves attributable to shareholders of the Company** | | **61,364** | 60,783 | 59,821 | 1% | 3% |
| Non-controlling interests | 16 | **11** | 11 | 150 | 0% | -93% |
| **Total shareholders' equity** | | **61,375** | 60,794 | 59,971 | 1% | 2% |

1. *Includes settlement balances owed to ANZ that meet the definition of cash and cash equivalents.*
2. *On adoption of AASB 16 on 1 October 2019, the Group recognised right-of-use assets of $1.6 billion presented within Property Plant and Equipment and lease liabilities of $1.7 billion presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million. Comparative information has not been restated. Refer to Note 1 for further details.*

*The notes appearing on pages 84 to 120 form an integral part of the Condensed Consolidated Financial Statements.*

## Australia and New Zealand Banking Group Limited

The Condensed Consolidated Cash Flow Statement includes discontinued operations. Please refer to Note 12 for cash flows associated with discontinued operations and cash and cash equivalents reclassified as held for sale.

| | Half Year | | |
|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M[7] |
| **Profit after income tax** | **1,546** | 2,786 | 3,182 |
| Adjustments to reconcile to net cash flow from operating activities: | | | |
| Provision for credit impairment charge | **1,674** | 403 | 391 |
| Impairment of investment in associates | **815** | - | - |
| Depreciation and amortisation[1] | **613** | 443 | 428 |
| (Profit)/loss on sale of premises and equipment | **(4)** | (4) | (1) |
| Net derivatives/foreign exchange adjustment | **1,859** | 3,326 | 1,614 |
| (Gain)/loss on sale from divestments | **11** | (19) | (118) |
| Other non-cash movements | **(99)** | (295) | (61) |
| *Net (increase)/decrease in operating assets:* | | | |
| Collateral paid | **(904)** | (2,850) | (643) |
| Trading securities | **1,761** | (1,423) | (6,518) |
| Loans and advances | **(30,392)** | (8,336) | (1,932) |
| Investments backing policy liabilities | **-** | (3,331) | (211) |
| Other assets | **(687)** | 430 | (884) |
| *Net increase/(decrease) in operating liabilities:* | | | |
| Deposits and other borrowings | **67,503** | (2,050) | 9,056 |
| Settlement balances owed by ANZ | **11,202** | (1,520) | 443 |
| Collateral received | **8,379** | 1,928 | (924) |
| Life insurance contract policy liabilities | **-** | (110) | 110 |
| Other liabilities | **(8,630)** | 2,421 | (281) |
| **Total adjustments** | **53,101** | (10,987) | 469 |
| **Net cash (used in)/provided by operating activities[2]** | **54,647** | (8,201) | 3,651 |
| **Cash flows from investing activities** | | | |
| Investment securities: | | | |
| Purchases | **(17,369)** | (10,725) | (13,122) |
| Proceeds from sale or maturity | **18,997** | 7,720 | 13,508 |
| Proceeds from divestments, net of cash disposed | **691** | 1,415 | 706 |
| Proceeds from/(Repayment of) IOOF secured notes | **(800)** | - | 800 |
| Other assets | **(33)** | (112) | (396) |
| **Net cash (used in)/provided by investing activities** | **1,486** | (1,702) | 1,496 |
| **Cash flows from financing activities** | | | |
| Debt issuances:[3] | | | |
| Issue proceeds | **11,933** | 8,863 | 17,037 |
| Redemptions | **(10,427)** | (12,177) | (10,781) |
| Dividends paid[4] | **(2,228)** | (2,229) | (2,242) |
| On market purchase of treasury shares | **(122)** | - | (112) |
| Repayment of lease liabilities[5] | **(148)** | - | - |
| Share buy-back | **-** | - | (1,120) |
| **Net cash (used in)/provided by financing activities** | **(992)** | (5,543) | 2,782 |
| Net (decrease)/increase in cash and cash equivalents | **55,141** | (15,446) | 7,929 |
| Cash and cash equivalents at beginning of period | **81,621** | 94,263 | 84,964 |
| Effects of exchange rate changes on cash and cash equivalents | **6,331** | 2,804 | 1,370 |
| **Cash and cash equivalents at end of period[6]** | **143,093** | 81,621 | 94,263 |

1. *Includes depreciation of right-of-use assets recognised on 1 October 2019 following the adoption of AASB 16. Comparatives have not been restated.*
2. *Net cash inflows/(outflows) from operating activities includes income taxes paid of $1,480 million (Sep 19 half: $1,194 million; Mar 19 half: $1,935 million).*
3. *Non-cash changes in debt issuances includes fair value hedging loss of $1,103 million (Sep 19 half: $978 million; Mar 19 half: $1,459 million) and foreign exchange losses of $8,536 million (Sep 19 half: $2,711 million; Mar 19 half: $1,104 million).*
4. *Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.*
5. *Relates to repayments of lease liabilities which the Group commenced recognising on 1 October 2019 following the adoption of AASB 16. Comparative information has not been restated.*
6. *Includes cash and cash equivalents recognised on the face of balance sheet of $143,093 million (Sep 19 half: $81,621 million; Mar 19 half: $93,996 million) with no amounts recorded as part of assets held for sale. (Sep 19 half: nil; Mar 19 half: $267 million).*
7. *Certain Mar 19 half items have been restated to reflect the impact from adoption of AASB 9.*

*The notes appearing on pages 84 to 120 form an integral part of the Condensed Consolidated Financial Statements.*

**Australia and New Zealand Banking Group Limited**

| | Ordinary share capital | Reserves | Retained earnings | Share capital and reserves attributable to shareholders of the Company | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | $M | $M | $M | $M | $M | $M |
| **As at 1 October 2018** | 27,205 | 323 | 31,737 | **59,265** | 140 | **59,405** |
| **Impact on transition to AASB 9** | - | 14 | (624) | **(610)** | - | **(610)** |
| Profit or loss from continuing operations | - | - | 3,243 | **3,243** | 9 | **3,252** |
| Profit or loss from discontinued operations | - | - | (70) | **(70)** | - | **(70)** |
| Other comprehensive income for the period from continuing operations | - | 1,351 | 12 | **1,363** | 1 | **1,364** |
| Other comprehensive income for the period from discontinued operations | - | 42 | - | **42** | - | **42** |
| **Total comprehensive income for the period** | - | 1,393 | 3,185 | **4,578** | 10 | **4,588** |
| **Transactions with equity holders in their capacity as equity holders:**[1] | | | | | | |
| Dividends paid[2] | - | - | (2,254) | **(2,254)** | - | **(2,254)** |
| Dividend income on treasury shares held within the Group's life insurance statutory funds | - | - | 12 | **12** | - | **12** |
| Group share buy-back[3] | (1,120) | - | - | **(1,120)** | - | **(1,120)** |
| **Other equity movements:**[1] | | | | | | |
| Group employee share acquisition scheme | (37) | - | - | **(37)** | - | **(37)** |
| Other items | - | (21) | 8 | **(13)** | - | **(13)** |
| **As at 31 March 2019** | 26,048 | 1,709 | 32,064 | **59,821** | 150 | **59,971** |
| Profit or loss from continuing operations | - | - | 3,053 | **3,053** | 6 | **3,059** |
| Profit or loss from discontinued operations | - | - | (273) | **(273)** | - | **(273)** |
| Other comprehensive income for the period from continuing operations | - | 42 | 46 | **88** | 4 | **92** |
| Other comprehensive income for the period from discontinued operations | - | (139) | - | **(139)** | - | **(139)** |
| **Total comprehensive income for the period** | - | (97) | 2,826 | **2,729** | 10 | **2,739** |
| **Transactions with equity holders in their capacity as equity holders:**[1] | | | | | | |
| Dividends paid[2] | - | - | (2,227) | **(2,227)** | (2) | **(2,229)** |
| **Other equity movements:**[1] | | | | | | |
| Treasury shares Wealth Australia adjustment[4] | 405 | - | - | **405** | - | **405** |
| Group employee share acquisition scheme | 37 | - | - | **37** | - | **37** |
| Other items | - | 17 | 1 | **18** | (147) | **(129)** |
| **As at 30 September 2019** | 26,490 | 1,629 | 32,664 | **60,783** | 11 | **60,794** |
| **Impact on transition to AASB 16** | - | - | (88) | **(88)** | - | **(88)** |
| Profit or loss from continuing operations | - | - | 1,635 | **1,635** | 1 | **1,636** |
| Profit or loss from discontinued operations | - | - | (90) | **(90)** | - | **(90)** |
| Other comprehensive income for the period from continuing operations | - | 1,249 | 171 | **1,420** | (1) | **1,419** |
| Other comprehensive income for the period from discontinued operations | - | - | - | **-** | - | **-** |
| **Total comprehensive income for the period** | - | 1,249 | 1,716 | **2,965** | - | **2,965** |
| **Transactions with equity holders in their capacity as equity holders:**[1] | | | | | | |
| Dividends paid[2] | - | - | (2,228) | **(2,228)** | - | **(2,228)** |
| **Other equity movements:**[1] | | | | | | |
| Group employee share acquisition scheme | (50) | - | - | **(50)** | - | **(50)** |
| Other items | - | (27) | 9 | **(18)** | - | **(18)** |
| **As at 31 March 2020** | 26,440 | 2,851 | 32,073 | **61,364** | 11 | **61,375** |

1. *Current and prior periods include discontinued operations.*
2. *No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2019 final dividend (nil shares for the 2019 interim dividend; nil shares for the 2018 final dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market share purchases for the DRP in the March 2020 half were $185 million (Sep 19 half: $233 million; Mar 19 half: $199 million).*
3. *The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in the Mar 2019 half resulting in 42.0 million shares being cancelled in the March 2019 half.*
4. *The successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result, the Group no longer eliminates the ANZ shares previously held in Wealth Australia discontinued operations (treasury shares).*

*The notes appearing on pages 84 to 120 form an integral part of the Condensed Consolidated Financial Statements.*

## 1. Basis of preparation

These Condensed Consolidated Financial Statements:

- have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards (AASs);
- should be read in conjunction with ANZ's Annual Financial Statements for the year ended 30 September 2019 and any public announcements made by the Parent Entity and its controlled entities (the Group) for the half year ended 31 March 2020 in accordance with the continuous disclosure obligations under the *Corporations Act 2001* and the *ASX Listing Rules*;
- do not include all notes of the type normally included in ANZ's Annual Financial Report;
- are presented in Australian dollars unless otherwise stated; and
- were approved by the Board of Directors on 29 April 2020.

### i) Statement of Compliance

These Condensed Consolidated Financial Statements have been prepared in accordance with the *Corporations Act 2001* and AASB 134 which ensures compliance with IAS 34 *Interim Financial Reporting*.

### ii) Rounding of amounts

The amounts contained in these Condensed Consolidated Financial Statements have been rounded to the nearest million dollars, except where otherwise indicated, as permitted by *Australian Securities and Investments Commission Corporations Instrument 2016/191*.

### iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments as well as, in the case of fair value hedges, the fair value adjustment on the underlying hedged exposure;
- financial assets and liabilities held for trading;
- financial assets and liabilities designated at fair value through profit and loss;
- financial assets at fair value through other comprehensive income;
- assets and liabilities held for sale (except those at carrying value as per Note 12).

In accordance with AASB 1038 *Life Insurance Contracts*, life insurance liabilities are measured using the Margin on Services model.

In accordance with AASB 119 *Employee Benefits*, defined benefit obligations are measured using the Projected Unit Credit method.

### iv) Use of estimates, assumptions and judgements

The preparation of these Condensed Consolidated Financial Statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments are provided in the 2019 ANZ Annual Financial Report. Such estimates and judgements are reviewed on an ongoing basis.

A brief explanation of the key estimates, assumptions and judgements that have changed during the half year ended 31 March 2020 follows.

***Coronavirus (COVID-19) pandemic***

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Condensed Consolidated Financial Statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in these Condensed Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and recoverable amount assessments of non-financial assets.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below and/or in the relevant note to these Condensed Consolidated Financial Statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

***Allowance for expected credit losses***

The Group measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by AASB 9 Financial Instruments. The Group's accounting policy for the recognition and measurement of the allowance for expected credit losses is described at Note 13 to ANZ's Annual Financial Statements for the year ended 30 September 2019.

The table below shows the Group's allowance for expected credit losses (refer to Note 9 and Note 14 for further information).

| | As at | | |
|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Collectively assessed | **4,501** | 3,376 | 3,378 |
| Individually assessed | **1,093** | 814 | 891 |
| **Total**[1,2] | **5,594** | 4,190 | 4,269 |

1. *Includes allowance for expected credit losses for Net loans and advances – at amortised cost, Investment securities – debt securities at amortised cost and Off-balance sheet commitments - undrawn and contingent facilities.*
2. *Includes assets and liabilities reclassified as held for sale from continuing and discontinued operations.*

*Individually assessed allowance for expected credit losses*

In estimating individually assessed ECL for Stage 3 exposures, the Group makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

*Collectively assessed allowance for expected credit losses*

During the March 2020 half the collectively assessed allowance for expected credit losses increased by $1,125 million. This was attributable to changes in economic outlook of $1,031 million, foreign exchange of $77 million and changes in portfolio composition and risk of $17 million.

