2018

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2018

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

The date of this 2018 Half Year U.S. Disclosure Document is May 9, 2018.

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All references in this document to the “U.S. Disclosure Document” refer to the 2018 Half Year U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal half year ended March 31, 2018 (the “March 2018 half” or “Mar 18”), including the Annex attached hereto, and we refer to prior fiscal half years in a similar fashion. References in this document to the “2017 Annual U.S. Disclosure Document” refer to the 2017 Annual U.S. Disclosure Document for the fiscal year ended September 30, 2017.

This U.S. Disclosure Document is dated May 9, 2018. All references in this document to “the date of this U.S. Disclosure Document” are to May 9, 2018.

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 web site 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 web sites 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, 2018, and the results of operations for the fiscal half year then ended. All balances disclosed in this U.S. Disclosure Document relate to those of the Group.

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

- The Group’s Condensed Consolidated Financial Statements (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:

- adverse conditions in global credit and capital markets;
- business and economic conditions in Australia, New Zealand and the Asia Pacific, Europe & America (“APEA”) regions and other jurisdictions in which we or our customers operate, including without limitation changes that impact consumers and the natural resources and real estate sectors;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we or our customers operate;
- the stability of Australian and other regional and global financial systems, disruptions to financial markets and any losses we or our customers may experience as a result;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the APEA regions and other jurisdictions in which we or our customers operate;
- our ability to adjust to and compete in the APEA geographic markets in which we operate or are seeking to operate;
- the effects of competition in the geographic and business environments in which we or our customers operate;
- our ability to maintain or increase market share and control expenses;
- our timely development and acceptance of new products and services, and the perceived overall value of these products and services by users;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws and accounting standards in Australia and worldwide;
- the impact of legal, regulatory, administrative and other current or future proceedings, including the risk of fines or sanctions, arising out of our alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- commercial and residential mortgage lending and real estate market conditions in Australia, New Zealand and the APEA regions;
- losses associated with the Group’s counterparty exposures;
- the effectiveness of our risk management policies, including with respect to our internal processes, systems, organizational management and employees;
- the failure to meet the capital adequacy and liquidity requirements that the Group is subject to;
- changes to our credit ratings;
- risks associated with the information systems we maintain;
- the reliability and security of our technology and our ability to protect our information from security risks, including potential cyber-attacks;
- operational and environmental factors, including natural disasters, such as earthquakes, floods, cyclones, volcanic eruptions, bush fires and tsunamis;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- adverse impacts on our reputation;
- any changes to ANZ Group’s accounting policies and their application;
- the impact of existing or potential litigation and regulatory actions applicable to the Group, its business or its customers;
- 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”.

BASIS OF PREPARATION

The summary of condensed consolidated income statements and selected ratios for the fiscal half years ended March 31, 2018, September 30, 2017 (the "September 2017 half" or "Sep 17"), and March 31, 2017 (the "March 2017 half" or "Mar 17"), and the summary of condensed consolidated balance sheets and selected ratios as of March 31, 2018, September 30, 2017, and March 31, 2017, 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") issued by the AASB, and the *Corporations Act 2001*(Cth) (the "Corporations Act"). International Financial Reporting Standards ("IFRS") are standards and interpretations adopted by the International Accounting Standards Board ("IASB"). The Group's application of the recognition and measurement requirements of AASs ensures that the Condensed Consolidated Financial Statements and the financial information included herein comply with the recognition and measurement requirements of IFRS. Preparation in accordance with AASB 134 ensures compliance with 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 30, 2018 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$0.7690 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document, refer to "Currency of presentation and exchange rates" in "Section 2: Information on the Group". References to "NZD" in this U.S. Disclosure Document are to New Zealand dollars. References throughout this U.S. Disclosure Document to "$B" and "$M" are to billions and millions of Australian Dollars (or, if specified, such other currency), respectively.

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. The information presented in the Group's income statements for the fiscal half years ended March 31, 2017 and September 30, 2017 have been restated to show discontinued operations separately from continuing operations in a separate line item 'profit/(loss) after income tax from discontinued operations'. This also impacts the current and prior period financial information for the Wealth Australia and Technology, Services & Operations ("TSO") and Group Centre divisions.

Sale of Wealth Australia Businesses

- Sale to IOOF Holdings Limited ("IOOF")

  On October 17, 2017, the Group announced it had agreed to sell its OnePath pensions and investments ("OnePath P&I") businesses and aligned dealer groups ("ADG") business to IOOF. The ADG business consists of aligned advice businesses that operate under their own Australian Financial Services licenses. Completion is expected in the first half of the 2019 fiscal year, subject to certain conditions including regulatory approvals and completing the extraction of the OnePath P&I business from OnePath Life Insurance.

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

  On December 12, 2017, ANZ announced that it had agreed to the sale of its life insurance business to Zurich to further simplify ANZ's Wealth Australia division. The transaction is subject to closing conditions and regulatory approval and ANZ expects it to close in the first half of the 2019 fiscal year.

SUMMARY OF CONDENSED CONSOLIDATED INCOME STATEMENTS AND SELECTED RATIOS

	Half Year [1]			
	Mar 18 USD M[2]	Mar 18 $M	Sep 17 $M	Mar 17 $M
Interest income	**11,419**	**14,849**	14,694	14,426
Interest expense	**(5,767)**	**(7,499)**	(7,238)	(7,007)
Net interest income	**5,652**	**7,350**	7,456	7,419
Other operating income	**2,172**	**2,825**	2,347	2,176
Operating income	**7,824**	**10,175**	9,803	9,595
Operating expenses	**(3,392)**	**(4,411)**	(4,480)	(4,487)
Profit before credit impairment and income tax	**4,432**	**5,764**	5,323	5,108
Credit impairment charge[3]	**(314)**	**(408)**	(479)	(719)
Profit before income tax	**4,118**	**5,356**	4,844	4,389
Income tax expense[4]	**(1,097)**	**(1,426)**	(1,427)	(1,447)
Profit after income tax from continuing operations	**3,021**	**3,930**	3,417	2,942
Profit/(Loss) after income tax from discontinued operations	**(461)**	**(600)**	85	(23)
Profit for the period	**2,560**	**3,330**	3,502	2,919
Profit attributable to non-controlling interests	**(5)**	**(7)**	(7)	(8)
Profit attributable to shareholders of the Company	**2,555**	**3,323**	3,495	2,911

1. *Information has been restated and presented on a continuing operations basis. Discontinued operations comprise the OnePath P&I and ADG businesses sale to IOOF and the sale of ANZ's life insurance business to Zurich.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 30, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *The credit impairment charge represents the aggregation of the individual and collective credit impairment charges.*
4. *Includes the impact of contribution tax and investment income tax attributable to policyholders.*

	Half Year			
	Mar 18 USD M[1]	Mar 18 $M	Sep 17 $M	Mar 17 $M
Other operating income as a % of operating income - including discontinued operations	**26.1%**	**26.1%**	27.5%	26.0%
Net interest margin - including discontinued operations	**1.93%**	**1.93%**	1.98%	2.00%
Cost to income ratio - including discontinued operations	**46.8%**	**46.8%**	45.9%	47.2%
Dividends on ordinary shares - including discontinued operations	**1,775**	**2,308**	2,309	2,300
Earnings per fully paid ordinary share (cents) including discontinued operations				
Basic	**87.8**	**114.2**	119.9	100.2
Diluted	**83.5**	**108.6**	114.7	96.7
Earnings per fully paid ordinary share (cents) from continuing operations				
Basic	**103.7**	**134.8**	117.0	100.9
Diluted	**98.0**	**127.4**	112.0	97.4
Ordinary share dividend payout ratio including discontinued operations (%)[2]	**69.6%**	**69.6%**	67.2%	80.7%
Dividend per ordinary share (cents) including discontinued operations	**62**	**80**	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 30, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *The ordinary dividend payout ratio calculation is based on the following dividend payments:*

Mar 18	*Sep 17*	*Mar 17*
*$2,313 million**	*$2,350 million*	*$2,349 million*

**Based on the proposed interim dividend announced on May 1, 2018 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 18 USD M[2]	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**
Shareholders' equity excluding non-controlling interests	**45,659**	**59,374**	58,959	57,791
Subordinated debt[3]	**13,273**	**17,260**	17,710	20,297
Unsubordinated debt	**75,036**	**97,576**	90,263	88,778
Deposits and other borrowings	**474,573**	**617,130**	600,169	598,417
Gross loans and advances	**457,971**	**595,542**	584,091	580,358
Less: Individual provision for credit impairment	**(781)**	**(1,016)**	(1,136)	(1,269)
Less: Collective provision for credit impairment[4]	**(1,983)**	**(2,579)**	(2,662)	(2,785)
Less: Loans and advances held for sale	**(2,308)**	**(3,001)**	(5,962)	(12,269)
Net loans and advances	**452,899**	**588,946**	574,331	564,035
Total assets	**719,104**	**935,116**	897,326	896,511
Net assets	**45,756**	**59,500**	59,075	57,908
Risk weighted assets[5]	**304,353**	**395,777**	391,113	397,040
Capital adequacy ratios:[5]				
Common Equity Tier 1	**11.0%**	**11.0%**	10.6%	10.1%
Tier 1	**12.9%**	**12.9%**	12.6%	12.1%
Tier 2	**2.0%**	**2.0%**	2.2%	2.4%
Total	**14.9%**	**14.9%**	14.8%	14.5%
Number of ordinary shares on issue (millions)	**2,898.8**	**2,898.8**	2,937.4	2,936.0

	Half Year			
	Mar 18 USD M[2]	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**
Summary of consolidated ratios				
Profit attributable to the shareholders of the Company as a percentage of:				
Average total assets[6]	**0.71%**	**0.71%**	0.76%	0.64%
Average ordinary shareholders' equity excluding non-controlling interests[6]	**11.3%**	**11.3%**	11.9%	10.1%
Average ordinary shareholders' equity excluding non-controlling interests as a percentage of average total assets[6]	**6.3%**	**6.3%**	6.4%	6.3%

1. *Balance sheet amounts and metrics include assets and liabilities reclassified as held for sale.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 30, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *For the composition of subordinated debt refer to Note 12 of the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S Disclosure Document).*
4. *The collective provision includes amounts for off-balance sheet credit exposures of $522 million as of March 31, 2018 (September 2017 half: $544 million; March 2017 half: $574 million). The impact on the income statement for the fiscal half year ended March 31, 2018 was a $26 million release (September 2017 half: $20 million release; March 2017 half: $46 million release).*
5. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority (APRA) Basel 3 methodology (refer to page 13).*
6. *Averages are calculated using predominantly daily averages.*

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

	As of			
	Mar 18 USD M[2]	Mar 18 $M	Sep 17 $M	Mar 17 $M
Gross impaired assets				
Impaired loans	**1,433**	**1,863**	2,118	2,478
Restructured items[3]	**58**	**76**	167	367
Non-performing commitments and contingencies	**73**	**95**	99	95
Total gross impaired assets	**1,564**	**2,034**	2,384	2,940
Provision for credit impairment				
Individual provision - impaired loans	**761**	**990**	1,118	1,253
Individual provision - non-performing commitments and contingencies	**20**	**26**	18	16
Collective provision[4]	**1,983**	**2,579**	2,662	2,785
Total provision for credit impairment	**2,764**	**3,595**	3,798	4,054
Total gross loans and advances[5]	**457,972**	**595,542**	584,091	580,358
Credit Risk Weighted Assets[6]	**263,630**	**342,822**	336,834	341,809
Collective provision as a percentage of credit risk weighted assets[6]	**0.75%**	**0.75%**	0.79%	0.81%
Gross impaired assets as a percentage of gross loans and advances	**0.34%**	**0.34%**	0.41%	0.51%
Individual provision for credit impairment as a percentage of gross impaired assets	**50.0%**	**50.0%**	47.7%	43.2%
Individual provision for impaired loans as a percentage of impaired loans	**53.1%**	**53.1%**	52.8%	50.6%
Total provision for credit impairment as a percentage of:				
Gross loans and advances[5]	**0.6%**	**0.6%**	0.7%	0.7%
Credit risk weighted assets[6]	**1.0%**	**1.0%**	1.1%	1.2%

1. *Balance sheet and credit risk data includes assets and liabilities reclassified as held for sale.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 30, 2018 Noon Buying Rate applied in this U.S. Disclosure Document.*
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 to new facilities with similar risk.*
4. *The collective provision includes amounts for off-balance sheet credit exposures of $522 million as of March 31, 2018 (September 2017 half: $544 million; March 2017 half: $574 million). The impact on the income statement for the fiscal half year ended March 31, 2018 was a $26 million release (September 2017 half: $20 million release; March 2017 half: $46 million release).*
5. *Consists of loans and advances and capitalized brokerage/mortgage origination fees less unearned income. Customer liability for acceptances was included in gross loans and advances in the March 2017 half and has been recognized as other assets from April 1, 2017.*
6. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 13).*

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.

ANZBGL 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, 2018, ANZBGL had total assets of $935.1 billion and shareholders' equity excluding non-controlling interests of $59.4 billion. In terms of total assets among banking groups, the Group ranked in the top two in Australia[1] as of March 31, 2018 and first in New Zealand[2] as of December 31, 2017.

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 March 29, 2018, ANZBGL had a market capitalization of $77.9 billion, which ranked among the top five largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the fiscal half year ended December 31, 2017; National Australia Bank results announcement for the fiscal half year ended March 31, 2018; Westpac Banking Corporation results announcement for the fiscal half year ended March 31, 2018.*
2. *Source: ASB Bank disclosure statement for the 6 months ended December 31, 2017; Bank of New Zealand disclosure statement for the 3 months ended December 31, 2017; Westpac New Zealand disclosure statement for the 3 months ended December 31, 2017.*
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 earns revenue from its Wealth activities through the provision of insurance, superannuation and funds management services, and its Markets business from sales, trading and risk management activities. The Group also provides payments and clearing solutions.

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;
- Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions;
- 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 net foreign exchange earnings, gains and losses from economic and revenue hedges as well as revenues generated from sales, trading and risk management activities in the Markets business.

STRATEGY

Our strategy is focused on becoming simpler, better balanced and more service-oriented to help people and businesses respond to a changing world.

We believe that the execution of our strategy will deliver consistently strong results for our shareholders, achieving a balance between growth and return, short and long-term results and financial and social impact.

Strategic Priorities
Create a simpler, better capitalized, better balanced and more agile bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing our reliance on low-returning aspects of institutional banking in particular.
Focus our efforts on areas where we can carve out a winning position. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in our region.
Drive a purpose and values led transformation of the Bank. Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.
Build a superior everyday experience for customers and our people to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and our people.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group operates on a divisional structure with six divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific, and TSO and Group Centre. Key changes impacting the financial information disclosed in this U.S. Disclosure Document are as follows:

- As a result of the sale transactions outlined in "Section 1: Key Information – Basis of preparation – 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. The information presented in the Group's income statements for the fiscal half years ended March 31, 2017 and September 30, 2017 have been restated to show discontinued operations separately from continuing operations in a separate line item 'profit/(loss) after income tax from discontinued operations'. Additionally, the discontinued operations presentation impacts the current and prior period financial information for the Wealth Australia and TSO and Group Centre divisions.
- As part of the broader simplification strategy for ANZ, there have been several structural changes during the March 2018 half. Prior period comparatives have been aligned with these changes, which include:
  - the Corporate business, formerly part of the Corporate and Commercial Banking business within the Australia division, was transferred to the Institutional division;
  - the residual Asia Retail and Wealth businesses in the Philippines, Japan and Cambodia not sold as part of the Asia Retail and Wealth divestment have been transferred to the Institutional division; and
  - the Group made a further realignment by transferring Group Hub's (Service Centers) divisional specific operations in TSO and Group Centre to their respective divisions. As these costs were previously recharged, there is no change to previously reported divisional profit. Divisional full time equivalents ("FTE"s) have been restated to reflect this change.

Other than as described above, there were no significant structural changes in the March 2018 half. However, certain prior period comparatives have been restated to align with the March 2018 half presentation. The divisions reported below are consistent with operating segments as defined in IFRS 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of March 31, 2018, the principal activities of the six divisions were:

Australia

The Australia division comprises the Retail and Business & Private Banking ("B&PB") business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, the contact center and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking) and third-party brokers.
- B&PB provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services global institutional and business 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 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, structured trade and asset finance, and corporate advisory.
- Markets provide 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.

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 and the agricultural business segment.

Wealth Australia

Discontinued operations

Discontinued operations of the Wealth Australia division comprise of the businesses subject to the sales agreements with IOOF and Zurich as described in “Section 1: Key information – Basis of preparation”.

Continuing operations

The retained and continuing Wealth Australia business includes lenders mortgage insurance, share investing, financial planning and general insurance distribution.

Asia Retail & Pacific

The Asia Retail & Pacific division comprises the Asia Retail and Wealth, and the Pacific business units, connecting customers to specialists for their banking needs.

- Asia Retail and Wealth provides general banking and wealth management services to affluent and emerging affluent retail customers via relationship managers, branches, contact centers and a variety of self-service digital channels (internet and mobile banking, phone and ATMs). Core products offered include deposits, credit cards, loans, investments and insurance. The Group announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank Ltd (“DBS Bank”) on October 31, 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on April 21, 2017. The Group successfully completed the sales in China, Singapore and Hong Kong in the September 2017 half, and the sales in Vietnam, Taiwan, and Indonesia in the March 2018 half.
- Pacific 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.

Technology, Services & Operations and Group Centre

TSO and Group Centre provide 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 Group Treasury, Shareholder Functions and minority investments in Asia. The sales of Shanghai Rural Commercial Bank (“SRCB”) and partial sale of the Group’s interest in Metrobank Card Corporation (“MCC”), which are two of the Group’s minority investments in Asia, were completed in the March 2018 half. Refer to “Section 3: Operating and Financial Review and Prospects – Operating and Financial Review” for more information on the sale of SRCB and MCC.

RECENT DEVELOPMENTS

Life insurance business

On May 8, 2018, ANZ announced it has finalized its reinsurance arrangements with Zurich and has received around $1 billion of reinsurance proceeds. This results in an increase of approximately 25 bps in ANZ’s Australian Prudential Regulation Authority (“APRA”) Common Equity Tier 1 (“CET1”) capital[1].

The sale of ANZ’s Australian life insurance business was announced on December 12, 2017. The sale is comprised of two transactions totalling $2.85 billion, including around $1 billion of upfront reinsurance commission, and the sale of 100% of the shares in each of One Path Life General Insurance Pty Limited and OnePath Life Australia Holdings Pty Limited.

Having received the reinsurance proceeds, ANZ will continue to work through its capital management options, which may include an additional on-market buy-back of $1 billion to $1.5 billion[2]. ANZ expects to confirm its plans once analysis of the various alternatives and requisite approvals are completed.

The purchase of shares associated with the dividend reinvestment plan (“DRP”) is expected to commence on May 18, 2018 and continue until May 31, 2018. ANZ will appoint a third party to purchase shares on-market to satisfy ANZ’s obligations under the DRP[3]. ANZ does not intend to purchase shares in relation to the current $1.5 billion buy-back during this period.

Change to Deputy Chief Executive Officer

On April 11, 2018, the Group announced that its Deputy Chief Executive Officer Graham Hodges will retire in early May 2018 after a 27 year career with ANZ. Mr. Hodges is expected to continue to represent the Group on the board of AMMB Holdings.

On May 9, 2018, ANZ announced that Alexis George has been promoted to Deputy Chief Executive Officer in addition to her current role as Group Executive, Wealth Australia. Ms George will continue to lead the divestment of ANZ’s life insurance, superannuation and aligned dealer group businesses and maintain the senior relationship management of Wealth product partners in Australia. She will also take on responsibility for ANZ's Group Service Centers as well as assisting Chief Executive Officer Shayne Elliott with Group-wide initiatives including ANZ’s engagement with government, regulators and employees.

Other than the matters described above, there have been no significant developments since March 31, 2018 to the date of this U.S. Disclosure Document.

Note:

1. *ANZ reported an APRA CET1 ratio of 11.0% at March 31, 2018.*
2. *ANZ announced an on-market buy-back of up to $1.5 billion of shares on December 18, 2017.*
3. *ANZ expects to announce the size of the DRP neutralisation and the third party broker in advance of the on-market purchase of the DRP shares.*

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of March 31, 2018, 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 79%[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. Additionally, 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.

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 products and services traditionally provided by banks, such as payments, home loans and credit cards.

In corporate and commercial banking businesses competition has intensified among the major and regional banks, particularly as business investment and resulting demand for business credit has continued to decline from higher levels in 2012. An increased focus on protecting customer relationships and strategies to increase market share is placing increased pressure on lending margins. This sector is also seeing a greater emphasis on providing retail, wealth and institutional (predominantly markets and trade) products to business customers, their owners and employees in order to deepen customer relationships and increase revenue streams.

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, and 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 is contributing to further competition from existing and new entrants to the banking industry, particularly in retail banking.

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. The New Zealand Government-owned 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 obtain banking licenses to establish New Zealand subsidiaries. Their focus appears to be in wholesale banking, in particular, trade banking to and from China. In December 2017, China Construction Bank obtained a banking registration in New Zealand, followed by Bank of China in March 2018.

Competition in the financial services sector can be intense and difficult to predict. Competition in the deposit market has increased rapidly in New Zealand, with banks attempting to grow their share of retail deposits and reduce their wholesale funding. Lending to the residential mortgage market accounts for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension. In the last year the home lending market has seen increased competition from new entrants, particularly Chinese banks aiming to grow their market share.

Outside the banking sector, a number of smaller finance companies are active in the personal and commercial property markets through competitive lending and deposit product offerings. The non-banking sector constituted approximately 3% of total financial system assets as of December 31, 2017.

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 15 Asian markets, 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 large number of banks have shown a willingness to commit significant portions of 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. Competition in Asia is expected to continue to grow with relatively stronger economic growth prospects compared with other developed markets, which we believe will attract continued investments in the region by attracting global and regional banks.

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.

[1.] *Source: APRA monthly banking statistics March 2018 (released April 30, 2018).*

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 (the "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 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 or closing out any transaction relating to 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 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" set out in "Section 3: Operating and Financial Review and Prospects".

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 ("AIRB") methodology for credit risk weighted assets and Advanced Measurement Approach ("AMA") 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 and Tier 2 securities and transitional arrangements for existing Additional Tier 1 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 (the "FSI") as described 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 ("GALCO"). 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, introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, the Group has a Committed Liquidity Facility ("CLF") with the RBA. The CLF has been established as a solution to a High Quality Liquid Asset ("HQLA") 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 1 January 2018, ANZ's CLF is $46.9 billion (2017 calendar year end: $43.8 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 has been monitoring the NSFR in its internal reporting as part of managing future liquidity requirements and believes its current NSFR is well positioned relative to the minimum 100% requirement. The Group's NSFR was 114.9% as of March 31, 2018.

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 the prudential requirements of overseas regulators on ANZBGL's offshore operations.

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") 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.

The Group is also 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.