In estimating collectively assessed ECL, the Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The modelling methodology applied in estimating in ECL in these Condensed Consolidated Financial Statements is consistent with that applied in ANZ's Annual Financial Statements for the year ended 30 September 2019.

The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

| Judgement/Assumption | Description | Changes and considerations during the half year ended 31 March 2020 |
|---|---|---|
| **Determining when a significant increase in credit risk (SICR) has occurred** | In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement since transition from stage 1 to stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. | Various initiatives, such as payment holidays and deferrals have been offered to customers in this half year recognising the potential detrimental impact of COVID-19. Such offers, if accepted, are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade customer facilities. |
| **Measuring both 12-month and lifetime credit losses** | ECL is a function of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) which are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking variables. | The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the half year ended 31 March 2020. |
| | In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. | There were no changes to behavioural lifetime estimates during the half year ended 31 March 2020. |

| Judgement/Assumption | Description | Changes and considerations during the half year ended 31 March 2020 |
|---|---|---|
| **Base case economic forecast** | The Group derives a forward looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions. | There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current half year.<br>As at 31 March 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), governments (wage subsidies), and institution specific responses (such as payment holidays). These are considered in determining the length and severity of the forecast economic downturn.<br>The expected outcomes of key economic drivers for the base case scenario as at 31 March 2020 and those previously used as at 30 September 2019 are described below under the heading "Forecast base case assumptions". |
| **Probability weighting of each scenario (base case, upside[1], downside[1] and severe downside[2] scenarios)** | Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. | The key consideration for probability weightings in the current period is the continuing impact of COVID-19.<br>In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Group's assessment of downside risks.<br>The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. |
| **Management temporary adjustments** | Management temporary adjustments to the ECL allowance are adjustments used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. | Temporary adjustments have been assessed in the context of COVID-19 and the extent that associated credit loss exposures are captured within the modelled economic scenarios. While changes to temporary adjustment have been made to select industries and portfolios, there has been no material change to the overall temporary adjustments in the March 2020 half. |

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

*Base case economic forecast assumptions*

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic down turn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The Group's base case economic forecast scenarios reflects a sharp deterioration in economic conditions in the second quarter with a gradual improvement thereafter. It reflects a widespread shutdown in the 2nd quarter of calendar 2020 followed thereafter by a progressive relaxation.

The economic drivers of the base case economic forecasts at 31 March 2020 and those that were used at 30 September 2019 are set out below. These reflect ANZ's view, at the respective reporting dates, of the most likely future macro-economic conditions.

| | Base case economic forecast as at 31 March 2020 | Base case economic forecast as at 30 September 2019 |
|---|---|---|
| **Australia:** | | |
| • GDP | Expected contraction in GDP in the 2020 calendar year, with some recovery in 2021.<br>GDP is expected to contract 13% in the June 2020 quarter and to recover thereafter resulting in the 2020 calendar year GDP contracting 4.7% then growing by 4.1% in the 2021 calendar year. | Expected to improve modestly. |
| • Unemployment rate | Unemployment is expected to increase significantly over the June quarter, recovering gradually over the remainder of 2020 and 2021, but remaining higher than pre COVID-19 levels.<br>The unemployment rate is expected to reach 13% in the June 2020 quarter before moderate recovery in the September 2020 quarter. It is expected to average 9.0% for calendar year 2020 and 7.3% for calendar year 2021. | Expected to remain essentially flat. |
| • Residential property values | Property prices are expected to fall progressively by 4.1% in calendar year 2020 (taking into account growth pre COVID-19) and contract a further 6.3% in calendar year 2021. | Expected to improve after a period of decline. |
| • Consumer price index | CPI growth is forecast to fall moderately in 2020 from 2019 levels, returning to 2019 levels in 2021.<br>CPI growth is forecast at 1.2% for calendar year 2020 and 1.6% for calendar year 2021. | Growth expected to rise from current levels. |
| **New Zealand** | | |
| • GDP | Expected sizeable contraction in GDP in June quarter, rebounding partially over the remainder of the year. Moderate GDP growth is expected in 2021.<br>GDP is expected to contract by 17% in the June 2020 quarter, rebounding in the September 2020 quarter once activity resumes, resulting in the 2020 calendar year GDP contracting 6.7% then growing by 4.2% in the 2021 calendar year. | Expected to improve modestly. |
| • Unemployment rate | Unemployment is expected to increase significantly over the June quarter, recovering gradually over the remainder of 2020 and 2021, but remaining significantly higher than levels of 1H20. It is expected to average 7.4% for calendar year 2020 and 7.7% for calendar year 2021. | Expected to remain stable. |
| • Residential property values | Property prices are expected to contract by 1.9% in calendar year in 2020, followed by 6.0% growth in calendar year 2021. | Expected to achieve modest levels of growth. |
| • Consumer price index | CPI growth is forecast at slightly lower levels than 2019 across 2020 and 2021.<br>CPI growth is forecast at 1.5% for calendar year 2020 and 1.5% for calendar year 2021. | Expected to rise modestly. |
| **Rest of world** | | |
| • GDP | Expected contraction in GDP in the 2020 calendar year, with modest growth in 2021.<br>GDP is expected to contract 3.6% over the 2020 calendar year and then grow by 2.0% over the 2021 calendar year. | Growth is forecast to taper lower in the near term due to uncertainty in the global outlook. |
| • Consumer price index | Inflation is forecast to fall significantly in 2020 from 2019 levels, increasing in 2021.<br>Inflation is forecast at 0.9% for calendar year 2020 and 1.7% for calendar year 2021. | Expected to remain soft. |

*ECL - Sensitivity analysis*

The uncertainty on the impact of COVID-19 introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it:

*ECL sensitivity - Weightings applied to forecast scenarios*

| | Total ECL $m | Impact $m |
|---|---|---|
| 100% upside scenario | 1,969 | (2,533) |
| 100% base scenario | 4,319 | (183) |
| 100% downside scenario | 5,293 | 791 |
| 100% severe downside scenario | 6,472 | 1,970 |

***Fair Value Measurement of Financial Instruments***

The majority of valuation models the Group uses to value financial instruments employ only observable market data as inputs. This has not changed as a result of COVID-19.

For certain financial instruments, we may use data that is not readily observable in current markets where we need to exercise more management judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

The financial instruments which are subject to valuation using unobservable inputs are disclosed in the Group's fair value hierarchy in Note 15, and are predominantly equity investment securities where quoted prices in active markets are not available. At 31 March 2020 the Group had $1,296m of assets and $67m of liabilities where the valuation was primarily derived using an unobservable input (Sep 19: $1,272m assets and $52m liabilities; Mar 19: $1,365m assets and $43m liabilities).

The Group has an investment in the Bank of Tianjin (BoT), which at 31 March 2020 has a carrying value of $1,053m (Sep 19: $1,106m; Mar 19: $1,215m). As a result of persistent illiquidity of the quoted share price, the Group determines the fair value based on a valuation model using comparable bank pricing multiples as determined by management. Judgement is required in both the selection of the model and inputs used. Although the comparator group entities operate in the same industry, the nature of their business and local economic conditions may be different from the Group's investment. Thus where local conditions change, which impact the price-to-book ratio of the comparator group, the fair value of the asset will change proportionately. That is, if the price-to-book ratio changed by 10%, the fair value would change by 10%. As the asset is classified as fair value through other comprehensive income, changes in the fair value are reflected directly in equity.

***Investments in associates***

At 31 March 2020, the impairment assessment of non-lending assets identified that two of the Group's associate investments AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia (PT Panin) had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use (VIU) calculations to assess if the carrying value of the investments were impaired.

The VIU calculations are sensitive to a number of key assumptions, including discount rates, long term growth rates, future profitability and capital levels. Changes in key assumptions could have a positive or adverse impact on the recoverable amount of the investment. The key assumptions used in the VIU calculations are outlined below:

| | AmBank | | PT Panin | |
|---|---|---|---|---|
| | Mar 20 | Sep 19 | Mar 20 | Sep 19 |
| Carrying Value ($m) | 1,161 | 1,586 | 1,130 | 1,350 |
| Post-tax discount rate | 12.4% | 10.7% | 13.9% | 13.3% |
| Terminal growth rate | 4.9% | 4.8% | 5.3% | 5.3% |
| Expected NPAT growth (compound annual growth rate - 5 years) | 1.0% | 4.1% | 2.6% | 6.5% |
| Common Equity Tier 1 ratio | 11.5% | 11.9% to 12.7% | 12.3% | 11.6% |

While the underlying performance of both investments continues to be strong, the assumptions in the VIU were adjusted to reflect reasonable estimates of the impact of COVID-19 and the increased risks associated with the estimated cash flows. Accordingly in performing the VIU calculation as at 31 March 2020 expected NPAT growth estimates were reduced; higher risk weight asset growth estimates were used in the early years and a higher discount rate was used assuming that higher risk premiums would more than offset reductions in risk free rates.

As the adjusted VIU calculations did not support the carrying value of either investment as at 31 March 2020 the Group recorded an impairment charge of $815 million in the March 2020 half with AmBank impaired by $595 million and PT Panin impaired by $220 million. Both investments form part of the TSO and Group Centre operating segment.

The impact of COVID-19 on the valuation of AmBank and PT Panin is uncertain. Significant management judgment is required to determine the assumptions underpinning the VIU calculations. Changes in key assumptions could have a positive or adverse impact on the recoverable amount of the investment.

***Customer remediation provision***

At 31 March 2020, the Group has recognised provisions of $1,094 million (Sep 19: $1,139 million; Mar 19: $698 million) in respect of customer remediation which includes provisions for expected refunds to customers, remediation project costs and costs associated and related customer and regulatory claims, penalties and litigation outcomes.

Determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer, associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances.

Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, including expert legal advice, and adjustments are made to the provisions where appropriate.

***Other provisions***

The Group holds provisions for various obligations including restructuring costs and surplus lease space, non- lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. The appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, including expert legal advice, and adjustments are made to the provisions where appropriate.

***Useful lives of software***

Management judgement is used to assess the useful life of software assets. A number of factors can influence the useful lives of software assets, including changes to business strategy, significant divestments and the pace of technological change.

The Group reassess the useful lives of software assets on a semi-annual basis.

**v) Accounting policies**

These Condensed Consolidated Financial Statements have been prepared on the basis of accounting policies and using methods of computation consistent with those applied in the 2019 ANZ Annual Financial Report with the exception of policies associated with new standards adopted during the period as discussed below.

Discontinued operations are separately presented from the results of the continuing operations as a single line item 'profit/(loss) after tax from discontinued operations' in the Condensed Consolidated Income Statement. Notes to the Condensed Consolidated Income Statement have been presented on a continuing basis. Assets and liabilities of discontinued operations have been presented as held for sale in the Condensed Consolidated Balance Sheet as at 31 March 2020.

**Accounting standards adopted during the period**

**AASB 16 *Leases* (AASB 16)**

AASB 16 became effective for the Group from 1 October 2019 and replaced the previous standard AASB 117 Leases (AASB 117). AASB 16 primarily impacts the Group's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, the Group recognises all leases (except for leases of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Group recognises its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Group recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, the Group does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as operating expense in the income statement on a straight-line basis over the lease term.

The Group has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases was measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease.

Based on the modified retrospective transition approach, the Group recognised lease liabilities of $1.7 billion presented within Payables and other liabilities and right-of-use assets of $1.6 billion presented within Property Plant and Equipment. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million as of 1 October 2019. Comparatives have not been restated.

In addition, the Group elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

a) Impairment of ROU assets at the transition date were assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under AASB 117;
b) Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;
c) No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and
d) Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 September 2019 to the opening lease liabilities recognised under AASB 16 as at 1 October 2019.

| | $M |
|---|---|
| **Operating Lease Commitments as of 30 September 2019** | 1,656 |
| Increase in lease term for extension options | 210 |
| Exclusion of low value leases and leases of less than 12 months | (19) |
| Exclusion of service components | (10) |
| Other | (17) |
| **Total Undiscounted Lease Payments** | **1,820** |
| Effect of discounting at a weighted average incremental borrowing rate of 2.44% | (141) |
| **Total lease liabilities under AASB 16** | **1,679** |

During the reporting period, the Group recognised the following amounts in the income statement

| | $M |
|---|---|
| Depreciation expense on ROU assets | 203 |
| Interest expense on lease liabilities | 20 |
| Interest expense on makegood provisions | 1 |
| Rent expense in relation to low value leases and leases of less than 12 months | 11 |
| Other Income in relation to subleases | 12 |

The Group's accounting policies with respect to lease arrangements where it acts as lessor have not changed under AASB 16 except where the Group subleases certain leased properties. Where the Group acts as intermediate lessor, it classifies the sublease as either a finance lease or operating lease by reference to the ROU asset of the head lease. Income from operating subleases is recognised in Other Operating Income in the Income Statement.