Australian Regulatory Developments

Royal Commission

The Royal Commission into misconduct in the banking, superannuation and financial services industry (the "Royal Commission") was established on December 14, 2017. The Royal Commission has been asked to submit its final report by February 1, 2019 (and may choose to give an interim report by September 30, 2018). The Royal Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

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 ANZ, 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.

Banking Executive Accountability Regime ("BEAR")

On February 20, 2018 the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* came into effect, establishing a new "Banking Executive Accountability Regime" ("BEAR"). ANZBGL's obligations under the BEAR will commence 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 will be required to register individuals with APRA before appointing them as senior executives or directors 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 senior executive or director, detailing that individual's roles and responsibilities;
- Where ANZBGL and its senior executives and directors do not meet accountability obligations, APRA will be empowered to disqualify 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 will be 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.

Crisis Management

On March 5, 2018, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* (the "Crisis Management Act") came into effect. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) and is intended to enhance APRA's powers. Specifically, the Crisis Management Act enhances 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 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.

Financial System Inquiry ("FSI")

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 that the Group is required to maintain. Recent initiatives by APRA in support of the FSI include:

- 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 banks (including the Group), this equated to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent. APRA also stated that ADIs should meet this benchmark by January 1, 2020 at the latest.
- In February 2018, APRA released two discussion papers that commenced APRA's consultation on:
  - Revisions to the capital framework that will produce "unquestionably strong" capital ratios. The discussion paper summarizes APRA's proposal regarding risk-based capital approach for credit, market 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. The Group's current capital position is in excess of APRA's unquestionably strong CET1 benchmark of 10.5% and therefore the Group believes it will likely be in a strong position to meet future changes that will arise as a result of final revisions to the capital framework.
  - The design and application of a minimum leverage ratio requirement as a complement to the risk-based capital framework proposal. APRA has proposed, among other things, a minimum leverage ratio requirement of 4% (compared to the Basel minimum of 3%). The Group believes it is well placed to meet the proposed changes in its current form based on its leverage ratio position at March 31, 2018.

  APRA's consultation for the above is currently taking place with final prudential standards planned to be made available by 2020. APRA has proposed an implementation date of 2021, which is one year earlier than the BCBS's equivalent, with no phase-in arrangements.

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

- To implement a minimum total loss-absorbing capacity requirement where certain senior debt could be "bailed in" to recapitalize a stressed financial institution.
- Potential adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility.

Given the number of items that are currently open for consultation with APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains uncertain.

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 ANZ 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 until 2019 at the earliest, to allow for the final capital requirements arising from FSI recommendations as well as from international initiatives that are in progress.

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. See "Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations" for further discussion on the impact of the Level 3 framework on ANZBGL's ability to support ANZ Bank New Zealand Limited ("ANZ New Zealand").

Restrictions on ANZBGL's ability to provide financial support to its New Zealand Operations

Effect of APRA's Prudential Standards

ANZBGL is subject to extensive prudential regulation by APRA.

Under APRA's Prudential Standards, ANZBGL's ability to provide financial support to ANZ New Zealand is subject to certain requirements:

(a) ANZBGL should not undertake any third party dealings with the primary purpose of supporting ANZ New Zealand's business;

(b) ANZBGL should not hold unlimited exposures (i.e., should be limited to a specified time and amount) to ANZ New Zealand (e.g., not provide a general guarantee covering any of ANZ New Zealand's obligations);

(c) ANZBGL should not enter into cross-default clauses whereby a default by ANZ New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of ANZBGL on its obligations; and

(d) the level of exposure of ANZBGL's Level 1 total capital base to ANZ New Zealand should not exceed:

  (i) 50% on an individual exposure basis; or

  (ii) 150% in aggregate (being exposures to all similar regulated entities related to ANZBGL).

In addition, APRA has reviewed the level of financial exposures that can be provided to the respective New Zealand banking subsidiaries and branches ("New Zealand Operations") of the four Australian parent banks, including ANZBGL. 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 during ordinary times. Exposures in excess of this limit as of January 1, 2016 must be reduced in equal percentages over the five year transition period and may not increase above the exposures as of June 30, 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to ANZ New Zealand during times of financial stress.

ANZ New Zealand sells, from time to time, residential mortgages into the New Zealand branch of ANZBGL to provide funding for its New Zealand business. As of December 31, 2017, the New Zealand branch held approximately NZD$3.9 billion of residential mortgages. To satisfy APRA's requirements described above, ANZ New Zealand is repurchasing these mortgages at approximately NZD$1.6 billion per annum over the five year transition period ending December 31, 2020.

APRA has also stated that contingent funding support by ANZBGL to ANZ New Zealand during times of financial stress must be provided on terms that are acceptable to APRA and ANZBGL's exposures to its New Zealand Operations must not exceed 50% of ANZBGL's Level 1 Tier 1 Capital. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, ANZBGL believes it will be able to continue to provide financial support to ANZ New Zealand.

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). One of those requirements is that the Group must limit its financial and operational exposures to subsidiaries (including ANZ New Zealand).

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

(a) the exposures that would be approved for third parties of broadly equivalent credit status;

(b) the impact on ANZBGL's capital and liquidity position; and

(c) ANZBGL's 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 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:

- on December 9, 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
- on March 31, 2017, APRA outlined that ADIs will be expected, among other things, to:
  - limit the flow of new interest-only lending to 30 per cent of total new residential mortgage lending. Within this limit, ADIs are also expected to place strict internal limits on the volume of interest-only lending at loan-to-valuation ratios ("LVRs") above 80% and ensure there is strong scrutiny and justification of any instances of interest-only lending at LVRs above 90%; and
  - manage lending to investors in such a manner so as to comfortably remain below the previously advised benchmark of 10% annual growth in lending to property investors.

The Group has 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.

On April 26, 2018, APRA outlined that the 10% benchmark will no longer apply to an ADI from July 1, 2018 where the ADI's Board has provided APRA with certain confirmations (including that the ADI has been operating below the 10% benchmark for at least the past 6 months) and certain assurances in relation to the ADI's lending policies and practices. APRA has stated that despite the removal of the benchmark for individual ADIs, a return to more rapid rates of investor loan growth at an aggregate level would nevertheless raise systemic concerns and that such an environment could lead APRA to consider, for example, the need to apply the counter-cyclical capital buffer or some other industry-wide measure.

Other

For further information on regulatory developments, including the risks they pose to the Group, refer to "Risk factors – 4. Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation" 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. Certain organizations are prescribed as terrorist organizations 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 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 Reserve Bank of New Zealand Act 1989 (the "Reserve Bank Act") requires the Reserve Bank of New Zealand (the "RBNZ") to exercise its powers of registration of banks and prudential supervision of registered banks for the purposes of:

- promoting the maintenance of a sound and efficient financial system; or
- 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 management of 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.

New Zealand 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 fiscal 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.

From May 2018, the RBNZ will publish a quarterly "dashboard" of key information on banks incorporated in New Zealand on the RBNZ's website. The quarterly dashboard will replace the requirement for banks registered in New Zealand to issue disclosure statements for off-quarters of the fiscal year. See "New Zealand Regulatory Developments – Financial reporting" for further discussion.

New Zealand registered banks are required to comply with the Basel 3 capital adequacy requirements, as modified to reflect New Zealand conditions. From January 1, 2014, the RBNZ has also required most banks incorporated in New Zealand, 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 (effective from January 1, 2014) 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. Counterparty credit risk requirements and additional disclosure requirements to incorporate Basel 3 changes have been in effect since March 31, 2013.

New Zealand incorporated banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("BS13"). The Liquidity Policy requires banks to meet a minimum core-funding ratio of 75%, ensuring that a greater proportion of bank funding is met through retail deposits and term wholesale funding. 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 new liquidity standards are not suitable for adoption in New Zealand. The RBNZ has previously stated that it will be reviewing its liquidity policy in 2017 or 2018 in light of the BCBS's new liquidity requirements. The RBNZ currently 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

RBNZ prudential credit controls

The RBNZ imposes restrictions on high LVR residential mortgage lending. Revised conditions of registration came into force on January 1 2018, requiring New Zealand banks to restrict new non property-investment residential mortgage lending (i.e. a standard residential mortgage loan secured over only owner-occupied residential property) over 80 per cent LVR to no more than 15% of the dollar value of a bank's new non property-investment residential mortgage lending. New Zealand banks must also restrict property investment residential mortgage lending (i.e. a standard residential mortgage loan that is not a non-property investment residential mortgage loan) over 65% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending.

Financial reporting

The RBNZ has removed the requirement that banks registered in New Zealand publish off-quarter disclosure statements, with effect for the quarter ending March 31, 2018. Instead, from late May 2018, the RBNZ will publish a quarterly dashboard of key information on banks incorporated in New Zealand on the RBNZ's website. The information will be sourced from private reporting that such banks will provide to the RBNZ. All banks registered in New Zealand will still be required to publish disclosure statements for the half-year and full-year periods.

RBNZ review of capital requirements

In May 2017, the RBNZ published an issues paper that outlined the comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks that the RBNZ is undertaking during 2017 and 2018. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements. The review focuses on the three key components of the current framework:

- the definition of eligible capital instruments;
- the measurement of risk; and
- the minimum capital ratios and buffers.

In July 2017, the RBNZ released a consultation paper on what types of financial instruments should qualify as eligible regulatory capital. In December 2017, the RBNZ published its response to submissions on this paper, including its in-principle decisions to:

- remove contingent debt and contingent preference shares from the definition of eligible regulatory capital;
- accept non-redeemable, non-contingent, perpetual preference shares as Additional Tier 1 capital;
- accept redeemable, non-contingent preference shares and long term subordinated debt as Tier 2 capital; and
- retain the option of including in the regime a Tier 1 instrument able to be issued by mutual societies.

The RBNZ advised that further in-principle decisions on the definition of eligible regulatory capital will be announced in due course. A work programme aimed at giving effect to these decisions will be released for public consultation.

The RBNZ also released a consultation paper on the calculation of risk weighted assets for credit risk, operational risk and market risk. Submissions on this paper closed in March 2018. The paper advised that a Quantitative Impact Study will be conducted later in 2018.

The RBNZ is also continuing to work on an exercise with New Zealand's four largest banks, including ANZ New Zealand, to investigate differences in risk weights across internal bank models of housing and rural lending portfolios.

RBNZ's revised outsourcing policy

In September 2017, the RBNZ released its updated outsourcing policy ("BS11"). BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. Existing outsourcing arrangements have until October 1, 2022 to transition to compliance with BS11. Since October 1, 2017, ANZ New Zealand's conditions of registration have included BS11 requirements.

The key features of BS11 as it applies to ANZ New Zealand are:

- all new outsourcing arrangements to or through a related party, including ANZ (in the case of ANZ New Zealand), require RBNZ non-objection, unless the service or function is on the "pre-approved services and functions list" or on the "white list" (each of which will be maintained by the RBNZ);
- defined risk mitigants must be in place for all outsourcing arrangements. This includes ensuring mandatory contractual terms are included in the outsourcing agreement, maintaining evidence that the provider has appropriate disaster recovery or business continuity arrangements in place and, for related party outsourcing, robust back-up arrangements which are within the legal and practical control of ANZ New Zealand, and which can be

deployed within 6 hours of a failure event occurring (or by the start of the next business day for some functions). At its discretion, the RBNZ may provide non-objection where there are “alternative arrangements” in place, instead of a robust back-up;

- where outsourcing arrangements relate to ‘basic banking services’, the backup arrangements must be capable of operating indefinitely on a fully automated basis. Where this is not the case, the back-up arrangements must be sufficiently robust to close out and manage the wind down of those products on a standalone basis;
- ANZ New Zealand must have a compendium of all outsourcing arrangements by October 1, 2019. The compendium must be embedded in compliance systems and form part of board and senior management oversight and governance reviews. All new outsourcing arrangements must be entered into the compendium within 20 working days of becoming effective;
- ANZ New Zealand must have a separation plan that describes how ANZ New Zealand 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. The separation plan must assume an abrupt loss of access to services or functions provided by related parties. A final separation plan, fully compliant with BS11, must be in place by October 1, 2022 and will be subject to annual testing; and
- an independent review is required on an annual basis during the five year transition period, which will assess progress and compliance of transitioned arrangements.

ANZ New Zealand is required to agree a Path to Compliance Plan (“Plan”) with the RBNZ. ANZ New Zealand expects the RBNZ will provide feedback on, or approval of, its draft Plan by May 31, 2018. Once the Plan is approved, ANZ New Zealand will implement a formal programme to carry out the Plan.

Review of foreign margin requirements for over-the-counter ("OTC") derivatives

Since late 2016, the RBNZ and the New Zealand Ministry of Business, Innovation and Employment (“MBIE”) have, in co-ordination with the New Zealand Treasury, been engaging with industry and overseas regulators to assess the likely domestic impact of new offshore derivative margin requirements. Although New Zealand has no legislative margin requirements for OTC derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. On July 13, 2017, MBIE and the RBNZ released a consultation paper which describes potential impediments in New Zealand legislation to compliance with foreign margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances) and suggests several high level options for reform, including a preferred option which is to enact targeted legislative amendments to address those impediments. The New Zealand Bankers’ Association co-ordinated an industry response to the consultation paper which was submitted on August 24, 2017. The appropriate form of any necessary amendments to existing legislation is being considered. The New Zealand legislative impediments described above have resulted in a reduction of the number of counterparties with which ANZ New Zealand is able to enter into uncleared OTC derivative transactions.

New Zealand Financial Markets Authority (“FMA”) guidance on the Bank Bill Benchmark (“BKBM”)

In October 2017, the FMA released a guidance note clarifying its expectations about the trading conduct and controls for firms participating in the trading that sets BKBM and closing rates in the New Zealand market. Although the note aims to reduce regulatory uncertainty (and does not create any new legal obligations), market participants remain responsible for ensuring that trading conduct of their staff is legal and appropriate. Where the FMA identifies inappropriate trading conduct, its response will take into account the measures participants take to try to ensure good trading conduct.

MBIE review of the Financial Advisers Act 2008

Since 2015, MBIE has been conducting a review of the Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand. Following that review the New Zealand Government announced in 2016 its intention to amend the existing regime and an exposure draft of the Financial Services Legislation Amendment Bill (the "Bill") was released for submissions in early 2017. The Bill proposes a revision of the existing legislative regime and, among other things, will simplify the financial adviser types and services they can provide, will impose a duty on all financial advisers to put the interests of clients first, and a duty to take reasonable steps to ensure clients understand any limitations on the nature and scope of advice, will remove the requirement for advice to be given by a natural person (enabling robo-advice), and will introduce more meaningful disclosure requirements. The provisions for the new financial advice regime will be placed in the Financial Markets Conducts Act 2013 ("FMCA") and will introduce a licensing regime at the firm level. The Bill also amends the Financial Service Providers (Registration and Dispute Resolution) Act 2008 ("FSP Act"). Submissions on the draft Bill closed on March 31, 2017. The Bill had its first reading in Parliament on December 7, 2017, with the report of the Select Committee due on June 7, 2018.

Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the “NZ AML/CFT Act”)

On August 10, 2017, the Anti-Money Laundering and Countering Financing of Terrorism Act Amendment Bill (the "NZ AML/CFT Amendment Act") received Royal Assent in New Zealand, extending the scope of the NZ AML/CFT Act. The NZ AML/CFT Amendment Act expands the NZ AML/CFT Act to include some additional non-financial institution business sectors as "reporting entities", aligning with best practice recommendations set down by the Financial Action Task Force. The NZ AML/CFT Amendment Act also extends the current suspicious transaction reporting obligation to include an obligation to report suspicious activity, expands the scope of the provisions in the NZ AML/CFT Act that enable a reporting entity to rely on customer due diligence carried out by other persons and creates some additional simplified customer due diligence categories.

In addition, new regulations made in 2016 obligate reporting entities (including ANZ New Zealand) to report all international funds transfers exceeding NZD$1,000 along with all cash transactions exceeding NZD$10,000 to the Financial Intelligence Unit of the New Zealand Police (irrespective of any suspicion that may or may not exist relating to the underlying transaction). The new regulations came into force on November 1, 2017, but a transitional compliance period applies until July 1, 2018 for reporting entities that intend to comply with the regulations by submitting automated reports. These regulations will sit alongside existing obligations on reporting entities to report suspicious transactions/activity.

RBNZ consultation on Debt-to-Income ("DTI") rules

On June 8, 2017, the RBNZ released a consultation paper seeking feedback on serviceability restrictions such as DTI limits being added to its macro prudential toolkit. The RBNZ stated that the purpose of the consultation was to gather feedback from the public on the prospect of including DTI limits in the Memorandum of Understanding ("MOU") on macro-prudential policy between the Minister of Finance and Governor of the RBNZ. The MOU determines the set of macro-prudential tools available to the RBNZ and how those tools should be used. The consultation paper outlines the RBNZ’s view on these issues and states that the RBNZ would not implement a DTI policy in current market conditions, but that the DTI limits could be a useful option in the future. Submissions closed on August 18, 2017, and the feedback will be used by the RBNZ and New Zealand Government Treasury in discussing potential amendment of the MOU with the Minister of Finance.

On November 23, 2017, the RBNZ published the submissions it received as part of the consultation and a paper outlining its response. Given the RBNZ's perception of a slowdown in the housing market, it does not consider a serviceability restriction would be appropriate at the present time, but believes that it could still have a role to play in the future. If the MOU is amended to incorporate serviceability restrictions, the RBNZ said it considers that these restrictions should be written in such a way as to admit a range of possible formulations (not limited to DTI). The RBNZ said it expects to discuss the results of the consultation with the New Zealand Minister of Finance in due course. The RBNZ said it considers that the potential future use of serviceability restrictions could be reconsidered as part of the wider review and reform of the Reserve Bank Act (see "Review of the Reserve Bank Act" below).

Review of the Reserve Bank Act

On November 7, 2017, New Zealand's Minister of Finance announced that the New Zealand Government will review and reform the Reserve Bank Act, and released the Terms of Reference for the review. 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.

The review will be undertaken in two phases:

- Phase one includes reviewing and reforming the Reserve Bank Act to include maximum sustainable employment alongside inflation targeting as an objective of monetary policy; and require that monetary policy decisions be made by a Monetary Policy Committee of 5-7 members. The majority of members of the Monetary Policy Committee will be RBNZ staff, and a minority will be outside experts not employed by the RBNZ. Members of the Monetary Policy Committee will be appointed by the Minister of Finance following a nomination by the RBNZ Board. However, the RBNZ will retain its operational independence which enables it to make monetary policy decisions to achieve its monetary policy objectives independent of direction from the New Zealand Government. A Select Committee is expected to be established in the second half of calendar year 2018 to consider draft legislation giving effect to the phase one policy decisions.
- Phase two will involve the RBNZ and the New Zealand Treasury working together to produce a list of areas where further investigations of the RBNZ's activities (including financial stability and other policy) are desirable. The terms of reference for phase 2, and the next steps for the review, are expected to be communicated in the first-half of 2018. Phase two will also include the review of the macroprudential framework that had already been scheduled for 2018.

RBNZ review of mortgage bond collateral standards

On November 17, 2017, the RBNZ released a consultation paper on its review of mortgage bond collateral standards. The consultation focused 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, and proposed a new Residential Mortgage Obligations ("RMO") standard. The RBNZ proposes to gradually phase in RMO to replace internal residential mortgage backed securities under a 12-month transition period, beginning July 1, 2018 and ending June 30, 2019. Consultation on the initial RBNZ proposals closed on March 9, 2018.

New Zealand Banks' response to the Australian Royal Commission

On May 3, 2018, the FMA and RBNZ asked New Zealand banks to provide them with specific information to give assurance that the type of misconduct highlighted in the Australian Royal Commission is not taking place in New Zealand. By May 18, 2018, each New Zealand bank must provide a summary of work it has undertaken to identify and address conduct and culture risk in its business. The FMA and RBNZ will then assess this information, and meet with the management and board of directors of each bank, to agree next steps.

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 United States 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 ("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.

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, including those listed above as well as exemptions applicable to certain transactions and investments occurring solely outside of the United States.

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 registered swap dealer under the CFTC regulations, and therefore the Group is subject to these CFTC requirements as well as certain additional business conduct and recordkeeping and reporting rules that apply to the Group's swap transactions 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 with non-U.S. counterparties. The CFTC may issue further guidance in the future that could expand or limit the existing substituted compliance regime.

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. The requirement for swap dealers to collect and post variation margin with all counterparties became effective for ANZBGL and certain other institutions on September 1, 2017 through guidance issued by the regulators.

Dodd-Frank also requires ANZBGL to submit an annual U.S. resolution plan to the FRB and the FDIC for approval. ANZBGL submitted its most recent U.S. resolution plan in December 2016 and is next scheduled to be submitted 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.

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 percent withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States (and, beginning on January 1, 2019, certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2019, at the earliest. In the event that any country in which ANZ 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.

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.

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 in the United States, the Federal Reserve Board in the United States (the "FRB"), the UK Prudential Regulatory Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking Regulatory Commission (expected to be replaced by the China Banking and Insurance Regulatory Commission) and other financial regulatory bodies in those countries and in other relevant countries. In addition, the Group's presence in the Asia Pacific region has given rise to a requirement to comply with a number of different legal and regulatory regimes across that region. 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

1. Introduction

The Group's activities are subject to risks that can adversely impact its business, operations and financial condition. The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occur, the Group's business, operations, financial condition, or reputation could be materially and adversely affected. In this section, where we refer to the impact on the Group's business, operations and financial condition and similar references, such references include the impact on the business prospects of the Group. These risk factors below should be considered in conjunction with "Forward Looking Statements" in "Section 1: Key Information".

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

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

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

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

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

Changes in global political conditions, such as the "Brexit" referendum in the United Kingdom on June 23, 2016 (and the related negotiations with the European Union), the commencement of Donald Trump's presidency in January 2017, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries have resulted in increased political and economic uncertainty and volatility in the global financial markets and may continue to do so. This is in part due to the unknown consequences for global trade, the broader global economy and financial markets. Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which could adversely affect the Group's business, operations and financial condition. These conditions may also adversely affect the Group's ability to raise medium or long-term funding in the international capital markets.

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

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

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

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

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

Natural and biological disasters such as, but not restricted to, cyclones (for example, Cyclone Debbie in March 2017 and Cyclone Marcus in March 2018), floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters domestically and globally, may negatively affect general business and economic conditions in the countries or regions in which the Group operates and in turn adversely affect the Group's business, operations and financial condition. (see risk factor 13: "Impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's business, operations and financial condition").

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

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

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

- Changes in the financial services sector in Australia and New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks, such as payments, home loans, and credit cards. Digital technologies and business models are changing customer behavior and the competitive environment. 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.
- Banks organized in jurisdictions outside Australia and New Zealand are subject to different levels of regulation and some of these banks may have lower cost structures that may make them more competitive in the markets where the Group operates.
- Consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) to which the Group may choose not to provide financial services.

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

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

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

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

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

In Australia, these regulatory and supervisory authorities include, among others, APRA, RBA, ASIC, ASX, ACCC, AUSTRAC, and the Australian Taxation Office. In New Zealand, the RBNZ and FMA have supervisory oversight of the Group's New Zealand businesses. Prudential regulatory and supervisory authorities such as APRA and RBNZ have extensive administrative, practical and investigative powers over the Group's businesses.

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

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

- *Royal Commission:* On November 30, 2017, the Australian Government publicly announced a Royal Commission into misconduct in the banking, superannuation and financial services industry. The final terms of reference for the Royal Commission dated December 14, 2017, among other things, require and authorize the Royal Commission to inquire into misconduct by financial services entities (including the Group). The Royal Commission must submit its final report, including the results of its inquiry and the Royal Commission's recommendations, not later than February 1, 2019. The Royal Commission may choose to give an interim report by no later than September 30, 2018.
- *Productivity Commission*: In May 2017, the Australian Government requested the Productivity Commission to undertake an inquiry into competition in Australia's financial system (the "Productivity Commission"). The Productivity Commission commenced the inquiry on July 1, 2017. On February 7, 2018, the Productivity Commission released a draft report finding that Australia's regulation of the financial system has favored stability over competition and making recommendations intended to reset the balance between stability and competition in Australia's financial system. The final report is expected to be provided to the Australian Government by July 1, 2018. The Australian Government's response to the final report of the Productivity Commission may lead to regulatory change, which could materially and adversely affect the Group's business, operations and financial condition.
- *Financial System Inquiry Report:* The FSI final report (released on December 7, 2014) concluded a comprehensive inquiry into Australia's financial system, which was established by the Australian Government in late 2013. The final report of the FSI included a wide-ranging set of recommendations. In Australia, APRA is responsible for implementing the final recommendations of the Australian Government's FSI that are aimed at strengthening the resilience of Australia's financial system including (among other things) setting capital standards to ensure that capital ratios of Australian ADIs are "unquestionably strong". For more information see "Supervision and Regulation: Australia" in "Section 2: Information on the Group".

- *Prudential Developments:* Consistent with the FSI's recommendation that the capital ratios of ADIs should be "unquestionably strong", effective from July 2016, APRA increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach to credit risk (including the Group). Subsequently, on July 19, 2017, APRA released an information paper outlining APRA's conclusions with respect to the quantum and timing of capital increases that will be required for ADIs to achieve "unquestionably strong" capital ratios. APRA indicated that, in the case of the four major Australian banks (including the Group), it expects that the increased capital requirements will translate into the need for an increase in CET1 capital ratios, on average, of around 100 basis points above their December 2016 levels. In broad terms, that equates to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent. APRA also stated that ADIs should, where necessary, initiate strategies to increase their capital strength to be able to meet these capital benchmarks by January 1, 2020 at the latest.

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

  - revisions to the capital framework that will produce "unquestionably strong" capital ratios. The discussion paper summarizes APRA's proposal regarding risk-based capital approach for credit, market 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.
  - the design and application of a minimum leverage ratio requirement as a complement to the risk-based capital framework proposal above. APRA has proposed, among other things, a minimum leverage ratio requirement of 4% (compared to the Basel minimum of 3%).

  APRA's consultation for the above is currently taking place with final prudential standards planned to be made available by 2020. APRA has proposed an implementation date of 2021, which is one year earlier than the BCBS's equivalent, with no phase-in arrangements.

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

  - to implement a minimum total loss absorbing capacity requirement where certain senior debt could be "bailed in" to recapitalize a stressed financial institution.
  - potential adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility.

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

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

- *Banking Executive Accountability Regime:* A Bank Executive Accountability Regime ("BEAR") was passed into law in February 2018. BEAR is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Potential risks to the Group from the BEAR legislation include the risk of penalties and the risk to its ability to attract and retain high-quality directors and senior executives.

- *ASIC Design and Product Intervention Powers:* The Australian Government is considering a proposal to introduce new legislation intended to enhance the regulation of the design and distribution of financial products in Australia and to provide ASIC with product intervention powers.

- The *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* ("Crisis Management Act") was recently passed into law. The Crisis Management Act amends the Banking Act (among other statutes applicable to financial institutions in Australia) to further enhance APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group, include greater oversight, management and directions powers in relation to 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.

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

- *Bank Levies:* As part of its 2017-18 federal budget, the Australian Government imposed a levy on liabilities for certain large banks, including the Group, with effect from July 1, 2017 ("Major Bank Levy"). The Major Bank Levy payable by the Group for the half year ended March 31, 2018 is $177 million. There is a risk that Australian State and Territory Governments may introduce similar levies. A bill to this effect was introduced into the South Australian Parliament in June 2017 but was not enacted.

- *Parliamentary Enquiries:* There are several on-going Australian Government inquiries including a House of Representatives inquiry into Australia's four major banks (including the Group), which resulted in two committee reports, one in November 2016 and another in April 2017 that contain recommendations to improve the banking system for consumers, and a Senate inquiry focused on consumer protection and transparency in the banking, insurance and financial sectors, which could lead to legislative or regulatory changes or other regulatory or other measures that may adversely affect the Group.

- *Offshore Developments:* In addition to the BCBS reforms described above, there have been a series of other regulatory releases from authorities in various jurisdictions outside of Australia where the Group operates and/or raises funds that have proposed significant regulatory changes for financial institutions. These changes include, among other things:
  - proposals for changes to financial regulations in the United States (including potential legislative changes to the Dodd-Frank Act and potential revision to its Volcker Rule);
  - changes to senior executive accountability in Singapore and Hong Kong;
  - introduction of greater data protection regulations in Europe, including the General Data Protection Regulation expected to come into effect on May 25, 2018;
  - the Markets in Financial Instruments Directive 2 in the European Economic Area; and
  - amendments to the United Kingdom's Criminal Finances Bill (which has extraterritorial reach).

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

Any failure by the Group to comply with laws, regulations and policies in the jurisdictions in which it operates and/or obtains funds may result in a number of materially adverse effects for the Group. This may include regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licenses or other enforcement or administrative action or agreements (such as enforceable undertakings). Such failures also may result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For further information in relation to the Group's litigation and contingent liabilities, see risk factor 28 "Litigation and contingent liabilities may adversely affect the Group's business, operations, financial condition and reputation" and Note 19 of the Condensed Consolidated Financial Statements.

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

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums mean that these risks continue to be an area of focus for the Group. Following the AUSTRAC civil penalty proceedings in 2017 against a major Australian bank relating to alleged past and ongoing contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth), there may be increased regulatory scrutiny of other Australian banks, including the Group, and significant changes to the anti-money laundering regulatory framework. While the full scope of any changes, if any, is not known, the Group may incur additional costs associated with regulatory compliance that may adversely affect the Group's business, operations, financial condition and reputation.

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

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

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

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

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

Should the Group's regulators impose supervisory measures impacting the Group's residential or commercial lending or if Australian housing price growth subsides or property valuations decline, the demand for the Group's home lending products may decrease which may adversely affect the Group's business, operations and financial condition. For example, in March 2017, prompted by ongoing Australian housing price appreciation and rising Australian household debt, APRA introduced a new supervisory measure instructing Australian banks, including ANZBGL, to limit new residential interest-only mortgages to 30% of total new residential mortgage lending.

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

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

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

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which could result in credit losses. Should material credit losses occur to the Group's credit exposures, it could have an adverse effect on the Group's business, operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

APRA has now implemented prudential standards to accommodate Basel 3. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, which seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations have had or will have their intended effect.

Some of these regulations, together with any risks arising from any regulatory changes (including those arising from APRA's response to the remaining FSI recommendations, further changes from APRA's unquestionably strong requirements or the requirements of the BCBS), are described in risk factor 4 "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's business, operations, financial condition and reputation".

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

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

Since May 2017, Fitch, Standard & Poor's and Moody's affirmed or revised their respective ratings and outlooks of the major Australian banks, including ANZBGL, as follows:

- Fitch (February 2018): Affirmed the ratings of the major Australian banks, including ANZBGL, with a stable outlook;
- Moody's (January 2018): Affirmed the rating of ANZBGL, with a stable outlook;
- Standard & Poor's (May 2017): Lowered its assessment of Australia's Banking Industry Country Risk Assessment ("BICRA") from 2 to 3 and subsequently lowered its assessment of the standalone credit profiles of almost all financial institutions operating in Australia including ANZBGL. This resulted in the downgrading of the ratings on hybrid and subordinated debt instruments issued by ANZBGL and ANZ New Zealand by one notch (Basel 2 subordinated debt: downgraded from A- to BBB+; Basel 3 subordinated debt: downgraded from BBB+ to BBB; hybrid debt: downgraded from BBB- to BB+). ANZBGL's and ANZ New Zealand's long term ratings remained at AA- with negative outlook; and
- Moody's (June 2017): Revised its outlook for Australia's macro profile from "Very Strong negative", to "Strong plus" and downgraded the long-term rating of ANZBGL (alongside the other three major Australian banks) from Aa2 to Aa3. In addition, ANZBGL's hybrid and subordinated debt were downgraded by one notch. Moody's also revised the outlook for ANZBGL (and the other major Australian banks) from negative to stable. The long-term rating of ANZ New Zealand was also downgraded one notch to A1 from Aa3, and the hybrid and subordinated debt downgraded by one notch. The outlook for ANZ New Zealand was revised from negative to stable.

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

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

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

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

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

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

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

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

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

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

Information security means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, including in Australia, New Zealand, India, the United States, Europe, Singapore and China.

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

The Group employs a team of information security experts who are responsible for the development and implementation of the Group's Information Security Policy. The Group also uses third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the Group's business.

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

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

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

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

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

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

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

The Group and its customers are exposed to climate related events, including climate change. These events include severe storms, drought, fires, cyclones (for example Cyclone Debbie in March 2017 and Cyclone Marcus in March 2018), hurricanes, floods and rising sea levels. The Group and its customers may also be exposed to other events such as geological events (including volcanic seismic activity or tsunamis), plant, animal and human diseases or a pandemic.

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

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

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

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

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

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

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

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

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

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

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

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

- OnePath P&I and ADG businesses in Australia; and
- OnePath life insurance business in Australia.

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

During the fiscal half year to March 31, 2018:

- The Group completed the divestment of a 20% interest in MCC (the Group also has a put option to sell the Group's remaining 20% interest exercisable in the fourth quarter of FY18);
- The Group completed the divestment of its 20% interest in SRCB;
- The Group finalized the sale of its Retail and Wealth businesses in Indonesia, Taiwan and Vietnam (in addition to China, Singapore and Hong Kong which completed during the preceding fiscal year); and
- The Group announced on December 21, 2017, that it had been informed that the New Zealand's Overseas Investment Office had declined HNA Group Co., Ltd's ("HNA") application to acquire UDC Finance Limited ("UDC") and the agreement with HNA was terminated in January 2018. On March 20, 2018, the Group announced that it was continuing to examine a broad range of options for UDC's future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22. Conduct-related risk events or behaviors that do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community may adversely affect the Group's business, operations, financial condition and reputation

Conduct-related risks can result from:

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

- trading activities in financial markets, outside of the Group's policies and standards.

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

Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including unethical or misleading financial advice and compensation processes for consumers impacted by that advice. In June 2017 the final report from the Australian Senate Economic References Committee on the Scrutiny of Financial Advice was released and stated that the culture and practices of the financial advice industry "fall well short of the public's expectations". The current Royal Commission may have negative outcomes which could result in discoveries that may adversely affect the Group's business, operations, financial condition and reputation. Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest and/or inadequate improvement to culture and practices, may expose the Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences which could adversely affect the Group's business, operations, financial condition and reputation.

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

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

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

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

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

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

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

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

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

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

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

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

As one example of tightening regulatory focus, the OECD and certain countries the Group operates within are now moving to mandate blocking (and eventual closure) of accounts where any aspect of the detailed requirements for collection have not been met (e.g. failure to provide the requisite tax identification number(s)). Along with being a significant negative experience for the relevant customers, this can also lead to an adverse effect on the

Group's business, operations, financial condition and reputation (and if not similarly implemented by financial institution counterparts, significant competitive disadvantage).

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

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

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

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

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

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

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

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

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

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

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

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

The Group had contingent liabilities as of March 31, 2018 in respect of the matters outlined in Note 19 of the Condensed Consolidated Financial Statements.

Note 19 includes, among other things, descriptions of:

- bank fees litigation;
- benchmark/rate actions;
- franchisee litigation;
- regulatory and customer exposures;
- the Royal Commission; and
- security recovery actions.

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

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$0.7690 = 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 30, 2018. On May 4, 2018 the Noon Buying Rate was US$0.7534 = A$1.00.

Noon Buying Rates for Australian Dollars

For each of the periods indicated, the high, low, average, and period-end Noon Buying Rates for Australian Dollars were:

	USD per AUD1.00			
Half year ended	**High**	**Low**	**Average[1]**	**Period-end**
March 31, 2017	0.7733	0.7174	0.7548	0.7638
September 30, 2017	0.8071	0.7352	0.7725	0.7840
March 31, 2018	0.8105	0.7507	0.7769	0.7690

1. *The half year average is calculated based on the Noon Buying Rate on the last business day of each month during the period.*

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 18	**Sep 17**	**Mar 17**	**Mar 18**	**Sep 17**	**Mar 17**
Chinese Yuan	**4.8276**	5.2297	5.2716	**5.0410**	5.1781	5.1672
Euro	**0.6221**	0.6655	0.7160	**0.6460**	0.6729	0.7025
Pound Sterling	**0.5445**	0.5848	0.6122	**0.5718**	0.5916	0.6071
Indian Rupee	**49.8602**	51.2893	49.5566	**50.1455**	49.2363	50.6386
Indonesian Rupiah	**10,556**	10,565	10,184	**10,534**	10,191	10,018
Japanese Yen	**81.6640**	88.4036	85.5652	**85.9565**	84.9424	83.9044
Malaysian Ringgit	**2.9677**	3.3155	3.3834	**3.1401**	3.2884	3.3021
New Taiwan Dollar	**22.3618**	23.7947	23.2156	**23.0865**	23.1483	23.6809
New Zealand Dollar	**1.0650**	1.0867	1.0939	**1.0924**	1.0671	1.0593
Papua New Guinean Kina	**2.4945**	2.5102	2.4304	**2.5060**	2.4348	2.3906
United States Dollar	**0.7671**	0.7845	0.7644	**0.7772**	0.7650	0.7533

For the March 2018 half, 35% (September 2017 half: 33%; March 2017 half: 33%) of ANZ's operating income including discontinued operations was derived from the New Zealand and 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 18**	**Sep 17**	**Mar 17**
Chinese Yuan	-3%	0%	4%
Euro	-4%	-4%	5%
Pound Sterling	-3%	-3%	12%
Indian Rupee	2%	-3%	1%
Indonesian Rupiah	3%	2%	1%
Japanese Yen	1%	1%	7%
Malaysian Ringgit	-5%	0%	9%
New Taiwan Dollar	0%	-2%	-2%
New Zealand Dollar	2%	1%	0%
Papua New Guinean Kina	3%	2%	1%
United States Dollar	2%	2%	0%

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 currencies other than Australian Dollars. These currency exposures are managed in accordance with established hedging policies.

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US Dollar and US Dollar correlated).

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S. Disclosure Document).

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 – 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. The information presented in the Group's income statements for the fiscal half years ended March 31, 2017 and September 30, 2017 have been restated to show discontinued operations separately from continuing operations in a separate line item 'profit/(loss) after income tax from discontinued operations'. Additionally, the discontinued operations presentation impacts the current and prior period financial information for the Wealth Australia and TSO and Group Centre divisions.

Comparative information for the September 2017 half and March 2017 half at the divisional level within this U.S. Disclosure Document reflects the impact of the organizational changes as described under "Principal Activities of the Group" in this U.S. Disclosure Document. Consequently, divisional level information for the March 2017 half does not reflect the divisional level information that was included in the 2017 Half Year U.S. Disclosure Document for the fiscal half year ended March 31, 2017, as it has been restated. These reallocations do not have an impact on comparative information in the income statement or balance sheet at the Group level.

Large/notable items – continuing operations

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

Divestment impacts

The Group announced the following divestments in line with the Group's strategy to create a simpler, better capitalized, better balanced and more agile bank. The financial impacts from these divestments are summarized below:

	Gain/(Loss) on sale from divestments			Divested business results		
Profit After Income Tax Impact	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 $M	Sep 17 $M	Mar 17 $M
Asia Retail and Wealth businesses	**85**	14	(284)	**24**	117	145
SRCB	**247**	(17)	(316)	**-**	-	58
MCC	**121**	-	-	**-**	24	15
UDC	**18**	-	-	n/a	n/a	n/a
Total	**471**	(3)	(600)	**24**	141	218

- **Asia Retail and Wealth businesses**

  The Group announced that it had agreed to sell its Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank on October 31, 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on April 21, 2017. The Group successfully completed the transition of businesses in China, Singapore and Hong Kong in the September 2017 half, and sales in Vietnam, Taiwan, and Indonesia in the March 2018 half. The Group recognized the following impacts:

  - In the March 2018 half, the Group recognized a $85 million gain relating to the sale of the remaining Asia Retail and Wealth businesses, net of costs associated with the sale including $14 million of tax expenses.
  - In the September 2017 half, the Group recognized a $14 million gain on the partial completion of the Asia Retail and Wealth sale comprising sale premium and recoveries, net of related sale costs.
  - In the March 2017 half, the Group recognized a $324 million loss relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising $225 million of software, goodwill and other assets impairment charges, and $99 million of costs associated with the sale. The Group also recognized a $40 million tax benefit as a result of the loss on reclassification to held for sale.

- **Shanghai Rural Commercial Bank ("SRCB")**

  On January 3, 2017, the Group announced that it had agreed to sell its 20% stake in SRCB. On September 18, 2017, the Group announced a revision to the January 3, 2017 arrangement in which Baoshan Iron & Steel Co. Ltd. ("Bao") replaced Shanghai Sino-Poland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited ("COSCO") to acquire ANZ's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao each acquired a 10% stake in SRCB. The key financial terms of the revised sale agreement were unchanged from those described in the January 25, 2017 U.S. Investor Website update at: *http://shareholder.anz.com/reviews/usdebtinvestors-files* (U.S. Investor Website). The sale was completed in the March 2018 half. The Group recognized the following impacts:

  - In the March 2018 half, the Group recognized a $247 million net gain relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million adjustment for tax.
  - In the September 2017 half, the Group recognized a $17 million loss relating to the Group's investment in SRCB comprising $1 million of foreign exchange losses, and $16 million of tax expenses.
  - In the March 2017 half, the Group recognized a $316 million loss relating to the Group's investment in SRCB comprising of a $219 million impairment to the investment, $11 million of foreign exchange losses and $86 million of tax expenses following the reclassification of the investment to held for sale[1].

Note:

1. *Equity accounted earnings from SRCB prior to the cessation of equity accounting upon reclassification to held for sale were $58 million in the March 2017 half.*

- **Metrobank Card Corporation ("MCC")[1]**

  On October 18, 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company ("Metrobank") in relation to its 40% stake in the Philippines based MCC. The Group has agreed to sell 50% of its 40% stake, and entered into a put option to sell the remaining 50% of its stake exercisable in the fourth quarter of the fiscal year ending September 30, 2018 on the same terms for the same consideration. The first 20% stake sale was completed in the March 2018 half and the Group recognized a $121 million net gain relating to MCC comprising a $121 million gain on sale of the first 20% stake, $1 million of foreign exchange gains, $3 million loss on release of reserves, and a $2 million adjustment for tax.

  Note:

  1. *Equity accounted earnings from MCC prior to the cessation of equity accounting upon reclassification to held for sale were $24 million in the September 2017 half and $15 million in the March 2017 half.*

- **UDC Finance ("UDC")**

  On January 11, 2017, the Group announced that it had entered into a conditional agreement to sell UDC to HNA. On December 21, 2017, the Group announced that it had been informed that New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018. In the March 2018 half, an $18 million cost recovery was recognized in respect of the terminated transaction process.

  On March 20, 2018, the Group announced that it was continuing to examine a broad range of options for UDC's future.

Other large/notable items

- **Derivative valuation adjustments**

  In determining the fair value of derivative positions, adjustments are made to the risk free value to include factors such as the impact of credit and funding. Following changes made to the credit valuation adjustment ("CVA") methodology in 2016 and changes previously made to align funding valuation adjustment with emerging market practices these adjustments became more susceptible to changes in market inputs which can fluctuate significantly. Decreasing credit spreads and increasing yields drove significant gains in 2017. In the March 2017 half and September 2017 half, a $113 million gain and a $47 million gain, respectively, was recognized to reflect the impact of funding and credit valuation adjustments, net of associated hedges and tax expenses. The derivative valuation adjustments in the March 2018 half are immaterial and therefore not included as a large/notable item.

- **Gain on sale of 100 Queen Street, Melbourne**

  The Group sold the 100 Queen Street office tower and former head office in Melbourne, Australia. The transaction resulted in a net gain on sale after tax of $112 million in the March 2017 half.

GROUP INCOME STATEMENT

	Half Year [1]		
	Mar 18 $M	Sep 17 $M	Mar 17 $M
Net interest income	**7,350**	7,456	7,419
Other operating income	**2,825**	2,347	2,176
Operating income	**10,175**	9,803	9,595
Operating expenses	**(4,411)**	(4,480)	(4,487)
Profit before credit impairment and income tax	**5,764**	5,323	5,108
Credit impairment charge	**(408)**	(479)	(719)
Profit before income tax	**5,356**	4,844	4,389
Income tax expense	**(1,426)**	(1,427)	(1,447)
Non-controlling interests	**(7)**	(7)	(8)
Profit after income tax from continuing operations	**3,923**	3,410	2,934
Profit/(Loss) after income tax from discontinued operations[2]	**(600)**	85	(23)
Profit after income tax	**3,323**	3,495	2,911

1. *Information has been restated and presented on a continuing operations basis. Discontinued operations comprise the OnePath P&I and ADG businesses sale to IOOF and the sale of ANZ's life insurance business to Zurich.*
2. *Included in the March 2018 half year in 'profit/(loss) after income tax from discontinued operations' is a $632 million loss relating to the reclassification of Wealth Australia businesses to held for sale.*

Comparison of March 2018 with March 2017

Profit after income tax from continuing operations increased 34% compared with the March 2017 half.

- Net interest income decreased $69 million (-1%) largely due to a 7 basis point decrease in the net interest margin, partially offset by 3% growth in average interest earning assets. The lower net interest margin reflects growth in lower margin liquid assets and lower earnings on capital, the sale of Retail Asia and Wealth businesses, and the introduction of the Major Bank Levy from July 2017. This was partially offset by higher deposit margins and differentiated pricing in home loans. The increase in average interest earning assets reflects growth in ANZ's home loans and Institutional banking portfolios, partially offset by the sale of Asia Retail and Wealth businesses.
- Other operating income increased $649 million (+30%) largely the result of the large/notable items described above under "Operating and Financial Review – Large/notable items – continuing operations" and economic hedge gains, partially offset by a decrease in Markets income and revenue hedge losses. Refer to page 43 and 44 for further details on key movements.
- Operating expenses decreased $76 million (-2%) primarily due to reduction in personnel and premises expenses. Refer to page 45 for further details on key movements.
- Credit impairment charges decreased $311 million (-43%) largely due to lower individual credit impairment charges. Refer to page 46 and 47 for further details on key movements.