**Interest Rate Benchmark Reform**

*Background*

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFR's) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

*Accounting amendments*

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the International Accounting Standards Board (IASB) has established a project to consider the financial reporting implications of the reform. The transition from LIBOR is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Group elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on the Group.

These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from the Group's ability to satisfy the existing prospective hedge effectiveness requirements of AASB 139. This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFR's, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. The Group has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

The IASB has commenced working on Phase 2 of its IBOR Reform project, which focuses on potential issues that might affect financial reporting once the existing rate is replaced with an alternative rate. The Group is monitoring these developments and continues to assess the expected financial impact.

*Impact of IBOR reform*

The Group has exposure to IBOR through its issuance of debt, the structural interest rate risk position, holdings of investment securities; products denominated in foreign currencies and associated hedging activities in our treasury and markets businesses within TSO and Group Centre and Institutional divisions respectively.

The Group has established an enterprise-wide Benchmark Transition Program to manage the transition. The program includes the assessment and actions necessary to accommodate the transition to RFR's as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The program includes management of the impact on customers.

*Impact of IBOR reform on the Group's hedging relationships*

The most significant interest rate benchmarks to which the Group's hedging relationships are exposed to are USD LIBOR, Euro Interbank Offered Rate (Euribor), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks the Group expects BBSW, BKBM and EURIBOR to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or EURIBOR benchmark fair value or cash flow hedges to be directly impacted by IBOR reform.

The table below details the carrying values of the Group's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally USD Libor. The nominal value of the associated hedging instruments are also included:

| Hedged items | | | As at 31 March 20<br>USD LIBOR exposures<br>AUD$M |
|---|---|---|---|
| Investment securities at FVOCI | | | 17,144 |
| Net loans and advances | | | 135 |
| Debt issuances | | | 42,935 |
| **Hedging instruments** | **Notional designated up to 31 December 2021 AUD$M** | **Notional designated beyond 31 December 2021 AUD$M** | **Total Notional Amount AUD $M** |
| Fair value hedges | 22,352 | 34,965 | 57,317 |
| Cash flow hedges | - | 1,212 | 1,212 |

As at 31 March, 2020 the Group also has GBP LIBOR, CHF LIBOR and JPY LIBOR exposures designated in hedge accounting relationships of $1,118 million, $1,073 million and $3,582 million respectively.

**vi) Future accounting developments**

***AASB 9 - General hedge accounting***

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 provides the Group with an accounting policy choice to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group currently applies the hedge accounting requirements of AASB 139.

## 2. Income

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| Interest income | **13,800** | 15,107 | 15,970 | -9% | -14% |
| Interest expense | **(6,382)** | (7,882) | (8,493) | -19% | -25% |
| Major bank levy | **(196)** | (185) | (178) | 6% | 10% |
| **Net interest income** | **7,222** | 7,040 | 7,299 | 3% | -1% |
| **Other operating income** | | | | | |
| **i) Fee and commission income** | | | | | |
| Lending fees[1] | **303** | 299 | 303 | 1% | 0% |
| Non-lending fees | **1,441** | 1,552 | 1,507 | -7% | -4% |
| Commissions | **46** | 76 | 48 | -39% | -4% |
| Funds management income | **139** | 126 | 128 | 10% | 9% |
| Fee and commission income | **1,929** | 2,053 | 1,986 | -6% | -3% |
| Fee and commission expense | **(752)** | (741) | (721) | 1% | 4% |
| **Net fee and commission income** | **1,177** | 1,312 | 1,265 | -10% | -7% |
| **ii) Other income** | | | | | |
| Net foreign exchange earnings and other financial instruments income[2] | **1,099** | 898 | 380 | 22% | large |
| Impairment of AmBank | **(595)** | - | - | n/a | n/a |
| Impairment of PT Panin | **(220)** | - | - | n/a | n/a |
| Sale of OPL NZ | **-** | 7 | 82 | -100% | -100% |
| Sale of Paymark | **-** | - | 37 | n/a | -100% |
| Sale of Cambodia JV | **-** | 10 | - | -100% | n/a |
| Sale of PNG Retail, Commercial & SME | **-** | 1 | - | -100% | n/a |
| Dividend income on equity securities | **-** | 28 | - | -100% | n/a |
| Other | **28** | 16 | 22 | 75% | 27% |
| **Other income** | **312** | 960 | 521 | -68% | -40% |
| **Other operating income** | **1,489** | 2,272 | 1,786 | -34% | -17% |
| **iii) Net income from insurance business** | **47** | 49 | 77 | -4% | -39% |
| **iv) Share of associates' profit** | **135** | 131 | 131 | 3% | 3% |
| **Operating income[3]** | **8,893** | 9,492 | 9,293 | -6% | -4% |

1. *Lending fees exclude fees treated as part of the effective yield calculation in interest income.*
2. *Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit and loss.*
3. *Includes charges associated with customer remediation of $58 million for the March 2020 half (Sep 19 half: $148 million; Mar 19 half: $64 million).*

## 3. Operating expenses

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| **i) Personnel** | | | | | |
| Salaries and related costs | **2,177** | 2,122 | 2,127 | 3% | 2% |
| Superannuation costs | **169** | 147 | 146 | 15% | 16% |
| Other | **119** | 126 | 97 | -6% | 23% |
| **Personnel**[1] | **2,465** | 2,395 | 2,370 | 3% | 4% |
| **ii) Premises** | | | | | |
| Rent[2] | **43** | 218 | 232 | -80% | -81% |
| Depreciation[3] | **263** | 86 | 81 | large | large |
| Other | **99** | 85 | 93 | 16% | 6% |
| **Premises** | **405** | 389 | 406 | 4% | 0% |
| **iii) Technology** | | | | | |
| Depreciation and amortisation[3] | **341** | 357 | 337 | -4% | 1% |
| Licences and outsourced services | **405** | 339 | 333 | 19% | 22% |
| Other | **93** | 74 | 94 | 26% | -1% |
| **Technology (excluding personnel)** | **839** | 770 | 764 | 9% | 10% |
| **iv) Restructuring** | **105** | 26 | 51 | large | large |
| **v) Other** | | | | | |
| Advertising and public relations | **89** | 129 | 97 | -31% | -8% |
| Professional fees | **293** | 308 | 229 | -5% | 28% |
| Freight, stationery, postage and communication | **104** | 109 | 107 | -5% | -3% |
| Royal Commission legal costs | **-** | 2 | 13 | -100% | -100% |
| Other | **305** | 578 | 328 | -47% | -7% |
| **Other**[1] | **791** | 1,126 | 774 | -30% | 2% |
| **Operating expenses**[1] | **4,605** | 4,706 | 4,365 | -2% | 5% |

1. *Includes customer remediation expenses of $71 million for the March 2020 half (Sep 19 half: $337 million; Mar 19 half: $36 million).*
2. *Following the adoption of AASB16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with operating leases are shown as depreciation of the right-of-use asset and interest expense associated with the lease liability (comparatives not restated).*
3. *Includes depreciation and amortisation on right-of-use assets which the Group commenced recognising on the adoption of AASB 16 (comparatives not restated).*

## 4. Income tax expense

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in the profit and loss.

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Profit before income tax from continuing operations | **2,614** | 4,384 | 4,536 | -40% | -42% |
| Prima facie income tax expense at 30% | **784** | 1,315 | 1,361 | -40% | -42% |
| Tax effect of permanent differences: | | | | | |
| Gains or losses on sale from divestments | **-** | (5) | (20) | -100% | -100% |
| Impairment of investment in AmBank and PT Panin | **245** | - | - | n/a | n/a |
| Share of associates' profit | **(41)** | (39) | (39) | 5% | 5% |
| Interest on convertible instruments | **29** | 30 | 33 | -3% | -12% |
| Overseas tax rate differential | **(35)** | (48) | (64) | -27% | -45% |
| Provision for foreign tax on dividend repatriation | **14** | 30 | 9 | -53% | 56% |
| Tax provisions no longer required | **-** | (8) | (6) | -100% | -100% |
| Other | **5** | 71 | 6 | -93% | -17% |
| Subtotal | **1,001** | 1,346 | 1,280 | -26% | -22% |
| Income tax (over)/under provided in previous years | **(23)** | (21) | 4 | 10% | large |
| **Income tax expense** | **978** | 1,325 | 1,284 | -26% | -24% |
| Australia | **580** | 867 | 815 | -33% | -29% |
| Overseas | **398** | 458 | 469 | -13% | -15% |
| **Income tax expense** | **978** | 1,325 | 1,284 | -26% | -24% |
| **Effective tax rate** | **37.4%** | 30.2% | 28.3% | | |

## 5. Dividends

| Dividend per ordinary share (cents) | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 | Sep 19 | Mar 19 | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| Interim | | | | | |
| - fully franked[1,2,3] | **TBD** | N/A | 80 | | |
| - partially franked[1] | **TBD** | N/A | N/A | | |
| Final | | | | | |
| - partially franked[3,4] | **N/A** | 80 | N/A | | |
| Total | **TBD** | 80 | 80 | | |
| | | | | | |
| **Ordinary share dividend ($M)[5]** | | | | | |
| Interim dividend | **-** | 2,267 | - | | |
| Final dividend | **2,268** | - | 2,295 | | |
| Bonus option plan adjustment | **(40)** | (40) | (41) | 0% | -2% |
| **Total** | **2,228** | 2,227 | 2,254 | 0% | -1% |
| **Ordinary share dividend payout ratio (%)[6]** | **TBD** | 81.6% | 71.4% | | |

1. *The decision on the payment of a 2020 interim dividend has been deferred until the economic outlook is clearer and an update will be provided at the August 2020 market update.*
2. *Fully franked for Australian tax purposes (30% tax rate) for the 2019 interim dividend.*
3. *Carries New Zealand imputation credits of NZD 9 cents for the 2019 interim and final dividend.*
4. *Partially franked at 70% for Australian tax purposes (30% tax rate).*
5. *Dividends paid to ordinary equity holders of the Company. Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (Sep 19 half: $1.6 million; Mar 19 half: nil).*
6. *The dividend payout ratio for the March 2020 half will be determined when the decision on the 2020 interim dividend has been made. Dividend payout ratios for the September 2019 half and March 2019 half were calculated using actual dividend paid of $2,268 million and $2,267 million respectively.*

With consideration to the current uncertainties in the economic outlook and the letter issued by the Australian Prudential Regulation Authority (APRA) to all Authorised Deposit Taking Institutions (ADIs) on 7 April 2020, on capital management and the ongoing Coronavirus (COVID-19) pandemic, the ANZ board has deferred the decision on the payment of a 2020 interim dividend until the economic outlook is clearer. Decisions in relation to the Dividend Reinvestment Plan and Bonus Option Plan will also be made at that time as applicable.

The Board will continue to deliberate and an update will be provided at the August 2020 market update.