Comparison of March 2018 with September 2017

Profit after income tax from continuing operations increased 15% compared with the September 2017 half.

- Net interest income decreased $106 million (-1%) largely due to a 5 basis point decrease in the net interest margin, partially offset by 2% growth in average interest earning assets. The lower net interest margin reflects growth in lower margin liquid assets and lower earnings on capital, the sale of Retail Asia and Wealth businesses, and the introduction of the Major Bank Levy from July 2017. This was partially offset by differentiated pricing in home loans and higher deposit margins. The increase in average interest earning assets reflects growth in ANZ's home loans and Institutional banking portfolios, partially offset by the sale of Asia Retail and Wealth businesses.
- Other operating income increased $478 million (+20%) largely the result of the large/notable items described above under "Operating and Financial Review – Large/notable items – continuing operations" and economic hedge gains, partially offset by a decrease in net fee and commissions income and Markets other operating income. Refer to page 43 and 44 for further details on key movements.
- Operating expenses decreased $69 million (-2%) primarily due to lower non-lending losses and discretionary spend. Refer to page 45 for further details on key movements.
- Credit impairment charges decreased $71 million (-15%) largely due to lower individual credit impairment charges. Refer to page 46 and 47 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, Institutional and New Zealand divisions.

	Half Year		
Group	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**
Net interest income [1]	**7,350**	7,456	7,419
Average interest earning assets[2, 4]	**765,186**	752,073	743,906
Average deposits and other borrowings[2, 3, 4]	**612,291**	607,390	601,218
Net interest margin (%)[2]	**1.93**	1.98	2.00

	Half Year			
Net interest margin by major division	**Mar 18 $M**	**Sep 17 $M**	**Restated Mar 17[5] $M**	**Originally Reported Mar 17[5] $M**
Australia				
Net interest margin (%)	**2.78**	2.73	2.73	2.69
Average interest earning assets[4]	**310,830**	304,976	297,195	308,391
Average deposits and other borrowings[4]	**203,239**	198,799	193,654	193,671
Institutional				
Net interest margin (%)	**0.91**	0.99	1.08	1.05
Average interest earning assets[4]	**333,919**	318,464	313,933	302,578
Average deposits and other borrowings[4]	**257,874**	249,308	244,541	242,402
New Zealand[1]				
Net interest margin (%)	**2.37**	2.31	2.30	2.30
Average interest earning assets[2, 4]	**108,008**	108,763	109,664	109,664
Average deposits and other borrowings[2, 4]	**79,669**	78,747	79,190	79,190

1. *Net interest income from continuing operations includes income earned on assets prior to divestment.*
2. *Average balance sheet amounts include assets and liabilities reclassified as held for sale (excluding those related to discontinued operations).*
3. *In the March 2018 half, certain instruments were reclassified from average non-deposit interest bearing liabilities to average deposit and other borrowings to better reflect their nature. Comparatives have been restated accordingly (September 2017 half: $4,371 million; March 2017 half: $3,881 million).*
4. *Averages are calculated using predominantly daily averages.*
5. *Certain March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Mar 17") as a result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of March 2018 with March 2017

The decrease in net interest income of $69 million (-1%) was driven by:

Net interest margin (-7 bps)

- Asset mix and funding mix (-1 bps): unfavorable asset mix from the impacts of customer switching (mainly from interest only to principal and interest) and growth in Australia home loans.
- Funding costs (-2 bps): full impact of the Major Bank Levy, partially offset by reduced wholesale funding costs.
- Deposit competition (+2 bps): improved deposit margins in Australia and Institutional divisions.
- Asset competition and risk mix (+2 bps): impact of home loans re-pricing in Australia (mainly due to differentiated pricing of interest only loans) and New Zealand, partially offset by lower Institutional lending margins.
- Treasury (-2 bps): adverse impact to earnings on capital as the result of lower interest rates.
- Markets Balance Sheet activities (-5 bps): growth in the liquidity portfolio and lower earnings from markets activities.
- Asia Retail and Wealth (-1 bps): adverse impact from the sale of Asia Retail and Wealth businesses.

Average interest earning assets (+$21.3 billion or +3%)

- Average net loans and advances (+$5.7 billion or +1%): excluding the impact of foreign currency translation, growth was +$10.2 billion or +2% driven by growth in Australia and New Zealand home loans. This is partially offset by the sale of Asia Retail and Wealth businesses.
- Average trading and available for sale assets (+$7.2 billion or +7%): excluding the impact of foreign currency translation, growth was +$8.3 billion or +8% driven by growth in the liquidity portfolio.
- Average cash and other liquids (+$8.4 billion or +10%): excluding the impact of foreign currency translation, growth was +$9.7 billion or +12% driven by liquidity management requirements.

Average deposits and other borrowings (+$11.1 billion or +2%)

- Average deposits and other borrowings (+$11.1 billion or +2%): excluding the impact of foreign currency translation growth was +$17.8 billion or +3% driven by growth in customer deposits in Australia and Institutional businesses, partially offset by the sale of Asia Retail and Wealth businesses.

Comparison of March 2018 with September 2017

The decrease in net interest income of $106 million (-1%) was driven by:

Net interest margin (-5 bps)

- Asset mix and funding mix (-3 bps): unfavorable asset mix from the impacts of customer switching (mainly from interest only to principal and interest) and growth in Australia home loans, and unfavorable funding mix on a higher proportion of wholesale funding.
- Funding costs (0 bps): impact of the Major Bank Levy, offset by reduced wholesale funding costs.
- Deposit competition (+2 bps): improved deposit margins in Australia and Institutional divisions.
- Asset competition and risk mix (+1 bps): impact of home loans re-pricing in Australia (mainly due to differentiated pricing of interest only loans) and New Zealand, partially offset by lower Institutional lending margins.
- Treasury (-1 bps): adverse impact to earnings on capital as the result of lower interest rates.
- Markets Balance Sheet activities (-3 bps): growth in the liquidity portfolio and lower earnings from markets activities.
- Asia Retail and Wealth (-1 bps): adverse margin impact from the sale of Asia Retail and Wealth businesses.

Average interest earning assets (+$13.1 billion or +2%)

- Average net loans and advances (+$3.1 billion or +1%): excluding the impact of foreign currency translation, increase was +$5.4 billion (+1%), driven by growth in Australia home loans and Institutional lending, partially offset by the sale of Asia Retail and Wealth businesses.
- Average trading and available-for-sale assets (+$5.5 billion or +5%): excluding the impact of foreign currency translation, increase was +$6 billion (+6%) driven by growth in the liquidity portfolio.
- Average cash and other liquids (+$4.5 billion or +5%): excluding the impact of foreign currency translation, increase was +$4.7 billion (+5%) driven by liquidity management requirements.

Average deposits and other borrowings (+$4.9 billion or +1%)

- Average deposits and other borrowings (+$4.9 billion or +1%): excluding the impact of foreign currency translation, increase was +$7.7 billion (+1%) driven by growth in Australia and Institutional divisions, partially offset by the loss of deposits associated with the sale of Asia Retail and Wealth businesses.

Other operating income – continuing operations

	Half Year		
	Mar 18 $M	Sep 17 $M	Mar 17 $M
Net fee and commission income[1]	**1,110**	1,185	1,177
Net funds management and insurance income[1]	**307**	335	299
Markets other operating income	**551**	550	886
Share of associates profit[1]	**88**	127	173
Net foreign exchange earnings[1]	**58**	108	157
Economic hedges[2]	**175**	(42)	(254)
Revenue hedges[3]	**(57)**	(8)	148
Other[1]	**593**	92	(410)
Total other operating income from continuing operations	**2,825**	2,347	2,176

	Half Year		
Markets operating income	Mar 18 $M	Sep 17 $M	Mar 17 $M
Net interest income	**369**	442	478
Other operating income	**551**	550	886
Markets operating income from continuing operations	**920**	992	1,364

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 gains and losses on revenue hedges used to hedge large foreign exchange currency denominated revenue streams.*

Comparison of March 2018 with March 2017

Other operating income increased by $649 million (+30%). Key factors affecting the result were:

Net fee and commission income (-$67 million or -6%)

- $32 million decrease in the Asia Retail & Pacific division as a result of the sale of Asia Retail and Wealth businesses.
- $31 million decrease in the Australia division primarily due to higher interchange costs, lower deposit fee income and the removal of ATM fees during the March 2018 half.

Net funds management and insurance income (+$8 million or +3%)

- $60 million increase due to the impact of changes in market discount rates on the re-measurement of insurance policy liabilities.
- $33 million decrease in the Asia Retail & Pacific division as a result of the sale of Asia Retail and Wealth businesses.
- $19 million decrease in Wealth Australia division primarily due to lower financial planning revenue and lower commission income.

Markets operating income (-$444 million or -33%)

- $339 million decrease in Franchise Trading (a subdivision of Markets) primarily attributable to a $151 million reduction in derivative credit and funding valuation adjustments (net of associated hedges) following significant gains from narrowing credit spreads in the March 2017 half, and a $188 million reduction due to challenging trading conditions when compared to the March 2017 half which benefitted from a strengthening USD and rising yield curves post the US election.
- $61 million decrease in Balance Sheet Trading (a subdivision of Markets) driven by lower mark-to-market gains associated with credit spreads movements.
- $44 million decrease in Franchise Sales (a subdivision of Markets) due to the impact of business transformational initiatives implemented during 2017 (client and product rationalization) and subdued client hedge activity due to the ongoing low interest rate environment and low foreign exchange volatility.

Share of associates' profit (-$85 million or -49%)

- $73 million decrease due to cessation of equity accounting of SRCB from January 2017 ($58 million) and MCC from October 2017 ($15 million).
- $12 million net decrease in profits from associates of which $6 million relates to AMMB Holdings Berhad ("Ambank") and $5 million to P.T. Bank Pan Indonesia ("PT Panin").

Net foreign exchange earnings (-$99 million or -63%)

- $50 million decrease due to higher foreign exchange translation losses on foreign currency balances held in Institutional which are economically hedged with the associated gain shown in "Other" below.
- $46 million foreign exchange losses recognized in the March 2018 half due to the sale of SRCB.

Economic hedges (+$429 million)

- For the March 2018 half, the majority of the $175 million gain related to funding related swaps, principally from widening basis spreads on AUD/USD currency pair and from weakening of the AUD against the USD and EUR.
- For the March 2017 half, the majority of the $254 million loss related to funding related swaps, principally from tightening basis spreads on currency pairs most notably USD and EUR, and from the strengthening of the AUD against a number of major currencies.

Revenue hedges (-$205 million)

- For the March 2018 half, the loss of $57 million on revenue hedges was due to the weakening of the AUD against the NZD.
- For the March 2017 half, the gain of $148 million on revenue hedges was attributable to the strengthening of the AUD against the NZD.

Other (+$1,003 million)

- $499 million increase due to $219 million impairment of the investment in SRCB recognized in the March 2017 half, in addition to a $280 million gain on sale of SRCB comprising $289 million release of reserve gains and $9 million of other costs recognized in the March 2018 half.
- $423 million increase due to a non-recurring $324 million loss relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale in the March 2017 half, in addition to a $99 million gain recognized in the March 2018 half associated with sale completions.
- $118 million gain on the sale of MCC comprising $121 million gain on sale of the first 20% stake and $3 million loss on release of reserves.
- $114 million non-recurring gain on sale of 100 Queen Street, Melbourne recognized in the March 2017 half.
- $49 million increase due to hedges of foreign currency balances held in Institutional with the associated loss shown in "Net foreign exchange earnings" above.
- $18 million increase relating to a cost recovery in respect of the UDC terminated transaction process.

Comparison of March 2018 with September 2017

Other operating income increased by $478 million (+20%). Key factors affecting the result were:

Net fee and commission income (-$75 million or -6%)

- $35 million decrease in the Asia Retail & Pacific division following the progressive sale of Asia Retail and Wealth businesses.
- $32 million decrease in the Australia division primarily due to a reduction in deposit fees and the removal of ATM fees during the March 2018 half.

Net funds management and insurance income (-$28 million or -8%)

- $21 million decrease in the Asia Retail & Pacific division following the progressive sale of Asia Retail and Wealth businesses.

Markets operating income (-$72 million or -7%)

- $77 million decrease in Franchise Trading (a subdivision of Markets) attributable to a $56 million reduction in derivative credit and funding valuation adjustments (net of associated hedges) from narrowing credit spreads relative to the September 2017 half, and a $21 million reduction due to challenging trading conditions as a result of lower volatility, particularly in the first quarter of the March 2018 half.

Share of associates' profit (-$39 million or -31%)

- $24 million decrease due to cessation of equity accounting of MCC from October 2017.
- $15 million net decrease in profits from associates of which $6 million relates to Ambank and $6 million to PT Panin.

Net foreign exchange earnings (-$50 million or -46%)

- $46 million foreign exchange losses recognized in the March 2018 half due to the sale of SRCB.

Economic hedges (+$217 million)

- For the March 2018 half, the majority of the $175 million gain related to funding related swaps, principally from widening basis spreads on AUD/USD currency pair and from weakening of the AUD against the USD and EUR.
- For the September 2017 half, the majority of the $42 million loss related to funding related swaps, principally from tightening basis spreads on currency pairs most notably the AUD/USD currency pair.

Revenue hedges (-$49 million)

- For the March 2018 half, the loss of $57 million on revenue hedges was due to the weakening of the AUD against the NZD.
- For the September 2017 half, the loss of $8 million on revenue hedges was due to the weakening of the AUD against the NZD.

Other (+$501 million)

- $280 million gain on sale of SRCB comprising $289 million release of reserve gains and $9 million of other costs.
- $118 million gain on sale of MCC comprising $121 million gain on investment and $3 million release of reserve losses.
- $85 million increase in the gain recognized from the progressive sale of the Asia Retail and Wealth businesses.
- $18 million gain relating to a cost recovery in respect of the UDC terminated transaction process.

Operating expenses – continuing operations

	Half Year [1]		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**
Personnel expenses	**2,402**	2,405	2,519
Premises expenses	**395**	430	432
Technology expenses	**815**	803	799
Restructuring expenses	**78**	26	36
Other expenses	**721**	816	701
Total operating expenses from continuing operations	**4,411**	4,480	4,487
Full time equivalent staff from continuing operations	**39,540**	42,873	44,015
Average full time equivalent staff from continuing operations	**41,991**	43,658	44,390

1. *Information has been restated and presented on a continuing operations basis.*

Comparison of March 2018 with March 2017

Operating expenses decreased by $76 million (-2%) reflecting the Group's ongoing focus to re-shape the business and improve cost efficiency.

- Personnel expenses decreased $117 million (-5%) due to a 5% reduction in average FTE due to ongoing simplification and transformation activities, partially offset by wage inflation.
- Premises expenses decreased $37 million (-9%) primarily driven by the reshaping of our Asia footprint.
- Technology expenses increased $16 million (+2%) largely to support an increased technology investment agenda.
- Restructuring expenses increased $42 million associated with the move to new and more efficient ways of working in the Australia division and other transformation activities.
- Other expenses increased $20 million (+3%) largely related to higher consultancy fees associated with increased investment expenditure.

Comparison of March 2018 with September 2017

Operating expenses decreased by $69 million (-2%) reflecting strong cost management whilst delivering the Group's strategy.

- Personnel expenses decreased $3 million (flat) mainly due to a 4% reduction in average FTE due to ongoing simplification and transformation activities, partially offset by wage inflation.
- Premises expenses decreased $35 million (-8%) primarily driven by the reshaping of our Asia footprint.
- Technology expenses increased $12 million (+1%) largely to support an increased technology investment agenda.
- Restructuring expenses increased $52 million associated with the move to new and more efficient ways of working in the Australia division and other transformation activities.
- Other expenses decreased $95 million (-12%) as the result of lower non-lending losses and discretionary spend.

Credit Risk – including discontinued operations

Under AASs, the credit impairment charge represents management's best estimate of incurred loss. The estimated incurred loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The credit impairment charge consists of two components: the individual credit impairment charge and the collective credit impairment charge.

Provisions for credit impairment are raised when there is objective evidence of impairment. Impairment is assessed individually for financial assets that are individually known to be impaired and are individually significant (or on a portfolio basis for small value homogenous loans) and then on a collective basis for those loans not individually known to be impaired.

Under AASs, the collective provision for credit impairment is calculated for financial assets for which there is an incurred loss but the financial assets have not been individually identified as impaired.

The collective credit impairment charge is calculated as the change in the collective provision for credit impairment during the reporting period. The collective provision for credit impairment at the end of the reporting period reflects the impact on estimated future cash flows for loans where there is an incurred loss and that loss will become observable over an emergence period. The emergence period represents the time from when a loss event occurs until the Group assesses the loan for individual impairment and raises an individual provision. The impact on estimated future cash flows is calculated based on historical loss experience for assets with credit characteristics similar to those in the collective pool. The collective provision also takes into account management's assessment of the impact of large concentrated losses within the portfolio and the economic cycle.

Credit Impairment Charge

	Half Year					
	Mar 18			Sep 17		
Division	Individual charge $M	Collective charge $M	Total charge $M	Individual charge $M	Collective charge $M	Total charge $M
Australia	**337**	**(25)**	**312**	449	(32)	417
Institutional	**28**	**21**	**49**	(29)	(8)	(37)
New Zealand	**34**	**(14)**	**20**	55	(14)	41
Asia Retail & Pacific	**31**	**(4)**	**27**	79	(10)	69
TSO & Group Centre	**-**	**-**	**-**	-	(11)	(11)
Total	**430**	**(22)**	**408**	**554**	**(75)**	**479**

	Half Year					
	Restated Mar 17[1]			Originally Reported Mar 17[1]		
Division	Individual charge $M	Collective charge $M	Total charge $M	Individual charge $M	Collective charge $M	Total charge $M
Australia	415	53	468	430	42	472
Institutional	225	(96)	129	210	(85)	125
New Zealand	61	(24)	37	61	(24)	37
Asia Retail & Pacific	86	(11)	75	86	(11)	75
TSO & Group Centre	(1)	11	10	(1)	11	10
Total	**786**	**(67)**	**719**	**786**	**(67)**	**719**

1. *Certain March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of March 2018 with March 2017

- The individual credit impairment charge decreased $356 million (-45%) reflecting a $393 million (-35%) decrease in new and existing provisions across all divisions. Institutional division decreased $197 million (-88%) primarily driven by lower provisions arising from ongoing portfolio rebalancing combined with a benign credit environment. Australia division decreased $78 million (-19%) driven by a combination of lower provisions and higher write-backs. New Zealand division decreased $27 million (-44%) driven by lower provisions and a one-off large provision taken in the March 2017 half. Asia Retail & Pacific division decreased $55 million (-64%) due to the sale of Asia Retail and Wealth businesses.
- The reduction in the collective credit impairment release of $45 million is primarily driven by risk profile and lending growth releases in the March 2017 half largely due to portfolio rebalancing in the Institutional division, and the partial release of economic cycle adjustments relating to the Australia and New Zealand divisions in the March 2018 half. The collective credit impairment charge driven by lending growth increased in the March 2018 half reflecting growth in Institutional Loans & Specialized Finance and New Zealand Commercial Agri, offset by reductions in the Australia division in B&PB.

Comparison of March 2018 with September 2017

- The individual credit impairment charge decreased $124 million (-22%) primarily driven by a $112 million (-25%) decrease in the Australia division from lower new individual provisions and higher write-backs, and a $48 million (-61%) decrease in the Asia Retail & Pacific division following the progressive sale of Asia Retail and Wealth businesses. This is partially offset by a $57 million increase in the Institutional division due to lower write-backs in the March 2018 half.
- The reduction in the collective credit impairment release of $53 million is primarily driven by risk profile releases in the March 2017 half, and the partial release of economic cycle adjustments relating to the Australia and New Zealand divisions in the March 2018 half. The collective credit impairment charge driven by lending growth increased in the March 2018 half reflecting growth in Institutional Loans & Specialized Finance and New Zealand Commercial Agri, offset by reductions in the Australia division in B&PB.

Provision for credit impairment

	As of					
	Mar 18			Restated Sep 17[1]		
Division	Individual provision $M	Collective provision $M[2]	Total provision $M	Individual provision $M	Collective provision $M[2]	Total provision $M
Australia	**577**	**1,113**	**1,690**	633	1,139	1,772
Institutional	**320**	**1,101**	**1,421**	353	1,069	1,422
New Zealand	**104**	**316**	**420**	131	323	454
Asia Retail & Pacific	**15**	**46**	**61**	19	128	147
TSO & Group Centre	**-**	**3**	**3**	-	3	3
Total	**1,016**	**2,579**	**3,595**	**1,136**	**2,662**	**3,798**

	As of					
	Restated Sep 17[1]			Originally Reported Sep 17[1]		
Division	Individual provision $M	Collective provision $M[2]	Total provision $M	Individual provision $M	Collective provision $M[2]	Total provision $M
Australia	633	1,139	1,772	703	1,202	1,905
Institutional	353	1,069	1,422	282	1,004	1,286
New Zealand	131	323	454	131	323	454
Asia Retail & Pacific	19	128	147	20	130	150
TSO & Group Centre	-	3	3	-	3	3
Total	**1,136**	**2,662**	**3,798**	**1,136**	**2,662**	**3,798**

	As of					
	Restated Mar 17[1]			Originally Reported Mar 17[1]		
Division	Individual provision $M	Collective provision $M[2]	Total provision $M	Individual provision $M	Collective provision $M[2]	Total provision $M
Australia	579	1,171	1,750	647	1,230	1,877
Institutional	539	1,085	1,624	470	1,024	1,494
New Zealand	135	335	470	135	335	470
Asia Retail & Pacific	16	180	196	17	182	199
TSO & Group Centre	-	14	14	-	14	14
Total	**1,269**	**2,785**	**4,054**	**1,269**	**2,785**	**4,054**

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *The collective provision includes amounts for off-balance sheet credit exposures of $522 million as of March 31, 2018 (September 2017 half: $544 million; March 2017 half: $574 million). The impact on the income statement for the fiscal half year ended March 31, 2018 was a $26 million release (September 2017 half: $20 million release; March 2017 half: $46 million release).*

Impaired assets[1]

	As of		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**
Gross impaired assets			
Impaired loans	**1,863**	2,118	2,478
Restructured items[2]	**76**	167	367
Non-performing commitments and contingencies	**95**	99	95
Gross impaired assets	**2,034**	**2,384**	**2,940**
Individual provisions			
Impaired loans	**(990)**	(1,118)	(1,253)
Non-performing commitments and contingencies	**(26)**	(18)	(16)
Net impaired assets	**1,018**	**1,248**	**1,671**

1. *Balance sheet amounts include assets reclassified as held for sale.*
2. *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.*

	As of				
	Mar 18 $M	**Restated Sep 17 $M**[1]	**Originally Reported Sep 17 $M**[1]	**Restated Mar 17 $M**[1]	**Originally Reported Mar 17 $M**[1]
Gross impaired assets by division[2]					
Australia	**1,114**	1,180	1,310	1,148	1,227
Institutional	**626**	757	624	1,143	1,061
New Zealand	**244**	307	307	409	409
Asia Retail & Pacific	**50**	140	143	240	243
Gross impaired assets	**2,034**	2,384	2,384	2,940	2,940

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance sheet amounts include assets reclassified as held for sale.*

	As of		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**
Gross impaired assets by size of exposure[1]			
Less than $10 million	**1,487**	1,622	1,724
$10 million to $100 million	**547**	655	1,106
Greater than $100 million	**-**	107	110
Total gross impaired assets	**2,034**	**2,384**	**2,940**

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

Comparison of March 2018 with March 2017

- Gross impaired assets decreased $906 million (-31%) driven by Institutional (-$517 million) and New Zealand (-$165 million) divisions, and Asia Retail & Pacific division (-$190 million) following the sale of the Asia Retail and Wealth businesses. The Group's individual provision coverage ratio on impaired assets was 50.0% as of March 31, 2018 (March 2017: 43.2%).