## 6. Earnings per share

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 | Sep 19 | Mar 19 | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| **Earnings Per Share (EPS) - Basic** | | | | | |
| Earnings Per Share (cents) | **54.6** | 98.3 | 111.7 | -44% | -51% |
| Earnings Per Share (cents) from continuing operations[1] | **57.8** | 107.9 | 114.1 | -46% | -49% |
| Earnings Per Share (cents) from discontinued operations | **(3.2)** | (9.6) | (2.4) | -67% | 33% |
| **Earnings Per Share (EPS) - Diluted** | | | | | |
| Earnings Per Share (cents) | **51.5** | 94.7 | 106.4 | -46% | -52% |
| Earnings Per Share (cents) from continuing operations[1] | **54.3** | 103.6 | 108.7 | -48% | -50% |
| Earnings Per Share (cents) from discontinued operations | **(2.8)** | (8.9) | (2.3) | -69% | 22% |

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (after eliminating ANZ shares held within the Group known as treasury shares). Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares used in the basic EPS calculation for the effect of dilutive potential ordinary shares.

| | Mar 20 | Sep 19 | Mar 19 | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
|---|---|---|---|---|---|
| **Reconciliation of earnings used in earnings per share calculations** | | | | | |
| **Basic:** | | | | | |
| Profit for the period ($M) | **1,546** | 2,786 | 3,182 | -45% | -51% |
| Less: Profit attributable to non-controlling interests ($M) | **1** | 6 | 9 | -83% | -89% |
| **Earnings used in calculating basic earnings per share ($M)** | **1,545** | 2,780 | 3,173 | -44% | -51% |
| Less: Profit/(Loss) after tax from discontinued operations ($M) | **(90)** | (273) | (70) | -67% | 29% |
| **Earnings used in calculating basic earnings per share from continuing operations ($M)** | **1,635** | 3,053 | 3,243 | -46% | -50% |
| **Diluted:** | | | | | |
| **Earnings used in calculating basic earnings per share ($M)** | **1,545** | 2,780 | 3,173 | -44% | -51% |
| Add: Interest on convertible subordinated debt ($M) | **124** | 131 | 137 | -5% | -9% |
| **Earnings used in calculating diluted earnings per share ($M)** | **1,669** | 2,911 | 3,310 | -43% | -50% |
| Less: Profit/(Loss) after tax from discontinued operations ($M) | **(90)** | (273) | (70) | -67% | 29% |
| **Earnings used in calculating diluted earnings per share from continuing operations ($M)** | **1,759** | 3,184 | 3,380 | -45% | -48% |
| **Reconciliation of weighted average number of ordinary shares (WANOS) used in earnings per share calculations[1,2]** | | | | | |
| **WANOS used in calculating basic earnings per share (M)** | **2,830.6** | 2,828.4 | 2,841.3 | 0% | 0% |
| Add: Weighted average dilutive potential ordinary shares (M) | | | | | |
| Convertible subordinated debt (M) | **401.4** | 237.9 | 260.5 | 69% | 54% |
| Share based payments (options, rights and deferred shares) (M) | **6.6** | 8.3 | 8.4 | -20% | -21% |
| **WANOS used in calculating diluted earnings per share (M)** | **3,238.6** | 3,074.6 | 3,110.2 | 5% | 4% |

1. *The successor fund transfer performed in preparation for the sale of the Group's wealth businesses to Zurich and IOOF was completed on 13 April 2019. Post this date, treasury shares held in Wealth Australia discontinued operations ceased to be eliminated in the Group's consolidated financial statements and are included in the denominator used in calculating earnings per share. If the weighted average number of treasury shares held in Wealth Australia discontinued operations was included in the denominator used in calculating earnings per share from continuing operations in the comparative periods, basic earnings per share from continuing operations for the September 2019 half and March 2019 half would have been 107.9 cents and 113.5 cents respectively and diluted earnings per share from continuing operations for the September 2019 half and March 2019 half would have been 103.5 cents and 108.1 cents respectively.*
2. *Weighted average number of ordinary shares excludes the weighted average number of treasury shares held in ANZEST and Wealth Australia discontinued operations as summarised in the table below:*

| | *Mar 20 half (Million)* | *Sep 19 half (Million)* | *Mar 19 half (Million)* |
|---|---|---|---|
| *ANZEST Pty Ltd* | *4.9* | *4.6* | *4.9* |
| *Wealth Australia discontinued operations* | *-* | *0.9* | *15.6* |
| ***Total treasury shares*** | ***4.9*** | ***5.5*** | ***20.5*** |

## 7. Segment analysis

### i) Description of segments

The Group operates on a divisional structure with five continuing divisions: Australia Retail and Commercial, New Zealand, Institutional, Pacific, and TSO and Group Centre. For further information on the composition of divisions refer to the Definitions on page 141.

The presentation of divisional results has not been impacted by methodology or structural changes during the period.

The divisions reported below are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

### ii) Operating segments

ANZ measures the performance of continuing segments on a cash profit basis. To calculate cash profit, certain non-core items are removed from statutory profit. Details of these items are included in the 'Other items' section of this note. Transactions between divisions across segments within ANZ are conducted on an arm's-length basis and disclosed as part of the income and expenses of these segments.

For information on discontinued operations please refer to Note 12.

| March 2020 Half Year | Australia Retail and Commercial $M | Institutional $M | New Zealand $M | Pacific $M | TSO and Group Centre $M | Other items[1] $M | Group Total $M |
|---|---|---|---|---|---|---|---|
| Net interest income | 4,048 | 1,624 | 1,410 | 65 | 75 | - | 7,222 |
| Net fee and commission income | | | | | | | |
| - Lending fees | 133 | 156 | 8 | 6 | - | - | 303 |
| - Non-lending fees | 694 | 406 | 331 | 18 | (8) | - | 1,441 |
| - Commissions | 25 | - | 21 | - | - | - | 46 |
| - Funds management income | 12 | 1 | 126 | - | - | - | 139 |
| - Fee and commission expense | (322) | (178) | (248) | (4) | - | - | (752) |
| Net income from insurance business | 47 | - | - | - | - | - | 47 |
| Other income | 6 | 782 | 9 | 30 | (829) | 314 | 312 |
| Share of associates' profit | - | - | - | - | 135 | - | 135 |
| Operating income | 4,643 | 2,791 | 1,657 | 115 | (627) | 314 | 8,893 |
| Profit/(Loss) after tax from continuing operations | 1,214 | 610 | 567 | 20 | (998) | 222 | 1,635 |
| Profit/(Loss) after tax from discontinued operations | | | | | | | (90) |
| **Profit after tax attributable to shareholders** | | | | | | | 1,545 |

1. *In evaluating the performance of the operating segments, certain items are removed from statutory profit where they are not considered integral to the ongoing performance of the segment and are evaluated separately.*

## 7. Segment analysis, cont'd

| | Australia Retail and Commercial | Institutional | New Zealand | Pacific | TSO and Group Centre | Other items[1] | Group Total |
|---|---|---|---|---|---|---|---|
| **September 2019 Half Year** | **$M** | **$M** | **$M** | **$M** | **$M** | **$M** | **$M** |
| Net interest income | 4,000 | 1,501 | 1,351 | 60 | 128 | - | 7,040 |
| Net fee and commission income | | | | | | | |
| - Lending fees | 146 | 138 | 8 | 7 | - | - | 299 |
| - Non-lending fees | 791 | 412 | 337 | 22 | (10) | - | 1,552 |
| - Commissions | 35 | - | 40 | - | 1 | - | 76 |
| - Funds management income | 4 | 1 | 123 | - | (2) | - | 126 |
| - Fee and commission expense | (335) | (170) | (232) | (5) | 1 | - | (741) |
| Net income from insurance business | 48 | - | - | - | 1 | - | 49 |
| Other income | 9 | 685 | 2 | 30 | 25 | 209 | 960 |
| Share of associates' profit | (2) | - | - | - | 133 | - | 131 |
| Operating income | 4,696 | 2,567 | 1,629 | 114 | 277 | 209 | 9,492 |
| Profit/(Loss) after tax from continuing operations | 1,492 | 816 | 646 | 26 | (74) | 147 | 3,053 |
| Profit/(Loss) after tax from discontinued operations | | | | | | | (273) |
| **Profit after tax attributable to shareholders** | | | | | | | 2,780 |
| **March 2019 Half Year** | | | | | | | |
| Net interest income | 4,092 | 1,579 | 1,385 | 68 | 175 | - | 7,299 |
| Net fee and commission income | | | | | | | |
| - Lending fees | 144 | 144 | 8 | 7 | - | - | 303 |
| - Non-lending fees | 708 | 435 | 354 | 20 | (10) | - | 1,507 |
| - Commissions | 40 | - | 21 | - | (13) | - | 48 |
| - Funds management income | 10 | 1 | 120 | - | (3) | - | 128 |
| - Fee and commission expense | (322) | (168) | (227) | (4) | - | - | (721) |
| Net income from insurance business | 52 | - | 18 | - | - | 7 | 77 |
| Other income | 18 | 714 | 4 | 27 | 218 | (460) | 521 |
| Share of associates' profit | 1 | - | 4 | - | 126 | - | 131 |
| Operating income | 4,743 | 2,705 | 1,687 | 118 | 493 | (453) | 9,293 |
| Profit/(Loss) after tax from continuing operations | 1,703 | 1,012 | 753 | 33 | 63 | (321) | 3,243 |
| Profit/(Loss) after tax from discontinued operations | | | | | | | (70) |
| **Profit after tax attributable to shareholders** | | | | | | | 3,173 |

1. *In evaluating the performance of the operating segments, certain items are removed from statutory profit where they are not considered integral to the ongoing performance of the segment and are evaluated separately.*

### iii) Other items

The table below sets out the profit after tax impact of other items which are removed from statutory profit to reflect the cash profit of each segment.

| | | Half Year | | | Movement | |
|---|---|---|---|---|---|---|
| **Item gains/(losses)** | **Related segment** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Revaluation of policy liabilities | New Zealand | - | - | (77) | n/a | -100% |
| Economic hedges | Institutional, New Zealand, TSO and Group Centre | 340 | 67 | (185) | large | large |
| Revenue and expense hedges | TSO and Group Centre | (120) | 79 | (60) | large | 100% |
| Structured credit intermediation trades | Institutional | 2 | 1 | 1 | 100% | 100% |
| Total from continuing operations | | 222 | 147 | (321) | 51% | large |

## 8. Net loans and advances

| | As at | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| **Australia** | | | | | |
| Overdrafts | **4,997** | 5,867 | 5,832 | -15% | -14% |
| Credit cards outstanding | **7,383** | 7,781 | 8,168 | -5% | -10% |
| Commercial bills outstanding | **6,414** | 6,159 | 6,441 | 4% | 0% |
| Term loans - housing | **263,596** | 264,786 | 268,766 | 0% | -2% |
| Term loans - non-housing | **164,346** | 145,538 | 132,733 | 13% | 24% |
| Lease receivables | **1,066** | 929 | 966 | 15% | 10% |
| Hire purchase contracts | **452** | 535 | 561 | -16% | -19% |
| Total Australia | **448,254** | 431,595 | 423,467 | 4% | 6% |
| **Asia, Pacific, Europe & America** | | | | | |
| Overdrafts | **476** | 541 | 611 | -12% | -22% |
| Credit cards outstanding | **7** | 7 | 12 | 0% | -42% |
| Term loans - housing | **531** | 504 | 770 | 5% | -31% |
| Term loans - non-housing[1] | **78,803** | 61,491 | 61,405 | 28% | 28% |
| Lease receivables[1] | **29** | 274 | 305 | -89% | -90% |
| Other | **28** | 19 | 13 | 47% | large |
| Total Asia, Pacific, Europe & America | **79,874** | 62,836 | 63,116 | 27% | 27% |
| **New Zealand** | | | | | |
| Overdrafts | **795** | 859 | 1,040 | -7% | -24% |
| Credit cards outstanding | **1,389** | 1,453 | 1,552 | -4% | -11% |
| Term loans - housing | **85,301** | 78,518 | 79,410 | 9% | 7% |
| Term loans - non-housing | **43,373** | 41,308 | 42,930 | 5% | 1% |
| Lease receivables | **138** | 146 | 162 | -5% | -15% |
| Hire purchase contracts | **1,657** | 1,580 | 1,592 | 5% | 4% |
| Total New Zealand | **132,653** | 123,864 | 126,686 | 7% | 5% |
| **Sub-total** | **660,781** | 618,295 | 613,269 | 7% | 8% |
| Unearned income | **(368)** | (398) | (446) | -8% | -17% |
| Capitalised brokerage/mortgage origination fees[2] | **865** | 870 | 947 | -1% | -9% |
| **Gross loans and advances (including assets reclassified as held for sale)** | **661,278** | 618,767 | 613,770 | 7% | 8% |
| Allowance for expected credit losses (refer to Note 9) | **(4,669)** | (3,509) | (3,601) | 33% | 30% |
| **Net loans and advances (including assets reclassified as held for sale)** | **656,609** | 615,258 | 610,169 | 7% | 8% |
| Net loans and advances held for sale (refer to Note 12) | **-** | - | (888) | n/a | -100% |
| **Net loans and advances** | **656,609** | 615,258 | 609,281 | 7% | 8% |

1. *During the March 2020 half, the Group reclassified certain arrangements from Lease receivables to Term loans – non-housing. Comparatives were not restated.*
2. *Capitalised brokerage/mortgage origination fees are amortised over the expected life of the loan.*

## 9. Allowance for expected credit losses

The following tables present the movement in the allowance for ECL (including allowance for ECL on financial assets held for sale) for the March 2020, September 2019 and March 2019 half year's.