Comparison of March 2018 with September 2017

- Gross impaired assets decreased $350 million (-15%) in the March 2018 half driven by Institutional (-$131 million), Australia (-$67 million) and New Zealand (-$63 million) divisions, combined with Asia Retail & Pacific division (-$90 million) following the sale of the Asia Retail and Wealth businesses. The Group's individual provision coverage ratio on impaired assets was 50.0% as of March 31, 2018 (September 2017: 47.7%).

New impaired assets[1]

	Half Year		
	Mar 18 $M	Sep 17 $M	Mar 17 $M
New impaired assets			
Impaired loans	**917**	1,315	1,637
Restructured items	**21**	21	88
Non-performing commitments and contingencies	**25**	89	62
Total new impaired assets	**963**	**1,425**	**1,787**

	Half Year			
	Mar 18 $M	Sep 17 $M	Restated Mar 17[2] $M	Originally Reported Mar 17[2] $M
New impaired assets by division				
Australia	**699**	770	765	816
Institutional	**124**	344	599	547
New Zealand	**101**	216	296	296
Asia Retail & Pacific	**39**	95	127	128
Total new impaired assets	**963**	**1,425**	**1,787**	**1,787**

1. *Balance sheet amounts include assets reclassified as held for sale.*
2. *Certain March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of March 2018 with March 2017

- New impaired assets decreased $824 million (-46%) primarily driven by Institutional division's improved risk profile from portfolio rebalancing, combined with a benign credit environment. Improvements in portfolio credit quality in the New Zealand Commercial and Agri business, and reductions associated with the progressive sale of the Asia Retail and Wealth businesses also contributed to a decrease in new impaired assets.

Comparison of March 2018 with September 2017

- New impaired assets decreased by $462 million (-32%) primarily driven by Institutional division's improved risk profile from portfolio rebalancing, combined with a benign credit environment. Improvements in portfolio credit quality in the New Zealand Commercial and Agri business, and reductions associated with the progressive sale of the Asia Retail and Wealth businesses also contributed to a decrease in new impaired assets.

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 18 $M	Restated Sep 17[2] $M	Originally Reported Sep 17[2] $M	Restated Mar 17[2] $M	Originally Reported Mar 17[2] $M
Australia	**2,787**	2,668	2,668	2,483	2,483
Institutional	**23**	42	41	54	50
New Zealand	**202**	188	188	165	165
Asia Retail & Pacific	**21**	52	53	66	69
TSO and Group Centre	**5**	3	3	3	4
Total accruing loans - past due 90 days or more	**3,038**	2,953	2,953	2,771	2,771

1. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*
2. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Comparison of March 2018 with March 2017

- The 90 days past due but not impaired increased by $267 million (+10%) primarily driven by growth in the Australia division home loan portfolio, combined with continued portfolio deterioration in Western Australia. This was partially offset by the impact of the sale of the Asia Retail and Wealth businesses.

Comparison of March 2018 with September 2017

- The 90 days past due but not impaired increased by $85 million (+3%) primarily driven by growth in the Australia division home loan portfolio, combined with continued portfolio deterioration in Western Australia.

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 name risk.

For further information relating to the Group's credit risk exposures, refer to Note 16 of ANZ's 2017 Financial Report (attached as part of Annex A to ANZ's 2017 Annual U.S. Disclosure Document).

Income tax expense – continuing operations

	Half Year[1]		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**
Income tax expense charged to the income statement	**1,426**	1,427	1,447
Effective tax rate	**26.6%**	29.5%	33.0%
Australian corporate tax rate	**30.0%**	30.0%	30.0%

1. *Information has been restated and presented on a continuing operations basis.*

Comparison of March 2018 with March 2017

- The effective tax rate has decreased from 33.0% to 26.6%. The decrease of -640 bps is primarily due to adjustments on reclassification of SRCB to held for sale (-512 bps), lower average tax rate on decreased offshore earnings (-78 bps) offset by higher equity accounted earnings (+70 bps) in the March 2017 half. The March 2018 half included the non-taxable profit on the disposal of 20% of the Group's stake in MCC (-69 bps) and a tax provision release (-43 bps). Offshore earnings in the March 2017 half were lower due to the reclassification of Asia Retail and Wealth businesses to held for sale.

Comparison of March 2018 with September 2017

- The effective tax rate decreased from 29.5% to 26.6%. The decrease of -290 bps is primarily due to the non-tax assessable gain on completion of the sale of SRCB (-190 bps), the non-taxable profit on the disposal of 20% of the Group's stake in MCC (-69 bps) and a tax provision release (-43 bps) in the March 2018 half.

CONDENSED BALANCE SHEET – INCLUDING DISCONTINUED OPERATIONS

	As of		
	Mar 18 $B	**Sep 17 $B**	**Mar 17 $B**
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid[1]	**98.0**	82.5	89.3
Trading and available-for-sale assets[1]	**115.3**	113.0	108.8
Derivative financial instruments[1]	**70.9**	62.5	63.9
Net loans and advances[1]	**588.9**	574.3	564.0
Investments backing policy liabilities[1]	**-**	38.0	37.6
Assets held for sale[3]	**45.3**	8.0	14.1
Other[1]	**16.7**	19.1	18.8
Total assets	**935.1**	897.4	896.5
Liabilities			
Settlement balances owed by ANZ / Collateral received	**20.0**	15.8	14.9
Deposits and other borrowings[1]	**616.2**	595.6	581.4
Derivative financial instruments	**70.6**	62.3	65.1
Debt issuances[2]	**114.9**	108.0	109.1
Policy liabilities and external unit holder liabilities[1]	**-**	41.9	41.3
Liabilities held for sale[4]	**44.8**	4.7	17.2
Other[1, 2]	**9.1**	10.0	9.6
Total liabilities	**875.6**	838.3	838.6
Total equity	**59.5**	59.1	57.9

1. *Balances exclude assets and liabilities held for sale.*
2. *Subordinated debt was included in other liabilities as of March 31, 2017 and has been reclassified as part of debt issuances as of September 30, 2017. The March 31, 2017 comparatives have been restated. The March 31, 2017 originally reported balances were $88.8 billion for Debt issuances and $29.9 billion for Other. For further details on debt issuances, refer to Note 12 of the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S. Disclosure Document).*
3. *The March 31, 2018 balance of assets held for sale comprises: $42.2 billion for discontinued operations; $3.0 billion for UDC and Paymark Limited ("Paymark"); and $0.1 billion for MCC. The September 30, 2017 balance of assets held for sale comprises: $3.3 billion for Asia Retail and Wealth businesses; $2.8 billion for UDC; $1.7 billion for SRCB and $0.1 billion for MCC. The March 31, 2017 balance of assets held for sale comprises: $9.8 billion for Asia Retail and Wealth businesses; $2.6 billion for UDC and $1.7 billion for SRCB.*
4. *The March 31, 2018 balance of liabilities held for sale comprises: $43.8 billion for discontinued operations and $1.0 billion for UDC and Paymark. The September 30, 2017 balance of liabilities held for sale comprises: $3.7 billion for Asia Retail and Wealth businesses and $1.0 billion for UDC. The March 31, 2017 balance of liabilities held for sale comprises: $15.9 billion for Asia Retail and Wealth businesses and $1.3 billion for UDC.*

Comparison of March 2018 with March 2017

- Cash / Settlement balances owed to ANZ / Collateral paid increased $8.7 billion (+10%). Adjusting for a $1.5 billion increase due to foreign currency translation, the $7.2 billion increase was primarily driven by increased liquidity portfolio holdings due to balance sheet growth in Markets.
- Trading and available-for-sale assets increased $6.5 billion (+6%). Adjusting for a $0.5 billion increase due to foreign currency translation and $1.0 billion decrease due to assets reclassified as held for sale, the $7.0 billion increase was primarily driven by increased liquidity portfolio holdings due to balance sheet growth in Markets.
- Derivative financial assets and liabilities increased $7.0 billion (+11%) and $5.5 billion (+8%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Net loans and advances increased $24.9 billion (+4%). Adjusting for a $3.8 billion increase due to foreign currency translation, the $21.1 billion increase was primarily driven by growth in home loans across Australia (+$13.8 billion) and New Zealand (+$3.2 billion) divisions, and lending growth in the Institutional division (+$4.9 billion).
- Deposits and other borrowings increased $34.8 billion (+6%). Adjusting for a $3.1 billion increase due to foreign currency translation, the $31.7 billion increase was primarily driven by growth in customer deposits across Institutional, Australia and New Zealand divisions (+$18.1 billion), and a $21.6 billion increase in deposits from banks and commercial paper, partially offset by a reduction of $7.1 billion in certificates of deposits.
- Debt issuances and subordinated debt increased $5.8 billion (+5%). Adjusting for a $0.5 billion increase due to foreign currency translation, the $5.3 billion increase was primarily driven by senior debt issuances.

Comparison of March 2018 with September 2017

- Cash / Settlement balances owed to ANZ / Collateral paid increased by $15.5 billion (+19%). Adjusting for a $2.2 billion increase due to foreign currency translation, the $13.3 billion increase was primarily driven by increased liquidity portfolio holdings due to balance sheet growth in Markets.
- Derivative financial assets and liabilities increased $8.4 billion (+13%) and $8.3 billion (+13%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Net loans and advances increased $14.6 billion (+3%). Adjusting for a $4.4 billion increase due to foreign currency translation, the $10.2 billion increase was primarily driven by growth in home loans across Australia (+$5.8 billion) and New Zealand (+1.0 billion) divisions, and lending growth in Institutional division (+$4.3 billion).
- Deposits and other borrowings increased by $20.6 billion (+3%). Adjusting for a $5.9 billion increase due to foreign currency translation, the $14.7 billion increase was primarily driven by growth in customer deposits across Australia and New Zealand divisions (+$5.3 billion), and a $18.9 billion increase in deposits from banks and commercial paper, partially offset by a reduction of $7.9 billion in certificate of deposits and reverse repurchase agreements.

- Debt issuances and subordinated debt increased \$6.9 billion (+6%). Adjusting for a \$0.9 billion increase due to foreign currency translation, the \$6.0 billion increase was primarily driven by senior debt issuances.

Investment backing policy liabilities, policy liabilities and external unit holder liabilities balances as of March 2018 reflect the reclassification of assets and liabilities to held for sale. Refer to Note 11 of the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S. Disclosure Document) for further details of assets and liabilities held for sale.

RESULTS BY DIVISION – CONTINUING OPERATIONS

Comparative information for the September 2017 half and Restated March 2017 half at the divisional level reflects the impact of the organizational changes as described under "Principal Activities of the Group" in this U.S. Disclosure Document. These reallocations do not have an impact on comparative information in the income statement or balance sheet at the Group level.

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 and comparative information for the fiscal half year ended March 31, 2017 has been restated accordingly. For information on discontinued operations please refer to "Section 1: Key Information - Basis of preparation – Sale of Wealth Australia Businesses."

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

March 2018 Half Year

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO and Group Centre $M	Group $M
Net interest income	4,304	1,516	1,278	24	119	109	**7,350**
Other operating income	559	1,028	338	162	184	554	**2,825**
Operating income	4,863	2,544	1,616	186	303	663	**10,175**
Operating expenses	(1,812)	(1,371)	(588)	(123)	(146)	(371)	**(4,411)**
Profit before credit impairment and income tax	3,051	1,173	1,028	63	157	292	**5,764**
Credit impairment (charge)/release	(312)	(49)	(20)	-	(27)	-	**(408)**
Profit before income tax	2,739	1,124	1,008	63	130	292	**5,356**
Income tax expense and non-controlling interests	(824)	(331)	(282)	(19)	(24)	47	**(1,433)**
Profit/(loss) after income tax from continuing operations	1,915	793	726	44	106	339	**3,923**

September 2017 Half Year

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO and Group Centre $M	Group $M
Net interest income	4,169	1,577	1,259	24	260	167	**7,456**
Other operating income	615	998	336	165	168	65	**2,347**
Operating income	4,784	2,575	1,595	189	428	232	**9,803**
Operating expenses	(1,713)	(1,392)	(593)	(136)	(280)	(366)	**(4,480)**
Profit before credit impairment and income tax	3,071	1,183	1,002	53	148	(134)	**5,323**
Credit impairment (charge)/release	(417)	37	(41)	-	(69)	11	**(479)**
Profit before income tax	2,654	1,220	961	53	79	(123)	**4,844**
Income tax expense and non-controlling interests	(797)	(361)	(269)	(16)	(14)	23	**(1,434)**
Profit/(loss) after income tax from continuing operations	1,857	859	692	37	65	(100)	**3,410**

March 2017 Half Year (Restated)[1]

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO and Group Centre $M	Group $M
Net interest income	4,049	1,687	1,260	25	316	82	**7,419**
Other operating income	602	1,368	317	179	(150)	(140)	**2,176**
Operating income	4,651	3,055	1,577	204	166	(58)	**9,595**
Operating expenses	(1,669)	(1,422)	(600)	(126)	(334)	(336)	**(4,487)**
Profit before credit impairment and income tax	2,982	1,633	977	78	(168)	(394)	**5,108**
Credit impairment (charge)/release	(468)	(129)	(37)	-	(75)	(10)	**(719)**
Profit before income tax	2,514	1,504	940	78	(243)	(404)	**4,389**
Income tax expense and non-controlling interests	(755)	(439)	(263)	(20)	21	1	**(1,455)**
Profit/(loss) after income tax from continuing operations	1,759	1,065	677	58	(222)	(403)	**2,934**

March 2017 Half Year (Originally Reported) [1, 2]

	Australia $M	Institutional $M	New Zealand $M	Wealth Australia $M	Asia Retail & Pacific $M	TSO and Group Centre $M	Group $M
Net interest income	4,133	1,588	1,260	25	331	82	**7,419**
Other operating income	602	1,357	317	179	(139)	(140)	**2,176**
Operating income	4,735	2,945	1,577	204	192	(58)	**9,595**
Operating expenses	(1,693)	(1,379)	(600)	(126)	(353)	(336)	**(4,487)**
Profit before credit impairment and income tax	3,042	1,566	977	78	(161)	(394)	**5,108**
Credit impairment (charge)/release	(472)	(125)	(37)	-	(75)	(10)	**(719)**
Profit before income tax	2,570	1,441	940	78	(236)	(404)	**4,389**
Income tax expense and non-controlling interests	(772)	(420)	(263)	(20)	19	1	**(1,455)**
Profit/(loss) after income tax from continuing operations	1,798	1,021	677	58	(217)	(403)	**2,934**

1. *Certain March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Information has been restated and presented on a continuing operations basis. Discontinued operations comprise the OnePath P&I and ADG businesses sale to IOOF and the sale of ANZ's life insurance business to Zurich.*

Australia – continuing operations

Australia	Half Year Mar 18 $M	Restated Sep 17 $M[1]	Originally Reported Sep 17 $M[1]	Restated Mar 17 $M[1]	Originally Reported Mar 17 $M[1]
Net interest income	**4,304**	4,169	4,251	4,049	4,133
Other operating income	**559**	615	616	602	602
Operating income	**4,863**	4,784	4,867	4,651	4,735
Operating expenses	**(1,812)**	(1,713)	(1,730)	(1,669)	(1,693)
Profit before credit impairment and income tax	**3,051**	3,071	3,137	2,982	3,042
Credit impairment (charge)/release	**(312)**	(417)	(425)	(468)	(472)
Profit before income tax	**2,739**	2,654	2,712	2,514	2,570
Income tax expense and non-controlling interests	**(824)**	(797)	(815)	(755)	(772)
Profit after income tax	**1,915**	1,857	1,897	1,759	1,798
Consisting of:					
Retail	**1,292**	1,292	1,329	1,205	1,226
Business & Private Bank	**623**	565	568	554	572
Profit after income tax	**1,915**	1,857	1,897	1,759	1,798
Balance Sheet					
Net loans and advances	**339,345**	333,560	345,344	325,548	336,736
Other external assets	**3,136**	3,058	3,084	2,929	2,952
External assets	**342,481**	336,618	348,428	328,477	339,688
Customer deposits	**204,165**	201,326	201,365	197,612	197,632
Other external liabilities	**9,895**	10,856	10,847	11,110	11,117
External liabilities	**214,060**	212,182	212,212	208,722	208,749
Risk weighted assets	**160,644**	160,915	170,632	150,027	159,575
Average gross loans and advances[2]	**338,697**	331,662	343,174	322,714	333,965
Average deposits and other borrowings[2]	**203,239**	198,799	198,826	193,654	193,671
Ratios					
Return on average assets	**1.13%**	1.12%	1.10%	1.09%	1.08%
Net interest margin	**2.78%**	2.73%	2.68%	2.73%	2.69%
Operating expenses to operating income	**37.3%**	35.8%	35.5%	35.9%	35.8%
Operating expenses to average assets	**1.07%**	1.03%	1.00%	1.03%	1.01%
Individual credit impairment charge/(release)	**337**	449	453	415	430
Individual credit impairment charge/(release) as a % of average GLA	**0.20%**	0.27%	0.26%	0.26%	0.26%
Collective credit impairment charge/(release)	**(25)**	(32)	(28)	53	42
Collective credit impairment charge/(release) as a % of average GLA	**(0.01%)**	(0.02%)	(0.02%)	0.03%	0.03%
Gross impaired assets	**1,114**	1,181	1,310	1,148	1,227
Gross impaired assets as a % of GLA	**0.33%**	0.36%	0.38%	0.35%	0.36%
Total full time equivalent staff	**13,701**	13,885	11,387	13,898	11,518

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Averages are calculated using predominantly daily averages.*

Comparison of March 2018 with March 2017

Profit after income tax increased by $156 million (+9%).

- Net loans and advances (+4%) grew in home loans (+6%) particularly in owner occupier and principal and interest loans. Customer deposits (+3%) grew across all portfolios.
- Net interest margin increased 5 basis points as the result of differentiated pricing in home loans (mainly interest only loans) and higher deposit margins as the result of re-pricing. This was partially offset by the introduction of the Major Bank Levy from July 2017.
- Operating expenses increased $143 million (+9%) due to restructuring for new and more efficient ways of working, increased business investment in digital capability, and inflation. This is partially offset by a reduction in FTE.
- Credit impairment charges decreased $156 million (-33%) as the result of portfolio and collection initiatives, the partial release of the Retail Trade economic cycle adjustment, and slower lending growth.

Comparison of March 2018 with September 2017

Profit after income tax increased by $58 million (+3%).

- Net loans and advances (+2%) grew in home loans (+2%) particularly in owner occupier and principal and interest loans. Customer deposits (+1%) grew in home loans (+3%) and small business banking (+3%).
- Net interest margin increased 5 basis points as the result of differentiated pricing in home (mainly interest only loans) and higher deposit margins as a result of re-pricing. This was partially offset by the introduction of the Major Bank Levy from July 2017.
- Operating expenses increased $99 million (+6%) due to restructuring for new and more efficient ways of working and inflation. This is partially offset by a reduction in FTE.
- Credit impairment charges decreased $105 million (-25%) as the result of portfolio and collection initiatives, and the impact of seasonality.

Institutional – continuing operations

Institutional	Half Year Mar 18 $M	Restated Sep 17 $M[1]	Originally Reported Sep 17 $M[1]	Restated Mar 17 $M[1]	Originally Reported Mar 17 $M[1]
Net interest income	**1,516**	1,577	1,480	1,687	1,588
Other operating income	**1,028**	998	989	1,368	1,357
Operating income	**2,544**	2,575	2,469	3,055	2,945
Operating expenses	**(1,371)**	(1,392)	(1,357)	(1,422)	(1,379)
Profit before credit impairment and income tax	**1,173**	1,183	1,112	1,633	1,566
Credit impairment (charge)/release	**(49)**	37	45	(129)	(125)
Profit before income tax	**1,124**	1,220	1,157	1,504	1,441
Income tax expense and non-controlling interests	**(331)**	(361)	(342)	(439)	(420)
Profit after income tax	**793**	859	815	1,065	1,021
Consisting of:					
Transaction Banking	**270**	268	249	236	216
Loans & Specialized Finance	**303**	320	313	305	297
Markets	**221**	246	231	532	518
Central Functions	**(1)**	25	22	(8)	(10)
Profit after income tax	**793**	859	815	1,065	1,021
Balance Sheet					
Net loans and advances	**137,884**	131,582	119,636	132,136	120,791
Other external assets	**281,079**	254,769	254,653	258,240	258,119
External assets	**418,963**	386,351	374,289	390,376	378,910
Customer deposits	**190,733**	189,015	186,782	181,459	179,326
Other external liabilities	**176,927**	152,025	151,973	156,236	156,178
External liabilities	**367,660**	341,040	338,755	337,695	335,504
Risk weighted assets	**165,614**	158,783	148,881	168,959	159,230
Average gross loans and advances[2]	**137,864**	133,573	121,897	137,053	125,645
Average deposits and other borrowings[2]	**257,874**	249,308	247,128	244,541	242,402
Ratios					
Return on average assets	**0.38%**	0.42%	0.41%	0.52%	0.51%
Net interest margin	**0.91%**	0.99%	0.96%	1.08%	1.05%
Net interest margin (excluding Markets)	**2.14%**	2.17%	2.03%	2.23%	2.17%
Operating expenses to operating income	**53.9%**	54.1%	55.0%	46.6%	46.8%
Operating expenses to average assets	**0.65%**	0.68%	0.68%	0.69%	0.69%
Individual credit impairment charge/(release)	**28**	(29)	(33)	225	210
Individual credit impairment charge/(release) as a % of average GLA	**0.04%**	(0.04%)	(0.05%)	0.33%	0.34%
Collective credit impairment charge/(release)	**21**	(8)	(12)	(96)	(85)
Collective credit impairment charge/(release) as a % of average GLA	**0.03%**	(0.01%)	(0.02%)	(0.14%)	(0.14%)
Gross impaired assets	**626**	757	624	1,143	1,061
Gross impaired assets as a % of GLA	**0.45%**	0.57%	0.52%	0.87%	0.87%
Total full time equivalent staff	**6,505**	6,783	4,754	6,950	4,899

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Averages are calculated using predominantly daily averages.*

Comparison of March 2018 with March 2017

Profit after income tax decreased by $272 million (-26%).