**Net loans and advances - at amortised cost**

Allowance for ECL is included in Net loans and advances.

| | | | Stage 3 | | |
|---|---|---|---|---|---|
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| **As at 1 October 2018** | 920 | 1,391 | 359 | 894 | **3,564** |
| Transfer between stages | 133 | (228) | (53) | 148 | **-** |
| New and increased provisions (net of releases) | (124) | 244 | 74 | 475 | **669** |
| Write-backs | - | - | - | (152) | **(152)** |
| Bad debts written off (excluding recoveries) | - | - | - | (498) | **(498)** |
| Foreign currency translation and other movements | 11 | 8 | 1 | (2) | **18** |
| **As at 31 March 2019** | **940** | **1,415** | **381** | **865** | **3,601** |
| Transfer between stages | 160 | (253) | (87) | 180 | **-** |
| New and increased provisions (net of releases) | (172) | 221 | 122 | 569 | **740** |
| Write-backs | - | - | - | (230) | **(230)** |
| Bad debts written off (excluding recoveries) | - | - | - | (578) | **(578)** |
| Foreign currency translation and other movements | (1) | (5) | (3) | (15) | **(24)** |
| **As at 30 September 2019** | **927** | **1,378** | **413** | **791** | **3,509** |
| Transfer between stages | 204 | (270) | (95) | 161 | **-** |
| New and increased provisions (net of releases) | 30 | 840 | 132 | 718 | **1,720** |
| Write-backs | - | - | - | (164) | **(164)** |
| Bad debts written off (excluding recoveries) | - | - | - | (469) | **(469)** |
| Foreign currency translation and other movements | 30 | 20 | 5 | 18 | **73** |
| **As at 31 March 2020** | **1,191** | **1,968** | **455** | **1,055** | **4,669** |

**Investment securities - debt securities at amortised cost**

Allowance for ECL is included in Investment securities.

| | | | Stage 3 | | |
|---|---|---|---|---|---|
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| **As at 1 October 2018** | 9 | 2 | - | - | 11 |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | 2 | (1) | - | - | 1 |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | - | - | - | - | - |
| **As at 31 March 2019** | **11** | **1** | **-** | **-** | **12** |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | - | - | - | - | - |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | 1 | - | - | - | 1 |
| **As at 30 September 2019** | **12** | **1** | **-** | **-** | **13** |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | 1 | - | - | - | 1 |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | 1 | - | - | - | 1 |
| **As at 31 March 2020** | **14** | **1** | **-** | **-** | **15** |

## 9. Allowance for expected credit losses, cont'd

**Investment securities - debt securities at FVOCI**

For FVOCI assets, the allowance for ECL does not alter the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI) with a corresponding charge to profit or loss.

| | | | Stage 3 | | |
|---|---|---|---|---|---|
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| **As at 1 October 2018** | 14 | - | - | - | 14 |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | (3) | - | - | - | (3) |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | - | - | - | - | - |
| **As at 31 March 2019** | **11** | **-** | **-** | **-** | **11** |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | 1 | - | - | - | 1 |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | (4) | - | - | - | (4) |
| **As at 30 September 2019** | **8** | **-** | **-** | **-** | **8** |
| Transfer between stages | - | - | - | - | - |
| New and increased provisions (net of releases) | 1 | - | - | - | 1 |
| Write-backs | - | - | - | - | - |
| Bad debts written off (excluding recoveries) | - | - | - | - | - |
| Foreign currency translation and other movements | - | - | - | - | - |
| **As at 31 March 2020** | **9** | **-** | **-** | **-** | **9** |

**Off-balance sheet commitments - undrawn and contingent facilities**
Allowance for ECL is included in Provisions.

| | | | Stage 3 | | |
|---|---|---|---|---|---|
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| **As at 1 October 2018** | 474 | 166 | 15 | 26 | **681** |
| Transfer between stages | 19 | (19) | - | - | **-** |
| New and increased provisions (net of releases) | (34) | 3 | (1) | 1 | **(31)** |
| Write-backs | - | - | - | - | **-** |
| Bad debts written off (excluding recoveries) | - | - | - | - | **-** |
| Foreign currency translation and other movements | 5 | 2 | - | (1) | 6 |
| **As at 31 March 2019** | **464** | **152** | **14** | **26** | **656** |
| Transfer between stages | 18 | (20) | 1 | 1 | **-** |
| New and increased provisions (net of releases) | (12) | 19 | 6 | - | **13** |
| Write-backs | - | - | - | (3) | **(3)** |
| Bad debts written off (excluding recoveries) | - | - | - | - | **-** |
| Foreign currency translation and other movements | 3 | - | - | (1) | **2** |
| **As at 30 September 2019** | **473** | **151** | **21** | **23** | **668** |
| Transfer between stages | 20 | (24) | (2) | 6 | **-** |
| New and increased provisions (net of releases) | 98 | 115 | (2) | 15 | **226** |
| Write-backs | - | - | - | (6) | **(6)** |
| Bad debts written off (excluding recoveries) | - | - | - | - | **-** |
| Foreign currency translation and other movements | 19 | 2 | 1 | - | 22 |
| **As at 31 March 2020** | **610** | **244** | **18** | **38** | **910** |

## 9. Allowance for expected credit losses, cont'd

**Credit impairment charge/(release) analysis**

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| New and increased provisions (net of releases)[1] | | | | | |
| - Collectively assessed | 1,048 | 4 | 12 | large | large |
| - Individually assessed | 900 | 750 | 624 | 20% | 44% |
| Write-backs | (170) | (233) | (152) | -27% | 12% |
| Recoveries of amounts previously written off | (104) | (119) | (93) | -13% | 12% |
| Total credit impairment charge | 1,674 | 402 | 391 | large | large |
| Less: credit impairment charge/(release) from discontinued operations | - | - | (1) | n/a | -100% |
| **Total credit impairment charge from continuing operations** | **1,674** | **402** | **392** | large | large |

1. *Includes the impact of transfers between collectively assessed and individually assessed.*

## 10. Deposits and other borrowings

| | As at | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| **Australia** | | | | | |
| Certificates of deposit | **34,733** | 32,953 | 39,481 | 5% | -12% |
| Term deposits | **69,056** | 74,560 | 77,714 | -7% | -11% |
| On demand and short term deposits | **220,135** | 196,261 | 180,863 | 12% | 22% |
| Deposits not bearing interest | **14,410** | 12,765 | 12,202 | 13% | 18% |
| Deposits from banks and securities sold under repurchase agreements | **52,942** | 43,447 | 49,964 | 22% | 6% |
| Commercial paper | **17,435** | 9,413 | 12,530 | 85% | 39% |
| Total Australia | **408,711** | 369,399 | 372,754 | 11% | 10% |
| **Asia, Pacific, Europe & America** | | | | | |
| Certificates of deposit | **1,494** | 2,318 | 3,215 | -36% | -54% |
| Term deposits | **121,141** | 101,586 | 94,396 | 19% | 28% |
| On demand and short term deposits | **24,211** | 20,787 | 19,930 | 16% | 21% |
| Deposits not bearing interest | **7,101** | 4,648 | 5,234 | 53% | 36% |
| Deposits from banks and securities sold under repurchase agreements | **46,397** | 33,891 | 34,705 | 37% | 34% |
| Total Asia, Pacific, Europe & America | **200,344** | 163,230 | 157,480 | 23% | 27% |
| **New Zealand** | | | | | |
| Certificates of deposit | **1,651** | 1,375 | 874 | 20% | 89% |
| Term deposits | **50,414** | 50,941 | 50,890 | -1% | -1% |
| On demand and short term deposits | **45,978** | 39,216 | 41,011 | 17% | 12% |
| Deposits not bearing interest | **14,050** | 10,929 | 10,383 | 29% | 35% |
| Deposits from banks and securities sold under repurchase agreements | **1,422** | 188 | 245 | large | large |
| Commercial paper and other borrowings | **4,339** | 2,399 | 2,896 | 81% | 50% |
| Total New Zealand | **117,854** | 105,048 | 106,299 | 12% | 11% |
| **Total deposits and other borrowings (including liabilities reclassified as held for sale)** | **726,909** | 637,677 | 636,533 | 14% | 14% |
| Deposits and other borrowings held for sale (refer to Note 12) | **-** | - | (1,544) | n/a | -100% |
| **Total deposits and other borrowings** | **726,909** | 637,677 | 634,989 | 14% | 14% |

## 11. Other provisions

| | As at | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| ECL allowance on undrawn facilities | 910 | 668 | 656 | 36% | 39% |
| Customer remediation | 1,094 | 1,139 | 698 | -4% | 57% |
| Restructuring costs | 128 | 64 | 114 | 100% | 12% |
| Non-lending losses, frauds and forgeries | 82 | 94 | 101 | -13% | -19% |
| Other | 559 | 350 | 174 | 60% | large |
| Total other provisions (including liabilities reclassified as held for sale) | 2,773 | 2,315 | 1,743 | 20% | 59% |
| Less: Other provisions reclassified as held for sale | - | (91) | (63) | -100% | -100% |
| Total other provisions | 2,773 | 2,224 | 1,680 | 25% | 65% |

**Customer remediation**

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

**Restructuring costs**

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

**Non-lending losses, frauds and forgeries**

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

**Other**

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises, warranties and indemnities provided in connection with various disposals of businesses and assets, and contingent liabilities recognised as part of a business combination.

## 12. Discontinued operations and assets and liabilities held for sale

### i) Discontinued operations

In October 2017, the Group announced it had agreed to sell its OnePath pensions and investments (OnePath P&I) business and Aligned Dealer Groups (ADGs) businesses to IOOF. The sale of the ADG business completed on 1 October 2018 and the sale of OnePath P&I business was completed on 31 January 2020.

In December 2017, the Group announced that it had agreed to the sale of its life insurance business to Zurich Financial Services Australia (Zurich) and the transaction was completed on 31 May 2019.

As a result of the sale transactions outlined above, the financial results of the businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a reporting perspective.

Details of the financial performance and cash flows of discontinued operations are shown below.

**Income Statement**

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Net interest income | **(5)** | (19) | (57) | -74% | -91% |
| Other operating income | **(109)** | 46 | 199 | large | large |
| Operating income | **(114)** | 27 | 142 | large | large |
| Operating expenses | **(120)** | (228) | (221) | -47% | -46% |
| Profit/(Loss) before credit impairment and income tax | **(234)** | (201) | (79) | 16% | large |
| Credit impairment (charge)/release | **-** | - | 1 | n/a | -100% |
| Profit/(Loss) before income tax | **(234)** | (201) | (78) | 16% | large |
| Income tax (expense)/benefit | **144** | (72) | 8 | large | large |
| **Profit/(Loss) for the period attributable to shareholders of the Company[1]** | **(90)** | (273) | (70) | -67% | 29% |

1. *Includes the results of the OnePathP&I business up to sale completion in January 2020 and the life insurance business up to the sale completion in May 2019.*

**Income Statement impact relating to discontinued operations**

During the March 2020 half, the Group recognised the following impacts in relation to discontinued operations:

- $16 million loss on disposal ($11 million loss after tax) recorded in operating income attributable to sale completion costs.
- $124 million of customer remediation charges ($128 million recorded in operating income and -$4 million recorded in operating expenses) and an associated $30 million tax benefit.
- $101 million charge was recorded in operating income offset by a $101 million tax benefit within income tax expense relating to the finalisation of the policyholder tax position associated with the sale of the life insurance business to Zurich.

During the September 2019 half, the Group recognised the following impacts in relation to discontinued operations:

- $1 million net loss from sale related adjustments and write-downs, partially offset by the recycling of gains previously deferred in equity reserves on sale completion recorded in operating income, and a $64 million income tax expense.
- $166 million of customer remediation charges ($106 million recorded in operating income and $60 million recorded in operating expenses) and an associated $12 million tax benefit.

During the March 2019 half, the Group recognised the following impacts in relation to discontinued operations:

- $75 million of customer remediation charges ($55 million recorded in operating income and $20 million recorded in operating expenses) and an associated $22 million tax benefit.

**Cash Flow Statement**

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Net cash provided by/(used in) operating activities | (25) | 37 | (589) | large | -96% |
| Net cash provided by/(used in) investing activities | - | 34 | 803 | -100% | -100% |
| Net cash provided by/(used in) financing activities | 25 | (71) | (219) | large | large |
| **Net increase/(decrease) in cash and cash equivalents** | **-** | - | (5) | n/a | -100% |

## 12. Discontinued operations and assets and liabilities held for sale, cont'd

### ii) Assets and liabilities held for sale

At 31 March 2020, there were no assets and liabilities held for sale.

In the prior periods assets and liabilities held for sale included the assets and liabilities associated with the Group's discontinued operations as well as the assets and liabilities of other assets or disposal groups, subject to sale, which do not meet the criteria to classify as a discontinued operation under the accounting standards. The assets and liabilities held for sale were re-measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement and continue to be recognised at their carrying value upon reclassification to held for sale.