- Net loans and advances (+4%) grew in Loans & Specialized Finance (+6%) and Transaction Banking (+22%). Customer deposits (+5%) grew in Transaction Banking (+8%) and Markets (+3%).
- Net interest margin excluding Markets decreased 9 basis points largely due to the introduction of the Major Bank Levy from July 2017.
- Other operating income decreased $340 million (-25%) due to large positive derivative valuation adjustments in the March 2017 half, and a reduction in Markets Balance Sheet, Franchise Trading and Sales income due to less favorable trading conditions in the March 2018 half.
- Operating expenses decreased $51 million (-4%) due to a reduction in FTE as a result of ongoing simplification and transformation activities.
- Credit impairment charges decreased $80 million (-62%) due to lower individual provision charges from ongoing portfolio rebalancing.

Comparison of March 2018 with September 2017

Profit after income tax decreased by $66 million (-8%).

- Net loans and advances (+5%) grew mostly in Loans & Specialized Finance (+8%) and Transaction Banking (+13%). Customer deposits (+1%) grew mostly in Loans & Specialized Finance (+35%).
- Net interest margin excluding Markets decreased 3 basis points due to the introduction of the Major Bank Levy from July 2017.
- Other operating income increased $30 million (+3%) due to higher customer demand for loan syndication and corporate advisory services.
- Operating expenses decreased $21 million (-2%) with FTE down 4% as a result of ongoing simplification and transformation activities.
- Credit impairment charges increased $86 million (large) primarily due to lower write-backs.

New Zealand – continuing operations

Table reflects NZD for New Zealand.

AUD results shown on page 61.

New Zealand	Half Year Mar 18 NZD M	Restated Sep 17 NZD M[1]	Originally Reported Sep 17 NZD M[1]	Restated Mar 17 NZD M[1]	Originally Reported Mar 17 NZD M[1]
Net interest income	**1,395**	1,352	1,352	1,334	1,334
Other operating income	**181**	177	177	153	153
Net funds management and insurance income	**189**	182	182	183	183
Operating income	**1,765**	1,711	1,711	1,670	1,670
Operating expenses	**(642)**	(635)	(635)	(636)	(636)
Profit before credit impairment and income tax	**1,123**	1,076	1,076	1,034	1,034
Credit impairment (charge)/release	**(22)**	(44)	(44)	(39)	(39)
Profit before income tax	**1,101**	1,032	1,032	995	995
Income tax expense and non-controlling interests	**(308)**	(290)	(290)	(278)	(278)
Profit after income tax	**793**	742	742	717	717
Consisting of:					
Retail	**510**	520	520	499	499
Commercial	**267**	220	220	219	219
Central Functions	**16**	2	2	(1)	(1)
Profit after income tax	**793**	742	742	717	717
Balance Sheet[2]					
Net loans and advances	**118,540**	117,242	117,242	114,731	114,731
Other external assets	**4,911**	3,869	3,869	7,032	7,032
External assets	**123,451**	121,111	121,111	121,763	121,763
Customer deposits	**84,372**	81,855	81,855	81,238	81,238
Other external liabilities	**25,438**	26,018	26,015	25,181	25,177
External liabilities	**109,810**	107,873	107,870	106,419	106,415
Risk weighted assets	**61,332**	60,971	60,971	62,421	62,421
Average gross loans and advances[3]	**118,091**	116,671	116,671	114,087	114,087
Average deposits and other borrowings[3]	**87,027**	84,490	84,490	83,884	83,884
In-force premiums	**196**	194	194	192	192
Funds under management ("FUM")	**29,185**	28,490	28,490	27,146	27,146
Average funds under management	**29,195**	27,810	27,810	26,383	26,383
Ratios[2]					
Return on average assets	**1.31%**	1.23%	1.23%	1.20%	1.20%
Net interest margin	**2.37%**	2.31%	2.31%	2.30%	2.30%
Operating expenses to operating income	**36.4%**	37.1%	37.1%	38.1%	38.1%
Operating expenses to average assets	**1.06%**	1.06%	1.06%	1.07%	1.07%
Individual credit impairment charge/(release)	**36**	59	59	64	64
Individual credit impairment charge/(release) as a % of average GLA	**0.06%**	0.10%	0.10%	0.11%	0.11%
Collective credit impairment charge/(release)	**(14)**	(15)	(15)	(25)	(25)
Collective credit impairment charge/(release) as a % of average GLA	**(0.02%)**	(0.03%)	(0.03%)	(0.04%)	(0.04%)
Gross impaired assets	**260**	334	334	448	448
Gross impaired assets as a % of GLA	**0.22%**	0.28%	0.28%	0.39%	0.39%
Retail Insurance lapse rates	**12.8%**	14.6%	14.6%	13.8%	13.8%
Total full time equivalent staff	**6,319**	6,372	6,207	6,417	6,250

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*
3. *Averages are calculated using predominantly daily averages.*

New Zealand results and commentary are reported in NZD. AUD results are shown on page *61*.

Comparison of March 2018 with March 2017

Profit after income tax increased by NZD $76 million (+11%).

- Net loans and advances (+3%) grew mostly in home loans (+5%) in addition to higher balances in funds under management (+8%). Customer deposits (+4%) grew across all portfolios.
- Net interest margin increased 7 basis points due to higher lending margins (mainly from fixed home loan re-pricing), partly offset by portfolio mix changes and lower deposit margins as a result of competition.
- Other operating income increased NZD $28 million (+18%) primarily due to a one-off insurance recovery in the March 2018 half. Net funds management and insurance income increased NZD $6 million (+3%) due to higher funds under management.
- Operating expenses increased NZD $6 million (+1%) due to increased business investment in digital capability, and inflation. This was partially offset by a reduction in FTE driven by customer migration to lower cost channels.
- Credit impairment charges decreased NZD $17 million (-44%) due to credit quality improvements across the Retail and Commercial and Agri portfolios, and the partial release of the Agri economic cycle adjustment.

Comparison of March 2018 with September 2017

Profit after income tax increased by NZD $51 million (+7%).

- Net loans and advances (+1%) grew mostly in home loans (+2%) in addition to higher balances in funds under management (+2%). Customer deposits (+3%) grew across all portfolios.
- Net interest margin increased 6 basis points due to higher lending margins (mainly from fixed home loan re-pricing), partly offset by portfolio mix changes and lower deposit margins as a result of competition.
- Other operating income increased NZD $4 million (+2%) primarily due to a one-off insurance recovery in the March 2018 half, partially offset by higher interchange incentives in September 2017 half.
- Net funds management and insurance income increased NZD $7 million (+4%) due to higher funds under management.
- Operating expenses increased NZD $7 million (+1%) due to increased business investment in digital capability, and inflation. This was partially offset by a reduction in FTE driven by customer migration to lower cost channels.
- Credit impairment charges decreased NZD $22 million (-50%) due to credit quality improvements across the Retail and Commercial and Agri portfolios.

New Zealand – continuing operations

Table reflects AUD for New Zealand.

NZD results shown on page 59.

	Half Year				
New Zealand	**Mar 18 $M**	**Restated Sep 17 $M[1]**	**Originally Reported Sep 17 $M[1]**	**Restated Mar 17 $M[1]**	**Originally Reported Mar 17 $M[1]**
Net interest income	**1,278**	1,259	1,259	1,260	1,260
Other operating income	**165**	166	166	144	144
Net funds management and insurance income	**173**	170	170	173	173
Operating income	**1,616**	1,595	1,595	1,577	1,577
Operating expenses	**(588)**	(593)	(593)	(600)	(600)
Profit before credit impairment and income tax	**1,028**	1,002	1,002	977	977
Credit impairment (charge)/release	**(20)**	(41)	(41)	(37)	(37)
Profit before income tax	**1,008**	961	961	940	940
Income tax expense and non-controlling interests	**(282)**	(269)	(269)	(263)	(263)
Profit after income tax	**726**	692	692	677	677
Consisting of:					
Retail	**467**	484	484	472	472
Commercial	**244**	206	206	206	206
Central Functions	**15**	2	2	(1)	(1)
Profit after income tax	**726**	692	692	677	677
Balance Sheet[2]					
Net loans and advances	**111,308**	107,886	107,886	104,884	104,884
Other external assets	**4,610**	3,560	3,560	6,429	6,429
External assets	**115,918**	111,446	111,446	111,313	111,313
Customer deposits	**79,225**	75,323	75,323	74,266	74,266
Other external liabilities	**23,886**	23,942	23,939	23,020	23,016
External liabilities	**103,111**	99,265	99,262	97,286	97,282
Risk weighted assets	**57,590**	56,106	56,106	57,064	57,064
Average gross loans and advances[3]	**108,107**	108,751	108,751	107,704	107,704
Average deposits and other borrowings[3]	**79,669**	78,747	78,747	79,190	79,190
In-force premiums	**184**	179	179	175	175
Funds under management	**27,404**	26,215	26,215	24,816	24,816
Average funds under management	**26,727**	25,922	25,922	24,912	24,912
Ratios[2]					
Return on average assets	**1.31%**	1.23%	1.23%	1.20%	1.20%
Net interest margin	**2.37%**	2.31%	2.31%	2.30%	2.30%
Operating expenses to operating income	**36.4%**	37.1%	37.1%	38.1%	38.1%
Operating expenses to average assets	**1.06%**	1.06%	1.06%	1.07%	1.07%
Individual credit impairment charge/(release)	**34**	55	55	61	61
Individual credit impairment charge/(release) as a % of average GLA	**0.06%**	0.10%	0.10%	0.11%	0.11%
Collective credit impairment charge/(release)	**(14)**	(14)	(14)	(24)	(24)
Collective credit impairment charge/(release) as a % of average GLA	**(0.03%)**	(0.03%)	(0.03%)	(0.04%)	(0.04%)
Gross impaired assets	**244**	307	307	409	409
Gross impaired assets as a % of GLA	**0.22%**	0.28%	0.28%	0.39%	0.39%
Retail Insurance lapse rates	**12.8%**	14.6%	14.6%	13.8%	13.8%
Total full time equivalent staff	**6,319**	6,372	6,207	6,417	6,250

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*
3. *Averages are calculated using predominantly daily averages.*

Wealth Australia – continuing operations

	Half Year			
Wealth Australia	**Mar 18 $M**	**Sep 17 $M**	**Restated Mar 17 $M[1]**	**Originally Reported Mar 17 $M[1]**
Net interest income	**24**	24	25	25
Other operating income	**42**	33	40	40
Net funds management and insurance income	**120**	132	139	139
Operating income	**186**	189	204	204
Operating expenses	**(123)**	(136)	(126)	(126)
Profit before income tax	**63**	53	78	78
Income tax expense and non-controlling interests	**(19)**	(16)	(20)	(20)
Profit after income tax from continuing operations	**44**	37	58	58
Key metrics - Lenders Mortgage Insurance				
Gross written premium	**81**	85	88	88
Net claims paid	**8**	9	6	6
Loss rate (of exposure)	**0.03%**	0.02%	0.01%	0.01%
Total full time equivalent staff[2]	**895**	912	899	822

1. *Information has been restated and presented on a continuing operations basis. Discontinued operations include OnePath P&I and ADG businesses sale to IOOF and the life insurance sale to Zurich. Comparative information ("Sep 17" and "Restated Mar 17") have been restated for the impact of Group Hub's (Service Centers) realignment of FTE. "Originally Reported Mar 17" has not been restated for the impact of Group Hub's (Service Centers) realignment of FTE.*
2. *Adjustments for discontinued FTE are based on an estimate. Actual FTE that will transfer to IOOF and Zurich on sale completion is currently being determined.*

As a result of the sale transactions outlined in "Section 1: Key Information – Basis of preparation – Sale of Wealth Australia Businesses", the information above excludes the financial results of the Wealth Australia businesses being divested.

Comparison of March 2018 with March 2017

Profit after income tax decreased by $14 million (-24%).

- Operating income decreased $18 million (-9%) primarily due to a $11 million non-recurring reinsurance profit share benefit recognized in the March 2017 half.
- Operating expenses decreased $3 million (-2%) mainly due to lower discretionary investment spend.

Comparison of March 2018 with September 2017

Profit after income tax increased by $7 million (+19%).

- Operating income decreased $3 million (-2%) mainly due to adverse claims experience and lower financial planning revenue.
- Operating expenses decreased $13 million (-10%) mainly due to lower average FTE and associated training costs combined with lower regulatory compliance and remediation spend.

Asia Retail & Pacific – continuing operations

	Half Year				
Asia Retail & Pacific	**Mar 18 $M**	**Restated Sep 17 $M[1]**	**Originally Reported Sep 17 $M[1]**	**Restated Mar 17 $M[1]**	**Originally Reported Mar 17 $M[1]**
Net interest income	**119**	260	275	316	331
Other operating income	**184**	168	176	(150)	(139)
Operating income	**303**	428	451	166	192
Operating expenses	**(146)**	(280)	(298)	(334)	(353)
Profit/(loss) before credit impairment and income tax	**157**	148	153	(168)	(161)
Credit impairment (charge)/release	**(27)**	(69)	(69)	(75)	(75)
Profit/(loss) before income tax	**130**	79	84	(243)	(236)
Income tax expense and non-controlling interests	**(24)**	(14)	(15)	21	19
Profit/(loss) after income tax	**106**	65	69	(222)	(217)
Balance Sheet[2]					
Net loans and advances	**2,168**	5,503	5,666	12,368	12,525
Customer deposits	**3,382**	6,964	9,157	19,754	21,867
Risk weighted assets	**4,049**	6,791	6,972	12,422	12,601
Ratios[2]					
Return on average assets	**3.60%**	0.78%	0.73%	(2.13%)	(1.89%)
Net interest margin	**4.51%**	3.22%	3.08%	3.17%	3.00%
Operating expenses to operating income	**48.2%**	65.4%	66.1%	201.2%	183.9%
Operating expenses to average assets	**4.96%**	3.36%	3.15%	3.20%	3.08%
Individual credit impairment charge/(release)	**31**	79	79	86	86
Individual credit impairment charge/(release) as a % of average GLA	**1.61%**	1.52%	1.51%	1.33%	1.31%
Collective credit impairment charge/(release)	**(4)**	(10)	(10)	(11)	(11)
Collective credit impairment charge/(release) as a % of average GLA	**(0.22%)**	(0.20%)	(0.19%)	(0.17%)	(0.17%)
Gross impaired assets	**50**	140	143	240	243
Gross impaired assets as a % of GLA	**2.23%**	2.47%	2.46%	1.91%	1.91%
Total full time equivalent staff	**1,199**	3,664	3,981	4,637	4,719

1. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*
2. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*

The major driver of the of the movements in profit/(loss) after income tax between the March 2018 half, the September 2017 half and the restated March 2017 half for the Asia Retail & Pacific division were the accounting impacts of:

- the sale of the Group's Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to DBS Bank which was announced on October 31, 2016; and
- the sale of the Group's Retail business in Vietnam to Shinhan Bank Vietnam which was announced on April 21, 2017.

The Group successfully completed the transition of businesses in China, Singapore and Hong Kong in the September 2017 half, and sales in Vietnam, Taiwan, and Indonesia in the March 2018 half. The Group recognized the following impacts:

- In the March 2018 half, the Group recognized a $85 million gain relating to the sale of the remaining Asia Retail and Wealth businesses, net of costs associated with the sale including $14 million of tax expenses.
- In the September 2017 half, the Group recognized a $14 million gain on the partial completion of the Asia Retail and Wealth sale comprising sale premium and recoveries, net of related sale costs.
- In the March 2017 half, the Group recognized a $324 million loss relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising $225 million of software, goodwill and other assets impairment charges, and $99 million of costs associated with the sale. The Group also recognized a $40 million tax benefit as a result of the loss on reclassification to held for sale.

For further information refer to Note 11 of the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S. Disclosure Document).

LIQUIDITY AND CAPITAL RESOURCES – INCLUDING DISCONTINUED OPERATIONS

Liquidity Risk – including discontinued operations

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 the Board.

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 the Board. 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 Liquidity Coverage Ratio ("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 Committed Liquidity Facility ("CLF") with the Reserve Bank of Australia ("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, 2018, ANZ's CLF is $46.9 billion (2017 calendar year end: $43.8 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 the Board.

	Half Year Average		
	Mar 18 $B	**Sep 17 $B**	**Mar 17 $B**
Market Values Post Discount[1]			
HQLA1[2]	**131.8**	128.7	127.1
HQLA2	**4.9**	4.7	4.3
Internal Residential Mortgage Backed Securities (Australia)[2]	**31.6**	30.3	33.7
Internal Residential Mortgage Backed Securities (New Zealand)[3]	**6.2**	1.1	0.6
Other ALA[4]	**13.8**	14.9	15.6
Total Liquid Assets	**188.3**	179.7	181.3
Cash flows modeled under stress scenario			
Cash outflows	**180.5**	174.5	172.7
Cash inflows	**40.4**	41.3	38.2
Net cash outflows	**140.1**	133.2	134.5
Liquidity Coverage Ratio[5]	**134%**	135%	135%

1. *Half year average basis, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.*
2. *RBA open repo arrangement netted down from CLF, with a corresponding increase in HQLA.*
3. *Includes ANZ Bank New Zealand Limited LCR surplus, capped at Level 1 all currency LCR for March 31, 2018. The comparative information for the fiscal half years ended September 30, 2017 and March 31, 2017 exclude ANZ Bank New Zealand Limited's LCR surplus.*
4. *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.*
5. *All currency Level 2 LCR.*

Funding – including discontinued operations

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

$13.1 billion of term wholesale debt with a remaining term greater than one year as of March 31, 2018 was issued during the fiscal half year ended March 31, 2018.

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

	As of				
	Mar 18 $B	**Restated Sep 17 $B[7]**	**Originally Reported Sep 17 $B[7]**	**Restated Mar 17 $B[7]**	**Originally Reported Mar 17 $B[7]**
Customer deposits and other liabilities[1]					
Australia	**204.2**	201.3	201.4	197.6	197.6
Institutional	**190.7**	189.0	186.8	181.5	179.3
New Zealand	**79.2**	75.3	75.3	74.3	74.3
Wealth Australia	**-**	-	-	0.3	0.3
Asia Retail & Pacific	**3.4**	7.0	9.2	19.8	21.9
TSO and Group Centre[1]	**(4.7)**	(5.0)	(5.0)	(5.3)	(5.2)
Customer deposits	**472.8**	467.6	467.7	468.2	468.2
Other funding liabilities[2,3]	**8.0**	8.5	12.8	7.9	15.4
Total customer liabilities (funding)	**480.8**	476.1	480.5	476.1	483.6
Wholesale funding[4]					
Debt issuances	**97.5**	90.3	90.3	88.8	88.8
Subordinated debt	**17.2**	17.7	17.7	20.3	20.3
Certificates of deposit	**50.3**	55.2	55.2	57.4	57.4
Commercial paper	**24.1**	18.0	18.0	9.5	9.5
Other wholesale borrowings[2,5,6]	**84.4**	69.2	65.4	73.9	66.4
Total wholesale funding	**273.5**	250.4	246.6	249.9	242.4
Shareholders' equity	**59.5**	59.1	59.1	57.9	57.9
Total funding	**813.8**	785.6	786.2	783.9	783.9

1. *Includes term deposits, other deposits and an adjustment recognized in Group Centre to eliminate Wealth Australia investments in ANZ deposit products.*
2. *Non-bank trade dated liabilities reclassified to align with current period presentation.*
3. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.*
4. *Excludes liability for acceptances as they do not provide net funding.*
5. *Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.*
6. *Includes RBA open repo arrangement netted down by the exchange settlement account cash balance.*
7. *Certain September 2017 and March 2017 amounts reported as comparative information at the divisional level have been restated ("Restated Sep 17" and "Restated Mar 17") as result of changes to the Group's organizational structure. These changes do not have an impact on comparative information at the Group level. The Originally Reported Sep 17 and Originally Reported Mar 17 amounts have not been restated. For a description of such changes to the Group's organizational structure, refer to "Section 2: Information on the Group – Principal Activities of the Group".*

Net Stable Funding Ratio

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

	As of		
	Mar 18 $B	Sep 17 $B	Mar 17 $B
Required Stable Funding[1]			
Retail & small and medium enterprises, corporate loans <35% risk weight[2]	**184.0**	181.7	178.1
Retail & small and medium enterprises, corporate loans >35% risk weight[2]	**177.2**	176.2	176.2
Other lending[3]	**19.1**	17.2	15.6
Liquid assets	**9.7**	9.3	9.3
Other assets[4]	**38.4**	39.1	44.8
Total Required Stable Funding	**428.4**	423.5	424.0
Available Stable Funding[1]			
Retail & small and medium enterprises customer deposits	**233.4**	230.7	236.2
Corporate, public sector entities & operational deposits	**83.4**	80.8	73.8
Central bank & other financial institution deposits	**4.2**	4.2	2.8
Term funding	**94.0**	87.6	89.9
Short term funding & other liabilities	**2.7**	5.3	0.5
Capital	**74.4**	73.9	73.9
Total Available Stable Funding	**492.1**	482.5	477.1
Net Stable Funding Ratio	**114.9%**	113.9%	112.5%

1. *NSFR factored balance as per APS210 Liquidity.*
2. *Risk weighting under APS 112 Capital Adequacy: Standardised 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 programmes (for the avoidance of doubt, this excludes commercial paper) on or before March 31, 2018. The amounts do not include interest cash flows. Foreign currency denominated term debt has been translated using spot foreign exchange rates as of March 31, 2018.

Contractual maturity ($m)[1]	FY18	FY19	FY20	FY21	FY22	After FY22	Total
Debt issuances[2]	7,340	21,446	22,768	21,103	13,176	21,640	107,473
Subordinated debt[3]	1,534	1,956	518	822	697	3,982	9,509
Total	**8,874**	**23,402**	**23,286**	**21,925**	**13,873**	**25,622**	**116,982**

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, 2018 ("FY18") relate to term debt maturing in the period April 1, 2018 to September 30, 2018.*
2. *Debt issuances include transferable certificate of deposits included as "Deposits and other borrowings" in the balance sheet.*
3. *The maturity profile for all subordinated debt is presented based on the next callable date. Excludes additional Tier 1 capital.*

	As of March 31, 2018		
Credit Ratings of ANZBGL	**Short-Term**	**Long-Term**	**Outlook**
Moody's Investor Services	P-1	Aa3	Stable
Standard & Poor's	A-1+	AA-	Negative
Fitch Ratings	F1+	AA-	Stable

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 18 $M**	**Sep 17 $M**	**Mar 17 $M**
Tier 1			
Shareholders' equity and non-controlling interests	**59,500**	59,075	57,908
Prudential adjustments to shareholders' equity	**(394)**	(481)	(509)
Gross Common Equity Tier 1 capital	**59,106**	58,594	57,399
Deductions	**(15,399)**	(17,258)	(17,182)
Common Equity Tier 1 capital	**43,707**	41,336	40,217
Additional Tier 1 capital	**7,418**	7,988	7,874
Tier 1 capital	**51,125**	49,324	48,091
Tier 2 capital	**8,040**	8,669	9,648
Total qualifying capital	**59,165**	57,993	57,739
Capital adequacy ratios			
Common Equity Tier 1	**11.0%**	10.6%	10.1%
Tier 1	**12.9%**	12.6%	12.1%
Tier 2	**2.0%**	2.2%	2.4%
Total	**14.9%**	14.8%	14.5%
Risk weighted assets	**395,777**	391,113	397,040

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.

Risk Weighted Assets ("RWA")

- IRRBB RWA – APRA requires inclusion of IRRBB within the RWA base for the CET1 ratio calculation. This is not required on an Internationally Comparable basis.
- Mortgages RWA – APRA imposes a floor of 20% on the downturn Loss Given Default ("LGD") used in credit RWA calculations for residential mortgages. Additionally, from July 2016, APRA also requires a higher correlation factor above the Basel framework 15%. The Internationally Comparable Basel 3 framework only requires a downturn LGD floor of 10% and a correlation factor of 15%.
- 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 – 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 – To adjust ANZ's credit conversion factors for undrawn corporate loan commitments to 75% (used in FIRB approach) to align with banks in other jurisdictions.

Comparison of March 2018 with September 2017

ANZ's CET1 ratio increased 47 bps to 11.0% during the March 2018 half. Key drivers of the movement in the CET1 ratio were:

- Net organic capital generation was 83 bps or $3.2 billion. This was primarily driven by net profit[1] partially offset by capital usage from RWA growth.
- Payment of the September 2017 Final Dividend (net of Bonus Option Plan issuance) reduced the CET1 ratio by 59 bps.
- Capital benefits from asset disposals increased CET1 ratio by 55 bps (SRCB, Asia Retail and Wealth businesses in Vietnam, Taiwan and Indonesia and the 20% stake in MCC). This is partially offset by the impact of the $1.1 billion on-market share buy-back (-29 bps). The remaining $0.4 billion on-market share buy-back will be completed in the September 2018 half to meet the planned $1.5 billion share buy-back.
- Other impacts reduced CET1 by 3 bps, mainly from movements in net DTA balance and foreign currency translation.

1. *Net Profit on a continuing basis and excludes large/notable items as disclosed on pages 38 to 39.*

Leverage Ratio – including discontinued operations

At March 31, 2018, the Group's APRA Leverage Ratio was 5.4% which is above the 3% minimum required by the BCBS. APRA has not finalized a minimum leverage ratio requirement for ADIs. The following table summarizes the Group's Leverage Ratio calculation:

	As of		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**
Tier 1 Capital (net of capital deductions)	**51,125**	49,324	48,091
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	**780,272**	752,347	747,708
Derivative exposures	**32,747**	31,469	30,968
Securities Financing Transaction ("SFT") exposures	**29,351**	28,598	30,286
Other off-balance sheet exposures	**99,921**	96,765	97,492
Total exposure measure	**942,291**	909,179	906,454
APRA Leverage Ratio[1]	**5.4%**	5.4%	5.3%

1. *Leverage ratio includes Additional Tier 1 securities subject to Basel 3 transitional relief, net of any transitional adjustments.*

Comparison of March 2018 with September 2017

ANZ's leverage ratio is flat relative to September 2017 reflecting:

- Net capital generation mainly from net profit[1] less dividend payments increased the ratio by +11 bps.
- Divestment benefits (+22 bps) were largely offset by share buy-backs (-12 bps) and a reduction in Additional Tier 1 capital instruments (-6 bps).
- Exposure growth of -15 bps (loan growth -8 bps, liquid asset growth -5 bps, derivatives growth -1 bps and off-balance sheet growth -1 bps).

1. *Net Profit on a continuing basis and excludes large/notable items as disclosed on pages 38 to 39.*

DERIVATIVE FINANCIAL INSTRUMENTS – INCLUDING DISCONTINUED OPERATIONS

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 18 $M**	**Mar 18 $M**	**Sep 17 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 17 $M**
Interest rate contracts						
Forward rate agreements	**23**	**(22)**	2	(1)	2	(2)
Futures contracts	**26**	**(229)**	182	(56)	40	(316)
Swap agreements	**34,981**	**(35,868)**	33,335	(33,404)	35,939	(36,011)
Options purchased	**749**	**-**	746	-	649	-
Options sold	**-**	**(1,549)**	-	(1,365)	-	(1,388)
Total	**35,779**	**(37,668)**	34,265	(34,826)	36,630	(37,717)
Foreign exchange contracts						
Spot and forward contracts	**19,682**	**(19,347)**	15,243	(14,954)	12,703	(11,830)
Swap agreements	**13,357**	**(11,437)**	10,334	(10,423)	11,439	(13,247)
Options purchased	**543**	**-**	517	-	565	-
Options sold	**-**	**(527)**	-	(475)	-	(587)
Total	**33,582**	**(31,311)**	26,094	(25,852)	24,707	(25,664)
Commodity contracts	**1,486**	**(1,567)**	1,991	(1,398)	2,340	(1,461)
Credit default swaps						
Structured credit derivatives purchased	**22**	**-**	52	-	56	-
Other credit derivatives purchased	**6**	**(47)**	13	(110)	14	(129)
Credit derivatives purchased	**28**	**(47)**	65	(110)	70	(129)
Structured credit derivatives sold	**-**	**(26)**	-	(58)	-	(64)
Other credit derivatives sold	**41**	**(5)**	103	(8)	135	(15)
Credit derivatives sold	**41**	**(31)**	103	(66)	135	(79)
Total	**69**	**(78)**	168	(176)	205	(208)
Derivative financial instruments	**70,916**	**(70,624)**	62,518	(62,252)	63,882	(65,050)

Summary

Refer to "Section 4: Directors, Senior Management/Executives and Employees" on pages 70 to 75 of ANZ's 2017 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 2017 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

The following change to ANZ's Directors took effect:

- Rt Hon Sir JP Key, GNZM AC appointed as Director on February 28, 2018.

Changes to Senior Management and Executives

On December 4, 2017, ANZ announced that Mr. Nigel Williams, would retire as Chief Risk Officer, at the end of March 2018 after a 33-year career in banking.

Effective March 19, 2018, Mr. Kevin Corbally succeeded Mr. Williams as Chief Risk Officer. Mr. Corbally joined ANZ in 2009 and was most recently Group General Manager Internal Audit after having previously held senior institutional banking and credit management roles. Prior to joining ANZ, he was Managing Director and Head of Corporate and Commercial Banking at Citigroup in Australia and New Zealand.

On April 11, 2018, ANZ announced that Mr. Graham Hodges, Deputy Chief Executive Officer, would retire in early-May after a 27-year career with ANZ. He is expected to continue to represent ANZ on the Board of AMMB Holdings.

Industrial Relations Developments

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. All employees are also subject to individual common law contracts of employment. ANZ has in place an EBA that applies to approximately 92% of its Australian employees. The EBA commenced operation on December 29, 2015 and was extended in October 2017 for another year, following successful conclusion of negotiations with the Finance Sector Union and a staff ballot in which a staff majority of 94% voted to endorse it.

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 July 2016 and is effective from August 1, 2016 expiring on July 31, 2018.

Management is not involved in any significant disputes with labor unions within the geographic regions of Australia, New Zealand, the Asia Pacific, Europe, and America.

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 the date of this U.S. Disclosure Document, we have been made aware of one entity which is the beneficial owner of 5% or more of our ordinary shares. We have been made aware that on May 12, 2017, BlackRock Group became a substantial shareholder, with an interest in 148,984,864 ordinary shares (5.07%) in the Company.

Refer to the Remuneration Report section of our 2017 Annual Report (extracts attached as part of Annex A to ANZ's 2017 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 the discussion headed, "Limitations affecting security holders" under Section 6 below 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, is available on the U.S. Investor Website. 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 to issue preference shares with any rights attaching to them that the Board 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 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 attached to shares, notwithstanding the Constitution, the Corporations Act, the terms of any contract to which the Company is party or the listing rules of any financial market in whose 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 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 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 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, 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 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 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.

Other transactions of key management personnel and their related parties

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm’s length transactions. These transactions generally involve the provision of financial and investment services, including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature.

Associates

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

Transactions during the fiscal half year ended March 31, 2018

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, 2017.

CHESS

CHESS stands for the “Clearing House Electronic Subregister System” and is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of the ASX. 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.

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

The information below is consistent with Note 19 of the Condensed Consolidated Financial Statements (attached as part of the Annex to this U.S. Disclosure Document).

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 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 2017 Financial Report for a description of contingent liabilities and contingent assets as of September 30, 2017 (attached as part of Annex A to ANZ's 2017 Annual U.S. Disclosure Document).

A summary of some of those contingent liabilities, and new contingent liabilities that have arisen in the current reporting period, is set out below.

- **Bank fees litigation**

  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. A further action, limited to late payment fees only, commenced in August 2014.

  The penalty and statutory claims in the March 2013 class action failed and the claims have been dismissed. The August 2014 action was discontinued in October 2016.

  The original claims in the 2010 class action have been dismissed. A new claim has been added to the 2010 class action, in relation to ANZBGL's entitlement to charge certain periodical payment non-payment fees.

- **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 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 US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW, SIBOR, or SOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZBGL, violated US anti-trust laws, anti-racketeering laws, the Commodity Exchange Act, and (in the BBSW case only) 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 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.

- **Franchisee litigation**

  In February 2018, two related class actions were brought against ANZBGL. The primary action alleges that ANZBGL breached contractual obligations and acted unconscionably when it lent to the applicant, and other 7-Eleven franchisees. The action seeks to set aside the loans to those franchisees and claims unspecified damages. The second action seeks to set aside related mortgages and guarantees given to ANZBGL. The matters are at an early stage.

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

- **Royal Commission**

  The Royal Commission was established on December 14, 2017. The Royal Commission has been asked to submit its final report by February 1, 2019 (and may choose to give an interim report by September 30, 2018). The Royal Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

- **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 potential claims under those warranties, indemnities and commitments.

SUBSEQUENT EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Life insurance business

On May 8, 2018, ANZ announced it has finalized its reinsurance arrangements with Zurich and has received around $1 billion of reinsurance proceeds. This results in an increase of approximately 25 bps in ANZ's Australian Prudential Regulation Authority ("APRA") Common Equity Tier 1 ("CET1") capital[1].

The sale of ANZ's Australian life insurance business was announced on December 12, 2017. The sale is comprised of two transactions totalling $2.85 billion, including around $1 billion of upfront reinsurance commission, and the sale of 100% of the shares in each of One Path Life General Insurance Pty Limited and OnePath Life Australia Holdings Pty Limited.

Having received the reinsurance proceeds, ANZ will continue to work through its capital management options, which may include an additional on-market buy-back of $1 billion to $1.5 billion[2]. ANZ expects to confirm its plans once analysis of the various alternatives and requisite approvals are completed.

The purchase of shares associated with the dividend reinvestment plan ("DRP") is expected to commence on May 18, 2018 and continue until May 31, 2018. ANZ will appoint a third party to purchase shares on-market to satisfy ANZ's obligations under the DRP[3]. ANZ does not intend to purchase shares in relation to the current $1.5 billion buy-back during this period.

Change to Deputy Chief Executive Officer

On May 9, 2018, ANZ announced that Alexis George has been promoted to Deputy Chief Executive Officer in addition to her current role as Group Executive, Wealth Australia. Ms George will continue to lead the divestment of ANZ's life insurance, superannuation and aligned dealer group businesses and maintain the senior relationship management of Wealth product partners in Australia. She will also take on responsibility for ANZ's Group Service Centers as well as assisting Chief Executive Officer Shayne Elliott with Group-wide initiatives including ANZ's engagement with government, regulators and employees.

Other than the events described above, there have been no significant events since March 31, 2018 to the date of this U.S. Disclosure Document.

Note:

1. *ANZ reported an APRA CET1 ratio of 11.0% at March 31, 2018.*
2. *ANZ announced an on-market buy-back of up to $1.5 billion of shares on December 18, 2017.*
3. *ANZ expects to announce the size of the DRP neutralisation and the third party broker in advance of the on-market purchase of the DRP shares.*

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 Dividend Reinvestment Plan ("DRP") and a Bonus Option Plan ("BOP") that will operate in respect of the 2018 interim dividend. For the 2018 interim dividend, ANZ intends to provide shares under the DRP through an on market purchase and BOP through the issue of new shares. 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 May 18, 2018, 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 United States of America, 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 "designated" vessels, 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 who have not been 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 vessels, and certain persons entities associated with the weapons of mass destruction or missiles program of the Democratic People's Republic of Korea ("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 and current or former military officers of particular ranks;

(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;

(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.

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) Democratic People's Republic of Korea ("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) Eritrea (see the Charter of the United Nations (Sanctions – Eritrea) Regulations 2010 of Australia);

(j) Libya (see the Charter of the United Nations (Sanctions – Libya) Regulations 2011 of Australia);

(k) Central African Republic (see the Charter of the United Nations (Sanctions – Central African Republic) Regulation 2014 of Australia);

(l) Yemen (see the Charter of the United Nations (Sanctions – Yemen) Regulation 2014 of Australia);

(m) South Sudan (see the Charter of the United Nations (Sanctions – South Sudan) Regulation 2015 of Australia); and

(n) Syria (see the Charter of the United Nations (Sanctions – Syria) Regulation 2015 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 of $10,000 (or the foreign equivalent) and above must be reported by certain persons (including ANZ) to AUSTRAC.

LIMITATIONS AFFECTING SECURITY HOLDDERS

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 15%. However, the Federal Treasurer may grant approval to a person to hold a stake of greater than 15% but only if satisfied that it is in the Australian national interest. No such approvals have been granted in respect of our shares.

  The Australian Government is consulting on a proposal to introduce the Financial Sector (Shareholdings) Amendment (Relaxing Ownership Restrictions) Bill 2018 intended to change the foreign ownership limit from 15% to 20%.

- 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 us 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.

WITHOLDING 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 17, 2010. 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.

ADI – Authorized Deposit-taking Institution.

APRA – Australian Prudential Regulation Authority.

APS – ADI Prudential Standard.

BCBS – Basel Committee on Banking Supervision.

Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision is only recognized when a loss event has occurred. Losses expected as a result of future events, no matter how likely, are not recognized.

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.

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, adjusted for the amount of preference share dividends paid.

Economic hedges are used by the Group to manage its interest rate and foreign exchange risk which, in accordance with accounting standards result in fair value gains and losses being recognized in the income statement, whereas items being hedged are recognized on an accrual basis in the income statement.

Gross loans and advances ("GLA") is made up of loans and advances, acceptances and capitalized brokerage/mortgage origination fees less unearned income.

IFRS – International Financial Reporting Standards.

Impaired assets are those financial assets where doubt exists as to whether the full contractual amount will be received in a timely manner, or where concessional terms have been provided because of the financial difficulties of the customer. Financial assets are impaired if there is objective evidence of impairment as a result of a loss event that occurred prior to the reporting date, and that loss event has had an impact, which can be reliably estimated, on the expected future cash flows of the individual asset or portfolio of assets.

Impaired loans comprise drawn facilities where the customer's status is defined as impaired.

Individual provision is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments.

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.

Internationally comparable ratios are ANZ's interpretation of the regulations documented in the Basel Committee publications; "Basel 3: A global regulatory framework for more resilient banks and banking systems" (June 2011) and "International Convergence of Capital Measurement and Capital Standards" (June 2006). They also include differences identified in APRA's information paper entitled International Capital Comparison Study (July 13, 2015).

Net interest margin ("NIM") is net interest income as a percentage of average interest earning assets.

Net loans and advances represent gross loans and advances less provisions for credit impairment.

Operating expenses include personnel expenses, premises expenses, technology expenses, restructuring expenses, and other operating expenses (excluding credit impairment charges).

Operating income includes net interest income, net fee and commission income, net funds management and insurance income, share of associates' profit and other income.

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, adjusted for the amount of preference share dividends paid, divided by average total assets.

Return on average ordinary shareholders' equity is the profit attributable to shareholders of the Company, adjusted for the amount of preference share dividends paid, divided by average ordinary shareholders' equity.

Revenue hedges are used by the Group to hedge future revenue streams which, in accordance with accounting standards, result in fair value gains and losses being recognized in the income statement.

Risk weighted assets ("RWA") – Assets (both on and off-balance sheet) 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, nostro / vostro accounts and securities settlement accounts.

Annex: Condensed Consolidated Financial Statements for the half year ended March 31, 2018 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, 2018

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The Directors present their report on the Condensed Consolidated Financial Statements for the half year ended 31 March 2018.

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	Director
Ms PJ Dwyer	Director
Ms SJ Halton, AO PSM	Director
Mr Lee Hsien Yang	Director
Mr GR Liebelt	Director
Rt Hon Sir JP Key, GNZM AC	Director, appointed 28 February 2018
Mr JT MacFarlane	Director

Result

The consolidated profit attributable to shareholders of the Company was $3,323 million, and consolidated profit attributable to shareholders of the Company from continuing operations was $3,923 million. Further details are contained in Group Results on pages 17 to 41 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 17 to 41 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 108 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

There have been no significant events from 31 March 2018 to the date of signing of this report.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

30 April 2018

Australia and New Zealand Banking Group Limited

		Half Year[1]			Movement	
	Note	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Interest income		**14,849**	14,694	14,426	1%	3%
Interest expense		**(7,499)**	(7,238)	(7,007)	4%	7%
Net interest income	2	**7,350**	7,456	7,419	-1%	-1%
Other operating income	2	**2,430**	1,885	1,704	29%	43%
Net funds management and insurance income	2	**307**	335	299	-8%	3%
Share of associates' profit	2, 17	**88**	127	173	-31%	-49%
Operating income		**10,175**	9,803	9,595	4%	6%
Operating expenses	3	**(4,411)**	(4,480)	(4,487)	-2%	-2%
Profit before credit impairment and income tax		**5,764**	5,323	5,108	8%	13%
Credit impairment charge	9	**(408)**	(479)	(719)	-15%	-43%
Profit before income tax		**5,356**	4,844	4,389	11%	22%
Income tax expense	4	**(1,426)**	(1,427)	(1,447)	0%	-1%
Profit after tax from continuing operations		**3,930**	3,417	2,942	15%	34%
Profit/(Loss) after tax from discontinued operations	11	**(600)**	85	(23)	large	large
Profit for the period		**3,330**	3,502	2,919	-5%	14%
Comprising:						
Profit attributable to shareholders of the Company		**3,323**	3,495	2,911	-5%	14%
Profit attributable to non-controlling interests		**7**	7	8	0%	-13%
Earnings per ordinary share (cents) including discontinued operations						
Basic	6	**114.2**	119.9	100.2	-5%	14%
Diluted	6	**108.6**	114.7	96.7	-5%	12%
Earnings per ordinary share (cents) from continuing operations						
Basic	6	**134.8**	117.0	100.9	15%	34%
Diluted	6	**127.4**	112.0	97.4	14%	31%
Dividend per ordinary share (cents)	5	**80**	80	80	0%	0%

1. *Information has been restated and presented on a continuing operations basis. Discontinued operations include OnePath pensions and investments and aligned dealer groups sale to IOOF Holdings Limited and the life insurance sale to Zurich Financial Services Australia.*

The notes appearing on pages 80 to 106 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

	Half Year[1]			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v Sep 17	Mar 18 v Mar 17
Profit for the period from continuing operations	**3,930**	3,417	2,942	15%	34%
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss	**27**	2	24	large	13%
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation reserve[2]	**460**	(59)	(689)	large	large
Other reserve movements	**174**	(69)	(228)	large	large
Income tax attributable to the above items	**(121)**	18	(10)	large	large
Share of associates' other comprehensive income[3]	**(5)**	(1)	2	large	large
Other comprehensive income after tax from continuing operations	**535**	(109)	(901)	large	large
Profit/(Loss) after tax from discontinued operations	**(600)**	85	(23)	large	large
Other comprehensive income after tax from discontinued operations	**10**	(1)	(29)	large	large
Total comprehensive income for the period	**3,875**	3,392	1,989	14%	95%
Comprising total comprehensive income attributable to:					
Shareholders of the Company	**3,865**	3,392	1,980	14%	95%
Non-controlling interests	**10**	-	9	n/a	11%

1. *Information has been restated and presented on a continuing operations basis. Discontinued operations include OnePath pensions and investments and aligned dealer groups sale to IOOF Holdings Limited and the life insurance sale to Zurich Financial Services Australia.*
2. *Includes foreign currency translation differences attributable to non-controlling interests of $3 million gain (Sep 17 half: $7 million loss; Mar 17 half: $1 million gain).*
3. *Share of associates' other comprehensive income includes an available for sale revaluation reserve loss of $2 million (Sep 17 half: $3 million gain; Mar 17 half: $4 million loss) and a foreign currency translation reserve loss of $3 million (Sep 17 half: $4 million loss; Mar 17 half: $6 million gain) that may be reclassified subsequently to profit or loss.*

The notes appearing on pages 80 to 106 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

		As at			Movement	
Assets	**Note**	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Cash and cash equivalents[1]		**82,071**	68,048	75,185	21%	9%
Settlement balances owed to ANZ		**5,037**	5,504	2,930	-8%	72%
Collateral paid		**10,863**	8,987	11,179	21%	-3%
Trading securities		**45,058**	43,605	44,085	3%	2%
Derivative financial instruments		**70,915**	62,518	63,882	13%	11%
Available for sale assets		**70,239**	69,384	64,685	1%	9%
Net loans and advances	8	**588,946**	574,331	564,035	3%	4%
Regulatory deposits		**1,229**	2,015	2,154	-39%	-43%
Assets held for sale	11	**45,278**	7,970	14,145	large	large
Investment in associates		**2,481**	2,248	2,286	10%	9%
Current tax assets		**15**	30	242	-50%	-94%
Deferred tax assets		**840**	675	572	24%	47%
Goodwill and other intangible assets		**5,338**	6,970	7,053	-23%	-24%
Investments backing policy liabilities		**-**	37,964	37,602	-100%	-100%
Premises and equipment		**1,892**	1,965	1,979	-4%	-4%
Other assets		**4,914**	5,112	4,497	-4%	9%
Total assets		**935,116**	897,326	896,511	4%	4%
Liabilities						
Settlement balances owed by ANZ		**10,577**	9,914	9,736	7%	9%
Collateral received		**9,395**	5,919	5,189	59%	81%
Deposits and other borrowings	10	**616,230**	595,611	581,407	3%	6%
Derivative financial instruments		**70,624**	62,252	65,050	13%	9%
Current tax liabilities		**371**	241	185	54%	large
Deferred tax liabilities		**258**	257	224	0%	15%
Liabilities held for sale	11	**44,773**	4,693	17,166	large	large
Policy liabilities		**-**	37,448	37,111	-100%	-100%
External unit holder liabilities		**-**	4,435	4,227	-100%	-100%
Payables and other liabilities		**7,442**	8,350	8,054	-11%	-8%
Provisions		**1,110**	1,158	1,179	-4%	-6%
Debt issuances	12	**114,836**	107,973	109,075	6%	5%
Total liabilities		**875,616**	838,251	838,603	4%	4%
Net assets		**59,500**	59,075	57,908	1%	3%
Shareholders' equity						
Ordinary share capital		**27,933**	29,088	29,036	-4%	-4%
Reserves		**541**	37	115	large	large
Retained earnings		**30,900**	29,834	28,640	4%	8%
Share capital and reserves attributable to shareholders of the Company	15	**59,374**	58,959	57,791	1%	3%
Non-controlling interests	15	**126**	116	117	9%	8%
Total shareholders' equity	15	**59,500**	59,075	57,908	1%	3%

1. *Includes settlement balances owed to ANZ that meet the definition of cash and cash equivalents.*

The notes appearing on pages 80 to 106 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

The Condensed Consolidated Cash Flow Statement includes cash flows associated with discontinued operations. Please refer to Note 11 for cash flows associated with discontinued operations and cash and cash equivalents reclassified as held for sale.