**Assets and liabilities held for sale[1]**

| | As at 30 September 2019 | | As at 31 March 2019 | | | |
|---|---|---|---|---|---|---|
| | Discontinued operations $M | Total $M | Discontinued operations $M | Cambodia JV $M | PNG Retail, Commercial & SME $M | Total $M |
| Cash and cash equivalents | - | **-** | - | 267 | - | **267** |
| Trading securities[2] | 919 | 919 | - | - | - | - |
| Derivative financial instruments | - | **-** | - | 1 | - | **1** |
| Investment securities | - | **-** | 1,167 | - | - | **1,167** |
| Net loans and advances | - | **-** | 43 | 700 | 145 | **888** |
| Regulatory deposits | - | **-** | - | 145 | - | **145** |
| Deferred tax assets | 16 | **16** | 97 | 2 | - | **99** |
| Goodwill and other intangible assets | 394 | **394** | 1,138 | - | - | **1,138** |
| Investments backing policy liabilities[2] | - | **-** | 39,191 | - | - | **39,191** |
| Premises and equipment | 1 | **1** | 2 | 5 | 6 | **13** |
| Other assets | 501 | **501** | 590 | 50 | - | **640** |
| **Total assets held for sale** | **1,831** | **1,831** | **42,228** | **1,170** | **151** | **43,549** |
| | | | | | | |
| Deposits and other borrowings | - | **-** | - | 1,064 | 480 | **1,544** |
| Current tax liabilities | 3 | **3** | (192) | 4 | - | **(188)** |
| Deferred tax liabilities | 105 | **105** | 338 | 1 | - | **339** |
| Policy liabilities | - | **-** | 38,787 | - | - | **38,787** |
| External unit holder liabilities | - | **-** | 4,590 | - | - | **4,590** |
| Payables and other liabilities | 1,914 | **1,914** | 1,349 | 53 | - | **1,402** |
| Provisions[3] | 99 | **99** | 35 | 42 | 4 | **81** |
| **Total liabilities held for sale** | **2,121** | **2,121** | **44,907** | **1,164** | **484** | **46,555** |

1. *Amounts are shown net of intercompany balances.*
2. *The successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result, OnePath P&I assets previously held as Investments backing policy liabilities were shown as Trading securities at 30 September 2019.*
3. *Includes employee entitlements of $8 million at September 2019, $18 million at March 2019 and other provisions of $91 million at September 2019, $63 million at March 2019.*

## 12. Discontinued operations and assets and liabilities held for sale, cont'd

Other strategic divestments not classified as discontinued operations but have been presented as held for sale at 31 March 2019 include:

- **ANZ Royal Bank (Cambodia) Ltd (Cambodia JV) – Institutional division**

  In May 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV ANZ Royal Bank to J Trust, a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction was completed on 19 August 2019.

- **Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses (PNG Retail, Commercial & SME) – Institutional division**

  In June 2018, the Group announced it had entered into an agreement to sell its Retail, Commercial and Small-Medium Sized Enterprise (SME) banking businesses in Papua New Guinea to Kina Bank. The transaction was completed on 23 September 2019.

**Income Statement impact relating to assets and liabilities held for sale in continuing operations**

During the September 2019 half, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $10 million gain after tax relating to the sale of Cambodia JV, comprising a $30 million release from the foreign currency translation reserve, a $17 million dividend withholding tax associated with the sale completion and $3 million of asset write-offs.
- $7 million provision release relating to the sale completion of OPL NZ.
- $1 million gain after tax relating to the sale of PNG Retail, Commercial and SME, net of costs associated with the sale.

During the March 2019 half, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $69 million gain after tax relating to the sale of the OPL NZ business, comprising a $56 million gain on sale, a $26 million release from the foreign currency translation reserve and a $13 million income tax expense.
- $37 million gain after tax relating to the sale of the Paymark.

The impacts on continuing operations are shown in the relevant Income Statement categories.

## 13. Debt issuances

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| **Total unsubordinated debt** | **119,136** | 113,105 | 113,424 | 5% | 5% |
| **Additional Tier 1 Capital (perpetual subordinated securities)**[1] | | | | | |
| ANZ Capital Notes (ANZ CN)[2] | | | | | |
| ANZ CN1 | **1,119** | 1,118 | 1,118 | 0% | 0% |
| ANZ CN2 | **1,607** | 1,607 | 1,606 | 0% | 0% |
| ANZ CN3 | **966** | 966 | 965 | 0% | 0% |
| ANZ CN4 | **1,613** | 1,612 | 1,611 | 0% | 0% |
| ANZ CN5 | **926** | 925 | 925 | 0% | 0% |
| ANZ Capital Securities[3] | **1,712** | 1,481 | 1,336 | 16% | 28% |
| ANZ NZ Capital Notes[4] | **487** | 462 | 478 | 5% | 2% |
| **Tier 2 Capital** | | | | | |
| Perpetual subordinated notes[5] | **485** | 444 | 423 | 9% | 15% |
| Term subordinated notes[6] | **12,197** | 7,971 | 7,806 | 53% | 56% |
| **Total subordinated debt** | **21,112** | 16,586 | 16,268 | 27% | 30% |
| **Total debt issuances** | **140,248** | 129,691 | 129,692 | 8% | 8% |

*1. ANZ Capital Notes, ANZ Capital Securities and the ANZ NZ Capital Notes are Basel 3 compliant instruments.*

*2. Each of the ANZ Capital Notes will convert into a variable number of ANZ ordinary shares on a specified mandatory conversion date at a 1% discount (subject to certain conditions being satisfied). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, or ANZ receives a notice of non-viability from APRA, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, the notes are redeemable or convertible to ANZ ordinary shares (on similar terms to mandatory conversion) by ANZ at its discretion on an early redemption or conversion date.*

| | Issuer | Issue date | Issue Amount $M | Early redemption or conversion date | Mandatory conversion date |
|---|---|---|---|---|---|
| CN1 | ANZ | 7 Aug 2013 | 1,120 | 1 Sep 2021 | 1 Sep 2023 |
| CN2 | ANZ | 31 Mar 2014 | 1,610 | 24 Mar 2022 | 24 Mar 2024 |
| CN3 | ANZ, acting through its New Zealand branch | 5 Mar 2015 | 970 | 24 Mar 2023 | 24 Mar 2025 |
| CN4 | ANZ | 27 Sep 2016 | 1,622 | 20 Mar 2024 | 20 Mar 2026 |
| CN5 | ANZ | 28 Sep 2017 | 931 | 20 Mar 2025 | 20 Mar 2027 |

*3. On 15 June 2016, ANZ acting through its London branch issued fully-paid perpetual subordinated contingent convertible securities (ANZ Capital Securities). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, or ANZ receives a notice of non-viability from APRA, then the securities will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on the First Reset Date (15 June 2026) and each 5 year anniversary, ANZ has the right to redeem all of the securities at its discretion.*

*4. On 31 March 2015, ANZ Bank New Zealand Limited (ANZ Bank NZ) issued convertible notes (ANZ NZ Capital Notes) which will convert into ANZ ordinary shares on 25 May 2022 at a 1% discount (subject to certain conditions being satisfied). If ANZ or ANZ Bank NZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, ANZ receives a notice of non-viability from APRA, ANZ Bank NZ receives a direction from RBNZ or a statutory manager is appointed to ANZ Bank NZ and makes a determination, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. In April 2020, ANZ Bank NZ announced that the notes will not be redeemed or converted on the optional exchange date (25 May 2020).*

*5. The USD 300 million perpetual subordinated notes have been granted Basel 3 transitional capital treatment until the end of the transition period in December 2021.*

*6. All the term subordinated notes are convertible and are Basel 3 compliant instruments. If ANZ receives a notice of non-viability from APRA, then the convertible subordinated notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number.*

## 14. Credit risk

### Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the group would have to pay if the instrument is called upon.

The table below shows the maximum exposure to credit risk of on-balance sheet, and off-balance sheet, positions before taking account of any collateral held or other credit enhancements:

| | Reported As at | | | Excluded[1] As at | | | Maximum Exposure to Credit Risk As at | | |
|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet positions[2]** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** |
| Net loans and advances | **656,609** | 615,258 | 610,169 | **-** | - | - | **656,609** | 615,258 | 610,169 |
| Investment securities | | | | | | | | | |
| - debt securities at amortised cost | **7,231** | 5,999 | 6,176 | **-** | - | - | **7,231** | 5,999 | 6,176 |
| - debt securities at FVOCI | **77,476** | 76,489 | 72,555 | **-** | - | - | **77,476** | 76,489 | 72,555 |
| - equity securities at FVOCI | **1,166** | 1,221 | 1,318 | **1,166** | 1,221 | 1,318 | **-** | - | - |
| - debt securities at FVTPL[3] | **50** | - | - | **-** | - | - | **50** | - | - |
| Other financial assets | **393,862** | 269,619 | 276,816 | **14,305** | 11,124 | 49,466 | **379,557** | 258,495 | 227,350 |
| **Total on-balance sheet positions** | **1,136,394** | 968,586 | 967,034 | **15,471** | 12,345 | 50,784 | **1,120,923** | 956,241 | 916,250 |
| **Off-balance sheet commitments** | | | | | | | | | |
| Undrawn and contingent facilities[4] | **269,417** | 253,123 | 245,285 | **-** | - | - | **269,417** | 253,123 | 245,285 |
| **Total** | **1,405,811** | 1,221,709 | 1,212,319 | **15,471** | 12,345 | 50,784 | **1,390,340** | 1,209,364 | 1,161,535 |

1. *Excluded comprises bank notes and coins and cash at bank within liquid assets, investments relating to the insurance business where the credit risk is passed onto the policy holder. Equity securities and precious metal exposures recognised as trading securities have been excluded as they do not have credit exposure. Equity securities within investment securities – equity securities at FVOCI/available-for-sale financial assets were also excluded as they do not have credit exposure.*
2. *On-balance sheet position includes assets and liabilities reclassified as held for sale.*
3. *These facilities are rated as Satisfactory.*
4. *Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies, net of collectively assessed allowance for expected credit losses.*

### Credit Quality

The Group's internal Customer Credit Rating (CCR) is used to manage the credit quality of financial assets. To enable wider comparisons, the Group's CCRs are mapped to external rating agency scales as follows:

| Credit Quality Description | Internal CCR | ANZ Customer Requirement | Moody's Rating | Standard & Poor's Rating |
|---|---|---|---|---|
| Strong | CCR 0+ to 4- | Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events. | Aaa – Baa3 | AAA – BBB- |
| Satisfactory | CCR 5+ to 6- | Demonstrated sound operational and financial stability over the medium to long term even though some may be susceptible to cyclical trends or variability in earnings. | Ba1 – B1 | BB+ – B+ |
| Weak | CCR 7+ to 8= | Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. | B2 - Caa | B - CCC |
| Defaulted | CCR8- to 10 | When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified as defaulted. | N/A | N/A |

## 14. Credit risk, cont'd

**Net loans and advances**

| | As at Mar 20 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 465,601 | 14,009 | - | - | **479,610** |
| Satisfactory | 114,178 | 39,137 | - | - | **153,315** |
| Weak | 5,959 | 11,692 | - | - | **17,651** |
| Defaulted | - | - | 4,837 | 2,435 | **7,272** |
| **Gross loans and advances at amortised cost** | **585,738** | **64,838** | **4,837** | **2,435** | **657,848** |
| Allowance for ECL | 1,191 | 1,968 | 455 | 1,055 | **4,669** |
| **Net loans and advances at amortised cost** | **584,547** | **62,870** | **4,382** | **1,380** | **653,179** |
| **Coverage ratio** | **0.20%** | **3.04%** | **9.41%** | **43.33%** | **0.71%** |
| Loans and advances at fair value through profit or loss | | | | | 2,932 |
| Unearned income | | | | | (368) |
| Capitalised brokerage/mortgage origination fees | | | | | 866 |
| **Net carrying amount** | | | | | **656,609** |

| | As at Sep 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 425,113 | 18,597 | - | - | 443,710 |
| Satisfactory | 121,030 | 28,445 | - | - | 149,475 |
| Weak | 7,138 | 10,373 | - | - | 17,511 |
| Defaulted | - | - | 4,699 | 1,978 | 6,677 |
| **Gross loans and advances at amortised cost** | **553,281** | **57,415** | **4,699** | **1,978** | **617,373** |
| Allowance for ECL | 927 | 1,378 | 413 | 791 | 3,509 |
| **Net loans and advances at amortised cost** | **552,354** | **56,037** | **4,286** | **1,187** | **613,864** |
| **Coverage ratio** | **0.17%** | **2.40%** | **8.79%** | **39.99%** | **0.57%** |
| Loans and advances at fair value through profit or loss | | | | | 922 |
| Unearned income | | | | | (398) |
| Capitalised brokerage/mortgage origination fees | | | | | 870 |
| **Net carrying amount** | | | | | **615,258** |

| | As at Mar 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 444,556 | 10,273 | - | - | 454,829 |
| Satisfactory | 112,984 | 19,843 | - | - | 132,827 |
| Weak | 8,808 | 9,775 | - | - | 18,583 |
| Defaulted | - | - | 4,078 | 1,961 | 6,039 |
| **Gross loans and advances at amortised cost** | **566,348** | **39,891** | **4,078** | **1,961** | **612,278** |
| Allowance for ECL | 940 | 1,415 | 381 | 865 | 3,601 |
| **Net loans and advances at amortised cost** | **565,408** | **38,476** | **3,697** | **1,096** | **608,677** |
| **Coverage ratio** | **0.17%** | **3.55%** | **9.34%** | **44.11%** | **0.59%** |
| Loans and advances at fair value through profit or loss | | | | | 991 |
| Unearned income | | | | | (446) |
| Capitalised brokerage/mortgage origination fees | | | | | 947 |
| **Net carrying amount** | | | | | **610,169** |

## 14. Credit risk, cont'd

**Investment securities - debt securities at amortised cost**

| | As at Mar 20 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 5,733 | - | - | - | 5,733 |
| Satisfactory | 888 | 625 | - | - | 1,513 |
| Weak | - | - | - | - | - |
| Defaulted | - | - | - | - | - |
| **Gross investment securities - debt securities at amortised cost** | **6,621** | **625** | - | - | **7,246** |
| Allowance for ECL | 14 | 1 | - | - | **15** |
| **Net investment securities - debt securities at amortised cost** | **6,607** | **624** | - | - | **7,231** |
| **Coverage ratio** | **0.21%** | **0.16%** | - | - | **0.21%** |

| | As at Sep 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 4,798 | - | - | - | 4,798 |
| Satisfactory | 707 | 507 | - | - | 1,214 |
| Weak | - | - | - | - | - |
| Defaulted | - | - | - | - | - |
| **Gross investment securities - debt securities at amortised cost** | **5,505** | **507** | - | - | **6,012** |
| Allowance for ECL | 12 | 1 | - | - | **13** |
| **Net investment securities - debt securities at amortised cost** | **5,493** | **506** | - | - | **5,999** |
| **Coverage ratio** | **0.22%** | **0.20%** | - | - | **0.22%** |

| | As at Mar 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 4,751 | - | - | - | 4,751 |
| Satisfactory | 666 | 771 | - | - | 1,437 |
| Weak | - | - | - | - | - |
| Defaulted | - | - | - | - | - |
| **Gross investment securities - debt securities at amortised cost** | **5,417** | **771** | - | - | **6,188** |
| Provision for credit impairment | 11 | 1 | - | - | **12** |
| **Net investment securities - debt securities at amortised cost** | **5,406** | **770** | - | - | **6,176** |
| **Coverage ratio** | **0.20%** | **0.13%** | - | - | **0.19%** |

## 14. Credit risk, cont'd

**Investment securities - debt securities at FVOCI**

| | As at Mar 20 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 77,213 | - | - | - | **77,213** |
| Satisfactory | 263 | - | - | - | **263** |
| Weak | - | - | - | - | **-** |
| Defaulted | - | - | - | - | **-** |
| **Investment securities - debt securities at FVOCI** | **77,476** | - | - | - | **77,476** |
| Allowances for ECL recognised in other comprehensive income | 9 | - | - | - | **9** |
| **Coverage ratio** | **0.01%** | **-** | **-** | **-** | **0.01%** |

| | As at Sep 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 76,218 | - | - | - | **76,218** |
| Satisfactory | 271 | - | - | - | **271** |
| Weak | - | - | - | - | **-** |
| Defaulted | - | - | - | - | **-** |
| **Investment securities - debt securities at FVOCI** | **76,489** | - | - | - | **76,489** |
| Allowances for ECL recognised in other comprehensive income | 8 | - | - | - | **8** |
| **Coverage ratio** | **0.01%** | **-** | **-** | **-** | **0.01%** |

| | As at Mar 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 72,401 | - | - | - | **72,401** |
| Satisfactory | 154 | - | - | - | **154** |
| Weak | - | - | - | - | **-** |
| Defaulted | - | - | - | - | **-** |
| **Investment securities - debt securities at FVOCI** | **72,555** | - | - | - | **72,555** |
| Allowances for ECL recognised in other comprehensive income | 11 | - | - | - | **11** |
| **Coverage ratio** | **0.02%** | **-** | **-** | **-** | **0.02%** |

**Other financial assets**

| | As at Mar 20 | As at Sep 19 | As at Mar 19 |
|---|---|---|---|
| | Total $M | Total $M | Total $M |
| Strong | 369,909 | 248,020 | 215,307 |
| Satisfactory | 9,033 | 10,060 | 11,596 |
| Weak | 615 | 415 | 447 |
| Defaulted | - | - | - |
| **Total carrying amount** | 379,557 | 258,495 | 227,350 |

## 14. Credit risk, cont'd

**Off-balance sheet commitments - undrawn and contingent facilities**

| | As at Mar 20 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 172,684 | 1,617 | - | - | **174,301** |
| Satisfactory | 24,433 | 4,832 | - | - | **29,265** |
| Weak | 284 | 1,156 | - | - | **1,440** |
| Defaulted | - | - | 149 | 164 | **313** |
| **Gross undrawn and contingent facilities subject to ECL** | **197,401** | **7,605** | **149** | **164** | **205,319** |
| Allowance for ECL included in Provisions | 610 | 244 | 18 | 38 | **910** |
| **Net undrawn and contingent facilities subject to ECL** | **196,791** | **7,361** | **131** | **126** | **204,409** |
| **Coverage ratio** | **0.31%** | **3.21%** | **12.08%** | **23.17%** | **0.44%** |
| Undrawn and contingent facilities not subject to ECL[1] | | | | | 65,008 |
| **Net undrawn and contingent facilities** | | | | | **269,417** |

| | As at Sep 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 162,891 | 1,972 | - | - | **164,863** |
| Satisfactory | 23,655 | 3,634 | - | - | **27,289** |
| Weak | 294 | 976 | - | - | **1,270** |
| Defaulted | - | - | 140 | 51 | **191** |
| **Gross undrawn and contingent facilities subject to ECL** | **186,840** | **6,582** | **140** | **51** | **193,613** |
| Allowance for ECL included in Provisions | 473 | 151 | 21 | 23 | **668** |
| **Net undrawn and contingent facilities subject to ECL** | **186,367** | **6,431** | **119** | **28** | **192,945** |
| **Coverage ratio** | **0.25%** | **2.29%** | **15.00%** | **45.10%** | **0.35%** |
| Undrawn and contingent facilities not subject to ECL[1] | | | | | 60,178 |
| **Net undrawn and contingent facilities** | | | | | **253,123** |

| | As at Mar 19 | | | | |
|---|---|---|---|---|---|
| | | | Stage 3 | | |
| | Stage 1 $M | Stage 2 $M | Collectively assessed $M | Individually assessed $M | Total $M |
| Strong | 158,599 | 1,977 | - | - | **160,576** |
| Satisfactory | 23,519 | 3,894 | - | - | **27,413** |
| Weak | 395 | 957 | - | - | **1,352** |
| Defaulted | - | - | 96 | 61 | **157** |
| **Gross undrawn and contingent facilities subject to ECL** | **182,513** | **6,828** | **96** | **61** | **189,498** |
| Allowance for ECL included in Provisions | 464 | 152 | 14 | 26 | **656** |
| **Net undrawn and contingent facilities subject to ECL** | **182,049** | **6,676** | **82** | **35** | **188,842** |
| **Coverage ratio** | **0.25%** | **2.23%** | **14.58%** | **42.62%** | **0.35%** |
| Undrawn and contingent facilities not subject to ECL[1] | | | | | 56,443 |
| **Net undrawn and contingent facilities** | | | | | **245,285** |

1. *Commitments that can be unconditionally cancelled at any time without notice.*

## 15. Fair value measurement

The Group carries a significant number of financial instruments on the balance sheet at fair value. In addition, in the prior period, the Group also held assets classified as held for sale which were measured at fair value less costs to sell. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

### i) Assets and liabilities measured at fair value on the balance sheet

#### a) Valuation

The Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- when using quoted prices to value an instrument, these are independently verified from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Group holds offsetting risk positions, then the Group uses the portfolio exception in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

#### b) Fair value approach and valuation techniques

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market for that asset or liability exists. This includes the following:

| Asset or Liability | Fair Value Approach |
|---|---|
| Financial instruments classified as:<br>- trading securities<br>- securities sold short<br>- derivative financial assets and liabilities<br>- investment securities<br>- other assets | Valuation techniques are used that incorporate observable market inputs for securities with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples. |
| Financial instruments classified as:<br>- net loans and advances<br>- deposits and other borrowings<br>- debt issuances | Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market interest rates, or market borrowing rates for debt with similar maturities or with a yield curve appropriate for the remaining term to maturity. |
| Assets and liabilities held for sale | Valuation based on the agreed sale price before transaction costs. |

Details of significant unobservable inputs used in measuring fair values are described in (ii)(a).

#### c) Fair value hierarchy categorisation

The Group categorises financial assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

#### d) Fair value hierarchy disclosure

The following table presents assets and liabilities carried at fair value:

## 15. Fair value measurement, cont'd

| | Fair value measurements | | | |
|---|---|---|---|---|
| **As at March 2020** | **Level 1 $M** | **Level 2 $M** | **Level 3 $M** | **Total $M** |
| **Assets** | | | | |
| Trading securities[1] | 39,000 | 10,068 | - | **49,068** |
| Derivative financial instruments | 1,565 | 172,039 | 73 | **173,677** |
| Investment securities | 76,932 | 550 | 1,210 | **78,692** |
| Net loans and advances (measured at fair value)[2] | - | 2,919 | 13 | **2,932** |
| Assets held for sale | - | - | - | **-** |
| **Total** | **117,497** | **185,576** | **1,296** | **304,369** |
| **Liabilities** | | | | |
| Deposits and other borrowings (designated at fair value) | - | 5,461 | - | **5,461** |
| Derivative financial instruments | 1,778 | 165,519 | 67 | **167,364** |
| Liabilities held for sale | - | - | - | **-** |
| Payables and other liabilities[3] | 4,113 | 21 | - | **4,134** |
| Debt issuances (designated at fair value) | - | 2,681 | - | **2,681** |
| **Total** | **5,891** | **173,682** | **67** | **179,640** |
| **As at September 2019** | | | | |
| **Assets** | | | | |
| Trading securities | 37,768 | 5,401 | - | 43,169 |
| Derivative financial instruments | 365 | 120,241 | 61 | 120,667 |
| Investment securities | 76,000 | 499 | 1,211 | 77,710 |
| Net loans and advances (measured at fair value) | - | 922 | - | 922 |
| Assets held for sale[4] | - | 1,952 | - | 1,952 |
| **Total** | 114,133 | 129,015 | 1,272 | 244,420 |
| **Liabilities** | | | | |
| Deposits and other borrowings (designated at fair value) | - | 2,301 | - | 2,301 |
| Derivative financial instruments | 881 | 120,018 | 52 | 120,951 |
| Liabilities held for sale[4] | - | 2,121 | - | 2,121 |
| Payables and other liabilities[3] | 2,553 | 38 | - | 2,591 |
| Debt issuances (designated at fair value) | - | 2,589 | - | 2,589 |
| **Total** | 3,434 | 127,067 | 52 | 130,553 |
| **As at March 2019** | | | | |
| **Assets** | | | | |
| Trading securities | 35,967 | 6,890 | - | 42,857 |
| Derivative financial instruments | 331 | 78,991 | 53 | 79,375 |
| Available-for-sale assets | 71,001 | 393 | 1,312 | 72,706 |
| Net loans and advances (measured at fair value) | - | 991 | - | 991 |
| Assets held for sale[4] | - | 43,673 | - | 43,673 |
| **Total** | 107,299 | 130,938 | 1,365 | 239,602 |
| **Liabilities** | | | | |
| Deposits and other borrowings (designated at fair value) | - | 2,169 | - | 2,169 |
| Derivative financial instruments | 508 | 80,320 | 43 | 80,871 |
| Liabilities held for sale[4] | - | 46,538 | - | 46,538 |
| Payables and other liabilities[3] | 2,125 | 42 | - | 2,167 |
| Debt issuances (designated at fair value) | - | 2,414 | - | 2,414 |
| **Total** | 2,633 | 131,483 | 43 | 134,159 |

1. *Transfers from Level 1 to Level 2 and Level 2 to Level 1 for March 2020 half and previous periods are immaterial. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.*
2. *During the March 2020 half the Group changed its accounting treatment for certain gold loan products which are now designated as at fair value through profit and loss.*
3. *Payables and other liabilities relates to securities sold short which are classified as held for trading are measured at fair value through profit or loss.*
4. *The amounts reclassified as assets and liabilities held for sale relate to assets and liabilities measured at fair value less costs to sell in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations. The amounts presented reflect fair value excluding cost to sell but including intercompany eliminations.*

## 15. Fair value measurement, cont'd

**ii) Details of fair value measurements that incorporate unobservable market data**

**a) Level 3 fair value measurements**

The net balance of Level 3 financial instruments is an asset of $1,229 million (Sep 19: $1,220 million; Mar 19: $1,322 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed; and
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movements in the Level 3 balance are due to the revaluation of the Group's investment in Bank of Tianjin.

There were no material transfers into or out of Level 3 during the period.

*Bank of Tianjin (BoT)*

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgment applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

**b) Sensitivity to Level 3 data inputs**

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Group's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used in deriving the valuation.

*Bank of Tianjin (BoT)*

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $105 million increase or decrease to the fair value of the investment (Sep 19: $111 million; Mar 19: $121million), which would be recognised in shareholders' equity.

*Other*

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Group.

**c) Deferred fair value gains and losses**

When fair values are determined using unobservable inputs significant to the fair value of a financial instrument, the Group does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (referred to as the day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss over the life of the transaction on a straight line basis or until all inputs become observable.

The day one gains and losses deferred are immaterial.

## 15. Fair value measurement, cont'd

### iii) Financial assets and liabilities not measured at fair value

The classes of financial assets and liabilities listed in the table below are predominately carried at amortised cost on the Group's balance sheet. Whilst this is the value at which we expect the assets will be realised and the liabilities settled, the Group provides an estimate of the fair value of these financial assets and liabilities at balance date in the table below, presenting the fair value of the entire class of financial assets and financial liabilities.

| | Carrying amount in the balance sheet | | | Fair Value |
|---|---|---|---|---|
| **As at March 2020** | **At amortised cost $M** | **At fair value $M** | **Total $M** | **$M** |
| **Financial assets** | | | | |
| Net loans and advances[1] | 653,677 | 2,932 | 656,609 | 658,091 |
| Investment securities | 7,231 | 78,692 | 85,923 | 85,944 |
| **Total** | **660,908** | **81,624** | **742,532** | **744,035** |
| **Financial liabilities** | | | | |
| Deposits and other borrowings | 721,448 | 5,461 | 726,909 | 727,326 |
| Debt issuances | 137,567 | 2,681 | 140,248 | 138,454 |
| **Total** | **859,015** | **8,142** | **867,157** | **865,780** |
| **As at September 2019** | | | | |
| **Financial assets** | | | | |
| Net loans and advances | 614,336 | 922 | 615,258 | 616,255 |
| Investment securities | 5,999 | 77,710 | 83,709 | 83,707 |
| **Total** | 620,335 | 78,632 | 698,967 | 699,962 |
| **Financial liabilities** | | | | |
| Deposits and other borrowings[2] | 635,376 | 2,301 | 637,677 | 637,961 |
| Debt issuances | 127,102 | 2,589 | 129,691 | 131,377 |
| **Total** | 762,478 | 4,890 | 767,368 | 769,338 |
| **As at March 2019** | | | | |
| **Financial assets** | | | | |
| Net loans and advances[2] | 608,264 | 1,879 | 610,143 | 610,983 |
| Investment securities[2] | 6,176 | 73,873 | 80,049 | 80,044 |
| **Total** | 614,440 | 75,752 | 690,192 | 691,027 |
| **Financial liabilities** | | | | |
| Deposits and other borrowings[2] | 632,820 | 3,713 | 636,533 | 637,009 |
| Debt issuances | 127,278 | 2,414 | 129,692 | 130,558 |
| **Total** | 760,098 | 6,127 | 766,225 | 767,567 |

1. *During the March 2020 half the Group changed its accounting treatment for certain gold loan products which are now designated as at fair value through profit and loss.*
2. *Net loans and advances, investment securities and deposits and other borrowings include amounts reclassified to assets and liabilities held for sale. Refer to Note 12.*

## 16. Shareholders' equity

| Issued and quoted securities | Half Year | | |
|---|---|---|---|
| **Ordinary shares** | **Mar 20 No.** | **Sep 19 No.** | **Mar 19 No.** |
| Opening balance | **2,834,584,923** | 2,833,175,579 | 2,873,618,118 |
| Group Share Buy-back | **-** | - | (42,032,991) |
| Bonus Option Plan | **1,592,499** | 1,409,344 | 1,590,452 |
| Dividend reinvestment plan issues:[1] | **-** | - | - |
| Closing balance | **2,836,177,422** | 2,834,584,923 | 2,833,175,579 |
| Less treasury shares: | | | |
| Treasury Shares | **(5,011,537)** | (4,474,997) | (4,640,745) |
| Treasury Shares in Wealth Australia discontinued operations | **-** | - | (15,527,220) |
| Closing Balance | **2,831,165,885** | 2,830,109,926 | 2,813,007,614 |
| Issued/(Repurchased) during the period | **1,592,499** | 1,409,344 | (40,442,539) |

1. *The DRP in respect to the 2019 final dividend was satisfied in full through the on-market purchase and transfer of 7,401,161 shares at $25.03 to participating shareholders. (2019 Interim dividend; 8,403,922 shares at $27.79, 2018 final dividend; 7,635,365 shares at $26.03).*

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| **Shareholders' equity** | **Mar 20 $M** | **Sep 19 $M** | **Mar 19 $M** | **Mar 20 v. Sep 19** | **Mar 20 v. Mar 19** |
| Ordinary share capital | **26,440** | 26,490 | 26,048 | 0% | 2% |
| Reserves | | | | | |
| Foreign currency translation reserve | **1,988** | 705 | 846 | large | large |
| Share option reserve | **62** | 89 | 71 | -30% | -13% |
| FVOCI reserve | **(51)** | 126 | 370 | large | large |
| Cash flow hedge reserve | **874** | 731 | 444 | 20% | 97% |
| Transactions with non-controlling interests reserve | **(22)** | (22) | (22) | 0% | 0% |
| Total reserves | **2,851** | 1,629 | 1,709 | 75% | 67% |
| Retained earnings | **32,073** | 32,664 | 32,064 | -2% | 0% |
| **Share capital and reserves attributable to shareholders of the Company** | **61,364** | 60,783 | 59,821 | 1% | 3% |
| Non-controlling interests | **11** | 11 | 150 | 0% | -93% |
| **Total shareholders' equity** | **61,375** | 60,794 | 59,971 | 1% | 2% |

## 17. Changes in composition of the Group

On 31 January 2020, the Group completed the sale of the OnePath P&I business which included the material entities OnePath Funds Management Limited and OnePath Custodians Pty Limited. The holding company of these subsidiaries, ANZ Wealth Australia Limited, is no longer considered to be a material subsidiary.

## 18. Investments in Associates[1]

| | Half Year | | | Movement | |
|---|---|---|---|---|---|
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 v. Sep 19 | Mar 20 v. Mar 19 |
| Share of associates' profit | **135** | 131 | 131 | 3% | 3% |

| Contributions to profit[2] | Contribution to Group profit after tax | | | Ownership interest held by Group | | |
|---|---|---|---|---|---|---|
| **Associates** | Half Year | | | As at | | |
| | Mar 20 $M | Sep 19 $M | Mar 19 $M | Mar 20 % | Sep 19 % | Mar 19 % |
| P.T. Bank Pan Indonesia | **74** | 63 | 70 | **39** | 39 | 39 |
| AMMB Holdings Berhad | **61** | 70 | 56 | **24** | 24 | 24 |
| Other associates | **-** | (2) | 5 | **n/a** | n/a | n/a |
| Share of associates' profit | **135** | 131 | 131 | | | |

1. *At 31 March 2020, the Group recorded an impairment charge of $815 million in other operating income the half year with AmBank impaired by $595 million and PT Panin impaired by $220 million. Refer to Note 1 of the Condensed Consolidated Financial Statements for more information on the key assumptions used in the value in use (VIU) calculations to arrive at the impairment charges. Post the impairment charge, the carrying value of AmBank was $1,161 million and PT Panin was $1,130 million.*
2. *Contributions to profit reflect the IFRS equivalent results adjusted to align with the Group's financial year end which may differ from the published results of these entities. Excludes gains or losses on disposal or valuation adjustments.*

## 19. Related party disclosure

There have been no transactions with related parties that are significant to understanding the changes in financial position and performance of the Group since 30 September 2019.

## 20. Contingent liabilities and contingent assets

There are outstanding court proceedings, claims and possible claims for and against the Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 11) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

Refer to Note 33 of the 2019 ANZ Annual Financial Report for a description of contingent liabilities and contingent assets as at 30 September 2019. A summary of some of those contingent liabilities, and new contingent liabilities that have arisen in the current reporting period, is set out below.

- **Regulatory and customer exposures**

  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 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, currently include 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.

- **Bank fees litigation and periodical payment remediation and ASIC action**

  A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. The claims in the March 2013 class action failed and have been dismissed.

  The original claims in the 2010 class action have been dismissed. In 2017, a new claim was added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees. Part of the class of customers had already received remediation payments from the Company. An agreement to settle the claim was reached in December 2018. The settlement was approved by the court in December 2019.

  In July 2019, ASIC commenced civil penalty proceedings against the Company in relation to the charging of fees for periodical payments in certain circumstances between August 2003 and February 2016. ASIC seeks civil penalties in respect of alleged false or misleading representations and unconscionable conduct. ASIC also alleges that the Company engaged in misleading or deceptive conduct and breached certain statutory obligations as a financial services licensee. The trial of the matter is scheduled to commence on 14 September 2020. The outcomes and total costs remain uncertain. The Company is defending the allegations.

- **Benchmark/rate actions**

  In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. The Company is defending the proceedings. The matters are at an early stage.

  In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain. The matter is at an early stage.

- **Capital raising actions**

  In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

  In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

- **Consumer credit insurance litigation**

  In February 2020, a class action was brought against the Company alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. The Company is defending the allegations. The matter is at an early stage.

- **Franchisee litigation**

  In February 2018, two related class actions were brought against the Company alleging breaches of contract and unconscionable conduct in relation to lending to 7-Eleven franchisees. An agreement to settle the claims against the Company was reached in March 2019. The settlement is subject to court approval.

- **Royal Commission**

  The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

- **Security recovery actions**

  Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

- **Warranties and Indemnities**

  The Group has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

## 21. Significant Events Since Balance Date

With effect from 2 April 2020, the Reserve Bank of New Zealand (RBNZ) amended the conditions of registration for ANZ Bank New Zealand Limited (ANZ Bank NZ), a New Zealand subsidiary of ANZ Banking Group Limited (ANZBGL) to (among other things) prohibit ANZ Bank NZ from making distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments. These amendments were also applied to other locally incorporated banks in New Zealand to further support the stability of the New Zealand banking financial system during this period of economic uncertainty. These requirements prevent ANZ Bank NZ from redeeming its NZ$500 million Capital Notes in May 2020, although it can continue making coupon payments on those Capital Notes. As ANZ Bank NZ has announced that it will not be exercising its option to convert in May 2020, the terms of the Capital Notes provide for their conversion into a variable number of ANZBGL shares in May 2022 subject to certain conditions (refer to note 13). Conversion would result in an increase in the Group's CET1 capital (~12 bps) at Level 2. The amendments will also prevent ANZ Bank NZ from paying dividends to ANZBGL.

Other than the matter above there have been no other significant events from 31 March 2020 to the date of signing this report that have not been adjusted or disclosed.

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## Directors' Declaration

The Directors of Australia and New Zealand Banking Group Limited declare that:

1. in the Directors' opinion the Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements are in accordance with the *Corporations Act 2001*, including:
   - section 304, that they comply with the Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001*; and
   - section 305, that they give a true and fair view of the financial position of the Group as at 31 March 2020 and of its performance for the half year ended on that date; and

2. in the Directors' opinion as at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

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

**Shayne C Elliott**
*Director*

29 April 2020

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KPMG

## Independent Auditor's Review Report to the shareholders of Australia and New Zealand Banking Group Limited

**Report on the Condensed Consolidated Financial Statements**

***Conclusion***

We have reviewed the accompanying Condensed Consolidated Financial Statements of Australia and New Zealand Banking Group Limited (the Group).

The Group comprises Australia and New Zealand Banking Group Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

The Condensed Consolidated Financial Statements comprise:

- The condensed consolidated balance sheet as at 31 March 2020;
- The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated cash flow statement for the half year ended on that date;
- Notes 1 to 21 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Condensed Consolidated Financial Statements of Australia and New Zealand Banking Group Limited are not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the Group's financial position as at 31 March 2020 and of its performance for the half year ended on that date; and

ii) complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

***Estimation uncertainty in the preparation of the Condensed Consolidated Financial Statements – Emphasis of Matter***

We draw attention to Note 1 (iv) in the Condensed Consolidated Financial Statements, which describes increased estimation uncertainty in the preparation of the Condensed Consolidated Financial Statements, specifically as it relates to the potential impacts of Coronavirus (COVID-19) on the Group's expected credit losses (ECL). These disclosures include key judgements and assumptions in relation to the ECL model inputs and the interdependencies between those inputs, and highlight significant changes made during the half year ended 31 March 2020.

As described in Note 1(iv) the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Group. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact the resulting accounting estimates.

In our view, this issue is fundamental to the users' understanding of the Condensed Consolidated Financial Statements and the financial position and performance of the Group.

Our conclusion is not modified in respect of this matter.

***Responsibilities of the Directors for the Condensed Consolidated Financial Statements***

The Directors of the Company are responsible for:

- the preparation of the Condensed Consolidated Financial Statements that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Condensed Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility for the review of the Condensed Consolidated Financial Statements***

Our responsibility is to express a conclusion on the Condensed Consolidated Financial Statements based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements* ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Condensed Consolidated Financial Statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 March 2020 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australia and New Zealand Banking Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of Condensed Consolidated Financial Statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG
Melbourne
29 April 2020

A M Kitchen

**Alison Kitchen**
*Partner*

## Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To the Directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australia and New Zealand Banking Group Limited for the half year ended 31 March 2020, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG
Melbourne
29 April 2020

**Alison Kitchen**
*Partner*