	Half Year		
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
	Mar 18 $M	Sep 17 $M	Mar 17 $M
Profit after income tax	**3,330**	3,502	2,919
Adjustments to reconcile to net cash provided by/(used in) operating activities:			
Provision for credit impairment charge	**408**	479	719
Depreciation and amortisation	**485**	468	504
(Profit)/loss on sale of premises and equipment	**-**	-	(114)
Net derivatives/foreign exchange adjustment	**903**	(1,833)	(1,576)
(Gain)/loss on sale from divestments	**(469)**	(13)	554
Other non-cash movements	**(221)**	(157)	(85)
Net (increase)/decrease in operating assets:			
Collateral paid	**(1,725)**	2,065	1,468
Trading securities	**(1,148)**	(1,994)	4,075
Net loans and advances	**(10,909)**	(11,424)	(6,414)
Investments backing policy liabilities	**(881)**	(672)	(1,450)
Other assets	**(643)**	459	50
Net increase/(decrease) in operating liabilities:			
Deposits and other borrowings	**14,023**	14,815	16,089
Settlement balances owed by ANZ	**596**	204	(831)
Collateral received	**3,300**	864	(1,174)
Life insurance contract policy liabilities	**1,130**	824	1,436
Other liabilities	**(28)**	1,225	(1,010)
Total adjustments	**4,821**	5,310	12,241
Net cash provided by/(used in) operating activities[1]	**8,151**	8,812	15,160
Cash flows from investing activities			
Available for sale assets:			
Purchases	**(13,483)**	(12,725)	(14,495)
Proceeds from sale or maturity	**12,670**	7,224	12,527
Proceeds from divestments	**2,044**	(5,213)	-
Other assets	**1,026**	(400)	252
Net cash provided by/(used in) investing activities	**2,257**	(11,114)	(1,716)
Cash flows from financing activities			
Debt issuances:			
Issue proceeds	**14,694**	8,602	15,371
Redemptions	**(9,171)**	(7,533)	(15,045)
Subordinated debt:			
Issue proceeds	**(2)**	1,155	-
Redemptions	**(573)**	(3,762)	(1,069)
Dividends paid	**(2,104)**	(2,123)	(2,087)
Share buy-back	**(1,324)**	(176)	-
Net cash provided by/(used in) financing activities	**1,520**	(3,837)	(2,830)
Net increase in cash and cash equivalents	**11,928**	(6,139)	10,614
Cash and cash equivalents at beginning of period	**68,048**	75,185	66,220
Effects of exchange rate changes on cash and cash equivalents	**2,100**	(998)	(1,649)
Cash and cash equivalents at end of period[2]	**82,076**	68,048	75,185

1. *Net cash provided by/(used in) operating activities includes income taxes paid of $1,515 million (Sep 17 half: $1,367 million; Mar 17 half: $1,497 million).*
2. *Includes cash and cash equivalents recognised on the face of balance sheet and amounts recorded as part of assets held for sale.*

The notes appearing on pages 80 to 106 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

	Ordinary share capital $M	Reserves $M	Retained earnings $M	Share capital and reserves attributable to shareholders of the Company $M	Non-controlling interests $M	Total shareholders' equity $M
As at 1 October 2016	28,765	1,078	27,975	**57,818**	109	**57,927**
Profit or loss from continuing operations	-	-	2,934	**2,934**	8	**2,942**
Profit or loss from discontinued operations	-	-	(23)	**(23)**	-	**(23)**
Other comprehensive income for the period from continuing operations	-	(922)	20	**(902)**	1	**(901)**
Other comprehensive income for the period from discontinued operations	-	(29)	-	**(29)**	-	**(29)**
Total comprehensive income for the period	-	(951)	2,931	**1,980**	9	**1,989**
Transactions with equity holders in their capacity as equity holders:[1]						
Dividends paid	-	-	(2,300)	**(2,300)**	(1)	**(2,301)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	14	**14**	-	**14**
Dividend reinvestment plan	199	-	-	**199**	-	**199**
Other equity movements:[1]						
Treasury shares Wealth Australia adjustment	71	-	-	**71**	-	**71**
Group employee share acquisition scheme	1	-	-	**1**	-	**1**
Other items	-	(12)	20	**8**	-	**8**
As at 31 March 2017	29,036	115	28,640	**57,791**	117	**57,908**
Profit or loss from continuing operations	-	-	3,410	**3,410**	7	**3,417**
Profit or loss from discontinued operations	-	-	85	**85**	-	**85**
Other comprehensive income for the period from continuing operations	-	(97)	(5)	**(102)**	(7)	**(109)**
Other comprehensive income for the period from discontinued operations	-	(1)	-	**(1)**	-	**(1)**
Total comprehensive income for the period	-	(98)	3,490	**3,392**	-	**3,392**
Transactions with equity holders in their capacity as equity holders:[1]						
Dividends paid	-	-	(2,309)	**(2,309)**	-	**(2,309)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	12	**12**	-	**12**
Dividend reinvestment plan	176	-	-	**176**	-	**176**
Group share buy-back[2]	(176)	-	-	**(176)**	-	**(176)**
Other equity movements:[1]						
Treasury shares Wealth Australia adjustment	(2)	-	-	**(2)**	-	**(2)**
Group employee share acquisition scheme	55	-	-	**55**	-	**55**
Other items	(1)	20	1	**20**	(1)	**19**
As at 30 September 2017	29,088	37	29,834	**58,959**	116	**59,075**
Profit or loss from continuing operations	-	-	3,923	**3,923**	7	**3,930**
Profit or loss from discontinued operations	-	-	(600)	**(600)**	-	**(600)**
Other comprehensive income for the period from continuing operations	-	511	21	**532**	3	**535**
Other comprehensive income for the period from discontinued operations	-	10	-	**10**	-	**10**
Total comprehensive income for the period	-	521	3,344	**3,865**	10	**3,875**
Transactions with equity holders in their capacity as equity holders:[1]						
Dividends paid	-	-	(2,308)	**(2,308)**	-	**(2,308)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	12	**12**	-	**12**
Dividend reinvestment plan	192	-	-	**192**	-	**192**
Group share buy-back[2]	(1,324)	-	-	**(1,324)**	-	**(1,324)**
Other equity movements:[1]						
Treasury shares Wealth Australia adjustment	20	-	-	**20**	-	**20**
Group employee share acquisition scheme	(43)	-	-	**(43)**	-	**(43)**
Other items	-	(17)	18	**1**	-	**1**
As at 31 March 2018	27,933	541	30,900	**59,374**	**126**	**59,500**

1. *Current period and prior periods include discontinued operations.*
2. *Following the issue of $192 million of shares under the Dividend Reinvestment Plan for the 2017 final dividend, the Company repurchased $192 million of shares via an on-market share buy-back. (Sep 17 half: $176 million).*

The notes appearing on pages 80 to 106 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 2017 and any public announcements made by the Parent Entity and its controlled entities (the Group) for the half year ended 31 March 2018 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 30 April 2018.

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) 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 2017 ANZ Annual Financial Report.

Discontinued operations are excluded from the results of the continuing operations and are presented 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 restated and presented on a continuing basis. Assets and liabilities of discontinued operations have been presented as held for sale on the Condensed Consolidated Balance Sheet as at 31 March 2018.

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 hedging, the fair value adjustment on the underlying hedged exposure;
- available for sale financial assets;
- financial instruments held for trading;
- other financial assets and liabilities designated at fair value through profit and loss; and
- assets and liabilities held for sale (except those at carrying value as per Note 11).

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 2017 ANZ Annual Financial Report. Such estimates and judgements are reviewed on an ongoing basis.

At 31 March 2018, 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. Although their market value (based on share price) was below their carrying value, no impairment was recognised as the carrying value was supported by their value in use (VIU).

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

	As at 31 Mar 18	
	AmBank	**PT Panin**
Carrying value supported by VIU calculation ($m)	940	948
Post-tax discount rate	11.0%	13.0%
Terminal growth rate	4.9%	5.5%
Expected NPAT growth (compound annual growth rate - 5 years)	5.4%	9.5%
Core equity tier 1 ratio	11.3% to 12.5%	11.3%

At 31 March 2018, as a result of persistent illiquidity of the quoted share price of Bank of Tianjin (BoT), the Group determined the fair value based on a valuation model. Judgement is required in both the selection of the model and inputs used. Refer to Note 14 for further details.

v) 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.

vi) Future accounting developments

AASB 9 *Financial Instruments* (AASB 9)

AASB 9 is effective for the Group from 1 October 2018.

AASB 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Group are outlined below.

Impairment

AASB 9 replaces the "incurred loss" impairment model under AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) with an "expected loss" model incorporating forward looking information. This model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees not measured at fair value through profit or loss.

Under AASB 9, the following three-stage approach is applied to measuring expected credit losses (ECL) consequent to credit migration between the stages:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Similar to the current AASB 139 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are estimated by using a probability of default reflecting a probability weighted range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money.

Key judgements and estimates made by the Group include the following:

- *Significant increase in credit risk*

  Stage 2 assets are those that have experienced a significant increase in credit risk (SICR) since initial recognition. In determining what constitutes a SICR, the Group considers both qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination. The Group will also use secondary indicators, such as 30 days past due arrears, as backstops to these primary indicators.

  The determination of trigger points in relation to the deterioration of rating grades, combined with secondary risk indicators where used, requires judgement. In determining the Group's policy, alternative indicators have been considered and assessed, and these will be subject to regular review to ensure they remain appropriate.

- *Forward looking information*

  The measurement of expected credit losses needs to reflect an unbiased probability-weighted range of possible future outcomes. AASB 9 provides limited guidance on how to meet this requirement and consequently the Group has developed an approach considered appropriate for its credit portfolio informed by emerging market practices.

  In applying forward looking information in the Group's AASB 9 credit models, the Group intends to consider four alternative economic scenarios in estimating ECL. A base case scenario reflects management's base case assumptions used for medium term planning purposes. Additional upside and downside scenarios are determined together with a severe downside scenario. The Group's Credit and Market Risk Committee (CMRC) will be responsible for reviewing and approving forecast economic scenarios and the associated probability weights applied to each scenario.

  Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC will be responsible for recommending such adjustments.

The overall level of expected credit losses and areas of significant management judgement will be reported to, and oversighted by, the Group's Board Risk Committee.

Classification and measurement

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: Amortised Cost, Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent 'solely payments of principal and interest').

The resultant financial asset classifications are summarised in the following table:

	Amortised Cost	Fair Value through Other Comprehensive Income	Fair Value through Profit or Loss
Business Model	Objective is to collect contractual cash flows	Objective is to both collect contractual cash flows and to sell	All other business models
Contractual cash flow characteristics	Solely Payments of Principal and Interest	Solely Payments of Principal and Interest	All other contractual cash flow characteristics

In December 2017, the AASB issued AASB 2017-6 *Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation [AASB 9]* which amends the requirements of AASB 9 so that certain prepayment features meet the solely payments of principal and interest test. The Group intends to early adopt this amendment so that it applies from the date of initial application of AASB 9.

Financial assets - equity instruments

AASB 9 also permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. If this election is made under AASB 9, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Financial liabilities

The classification and measurement requirements for financial liabilities under AASB 9 are largely consistent with AASB 139 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Group on 1 October 2013.

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 the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group's current expectation is that it will continue to apply the hedge accounting requirements of AASB 139.

Transition to AASB 9

Other than as noted above under classification and measurement of financial liabilities, AASB 9 has a date of initial application for the Group of 1 October 2018.

The classification and measurement, and impairment requirements, will be applied retrospectively by adjusting opening retained earnings at 1 October 2018. ANZ does not intend to restate comparatives.

Impact

Impairment

Based on the portfolio of in-scope financial assets held as at 30 September 2017, economic conditions prevailing at that time and management's judgements and estimates, the application of AASB 9 at that date would have resulted in:

- an aggregate of stage 1 and 2 expected credit loss provisions of between $2.9 billion and $3.2 billion. This represents an increase over the previous collective provision in the range of $240 million and $540 million; and
- a reduction in the CET1 capital ratio in the range of 3 bps to 6 bps.

The actual impact at the date of initial application (1 October 2018) will differ reflecting the composition of the Group's portfolio, prevailing economic and business conditions, and management judgements and estimates which cannot be anticipated in advance.

The Group continues to refine its methodology and assumptions over the period until the initial application of the standard on 1 October 2018.

Classification and measurement of financial assets

While some classification changes are expected as a result of the application of the business model and contractual cash flow characteristics tests, these are not expected to be significant from a Group perspective.

AASB 15 *Revenue from Contracts with Customers* (AASB 15)

AASB 15 was issued in December 2014 and is effective for the Group from 1 October 2018. AASB 15 contains new requirements for the recognition of revenue.

The standard requires identification of distinct performance obligations within a contract and allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods. The standard also provides guidance on whether an entity is acting as a principal or an agent that may impact the presentation of revenue on a gross or net basis.

Although a significant proportion of the Group's revenue is outside the scope of AASB 15, certain revenue streams are in the scope of the standard. The Group is in the process of assessing the impact of the application of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 15 may be applied under different transition approaches which could impact (a) revenue recognised in future periods and (b) the opening adjustment to retained earnings at the relevant date of initial application. The Group has not determined which transition approach it will adopt.

AASB 16 *Leases* (AASB 16)

The final version of AASB 16 was issued in February 2016 and is effective for the Group from 1 October 2019. AASB 16 requires a lessee to recognise its:

- right to use the underlying leased asset, as a right-of-use asset; and
- obligation to make lease payments as a lease liability.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases* (AASB 117).

The Group is in the process of assessing the impact of the application of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 17 *Insurance Contracts* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is effective for the Group from 1 October 2021. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

The Group is not yet able to reasonably estimate the impact of AASB 17 on its financial statements.

2. Income

	Half Year[1]			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Interest income	**14,849**	14,694	14,426	1%	3%
Interest expense	**(7,322)**	(7,152)	(7,007)	2%	4%
Major bank levy	**(177)**	(86)	-	large	n/a
Net interest income	**7,350**	7,456	7,419	-1%	-1%
i) Fee and commission income					
Lending fees[2]	**348**	363	369	-4%	-6%
Non-lending fees and commissions	**1,429**	1,475	1,518	-3%	-6%
Fee and commission income	**1,777**	1,838	1,887	-3%	-6%
Fee and commission expense	**(625)**	(611)	(661)	2%	-5%
Net fee and commission income	**1,152**	1,227	1,226	-6%	-6%
ii) Other income					
Net foreign exchange earnings and other financial instruments income[3]	**770**	578	867	33%	-11%
Gain on sale of 100 Queen Street, Melbourne	**-**	-	114	n/a	-100%
Sale of Asia Retail and Wealth businesses	**99**	14	(324)	large	large
Sale of SRCB	**233**	(1)	(230)	large	large
Sale of MCC	**119**	-	-	n/a	n/a
Other[4]	**57**	67	51	-15%	12%
Other income	**1,278**	658	478	94%	large
Other operating income	**2,430**	1,885	1,704	29%	43%
iii) Net funds management and insurance income					
Funds management income	**142**	159	162	-11%	-12%
Investment income	**1**	3	14	-67%	-93%
Insurance premium income	**183**	211	213	-13%	-14%
Commission expense	**(11)**	(27)	(20)	-59%	-45%
Claims	**(31)**	(29)	(20)	7%	55%
Changes in policy liabilities	**23**	18	(50)	28%	large
Net funds management and insurance income	**307**	335	299	-8%	3%
iv) Share of associates' profit	**88**	127	173	-31%	-49%
Operating income	**10,175**	9,803	9,595	4%	6%

1. *Information has been restated and presented on a continuing operations basis.*
2. *Lending fees exclude fees treated as part of the effective yield calculation in interest income.*
3. *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.*
4. *Other income includes external dividend income of nil (Sep 17 half: $27.3 million; Mar 17 half: nil).*

3. Operating expenses

	Half Year[1]			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
i) Personnel					
Salaries and related costs	**2,133**	2,117	2,215	1%	-4%
Superannuation costs	**149**	150	153	-1%	-3%
Other	**120**	138	151	-13%	-21%
Personnel expenses	**2,402**	2,405	2,519	0%	-5%
ii) Premises					
Rent	**232**	252	248	-8%	-6%
Other	**163**	178	184	-8%	-11%
Premises expenses	**395**	430	432	-8%	-9%
iii) Technology					
Depreciation and amortisation	**368**	348	373	6%	-1%
Licences and outsourced services	**327**	332	301	-2%	9%
Other	**120**	123	125	-2%	-4%
Technology expenses	**815**	803	799	1%	2%
iv) Restructuring	**78**	26	36	large	large
v) Other					
Advertising and public relations	**99**	125	114	-21%	-13%
Professional fees	**259**	252	177	3%	46%
Freight, stationery, postage and telephone	**116**	132	126	-12%	-8%
Other	**247**	307	284	-20%	-13%
Other expenses	**721**	816	701	-12%	3%
Operating expenses	**4,411**	4,480	4,487	-2%	-2%

[1] *Information has been restated and presented on a continuing operations basis.*

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[1]			Movement	
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Profit before income tax	**5,356**	4,844	4,389	11%	22%
Prima facie income tax expense at 30%	**1,607**	1,453	1,317	11%	22%
Tax effect of permanent differences:					
Sale of MCC	**(37)**	-	-	n/a	n/a
Share of associates' profit	**(26)**	(38)	(52)	-32%	-50%
Sale of SRCB	**(84)**	16	156	large	large
Interest on Convertible Instruments	**34**	34	35	0%	-3%
Overseas tax rate differential	**(48)**	(32)	(5)	50%	large
Tax provisions no longer required	**(23)**	-	-	n/a	n/a
Other	**3**	12	(3)	-75%	large
	1,426	1,445	1,448	-1%	-2%
Income tax over provided in previous years	**-**	(18)	(1)	-100%	-100%
Income tax expense	**1,426**	1,427	1,447	0%	-1%
Australia	**949**	1,007	1,010	-6%	-6%
Overseas	**477**	420	437	14%	9%
Income tax expense	**1,426**	1,427	1,447	0%	-1%
Effective tax rate	**26.6%**	29.5%	33.0%		

1. *Information has been restated and presented on a continuing operations basis.*

5. Dividends

Dividend per ordinary share (cents) - including discontinued operations	Half Year			Movement	
	Mar 18	**Sep 17**	**Mar 17**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Interim (fully franked)	**80**	-	80	n/a	0%
Final (fully franked)	**-**	80	-	n/a	n/a
Total	**80**	80	80	0%	0%
Ordinary share dividend ($M)[1]					
Interim dividend	**-**	2,349	-	n/a	n/a
Final dividend	**2,350**	-	2,342	n/a	0%
Bonus option plan adjustment	**(42)**	(40)	(42)	5%	0%
Total	**2,308**	2,309	2,300	0%	0%
Ordinary share dividend payout ratio (%)[2]	**69.6%**	67.2%	80.7%		

1. *Dividends paid to ordinary equity holders of the Company. Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (Mar 18 half: nil; Sep 17 half: nil; Mar 17 half: $1.3 million).*
2. *Dividend payout ratio is calculated using the proposed 2018 interim dividend of $2,313 million (not shown in the above table). The proposed 2018 interim dividend of $2,313 million is based on the forecast number of ordinary shares on issue at the dividend record date. Dividend payout ratios for the September and March 2017 half year are calculated using actual dividends paid of $2,350 million and $2,349 million respectively.*

Ordinary Shares

The Directors propose that an interim dividend of 80 cents be paid on each eligible fully paid ANZ ordinary share on 2 July 2018. The 2018 interim dividend will be fully franked for Australian tax purposes, and New Zealand imputation credits of NZ 9 cents per ordinary share will also be attached.

ANZ has a Dividend Reinvestment Plan (DRP) and a Bonus Option Plan (BOP) that will operate in respect of the proposed 2018 interim dividend. For the 2018 interim dividend, ANZ intends to provide shares under the DRP through an on-market purchase and BOP through the issue of new shares. 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 ASX and Chi-X during the ten trading days commencing on 18 May 2018, 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. Election notices from shareholders wanting to commence, cease or vary their participation in the DRP or BOP for the 2018 interim dividend must be received by ANZ's Share Registrar by 5.00pm (Australian Eastern Standard Time) on 16 May 2018.

Subject to receiving effective contrary instructions from the shareholder, dividends payable to shareholders with a registered address in the United Kingdom (including the Channel Islands and the Isle of Man) or New Zealand will be converted to Pounds Sterling or New Zealand Dollars respectively at an exchange rate calculated on 18 May 2018.

6. Earnings per share

	Half Year			Movement	
Earnings Per Share (EPS) - Basic	**Mar 18**	**Sep 17**	**Mar 17**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Earnings Per Share (cents)[1]	**114.2**	119.9	100.2	-5%	14%
Earnings Per Share (cents) from continuing operations	**134.8**	117.0	100.9	15%	34%
Earnings Per Share (cents) from discontinued operations	**(20.6)**	2.9	(0.8)	large	large
Earnings Per Share (EPS) - Diluted					
Earnings Per Share (cents)	**108.6**	114.7	96.7	-5%	12%
Earnings Per Share (cents) from continuing operations	**127.4**	112.0	97.4	14%	31%
Earnings Per Share (cents) from discontinued operations	**(18.8)**	2.7	(0.7)	large	large
Reconciliation of earnings used in EPS Calculations					
Basic:					
Profit for the period ($M)	**3,330**	3,502	2,919	-5%	14%
Less: profit attributable to non-controlling interests ($M)	**7**	7	8	0%	-13%
Earnings used in calculating basic earnings per share ($M)	**3,323**	3,495	2,911	-5%	14%
Less: Profit/(Loss) after tax from discontinued operations ($M)	**(600)**	85	(23)	large	large
Earnings used in calculating basic earnings per share from continuing operations ($M)	**3,923**	3,410	2,934	15%	34%
Diluted:					
Earnings used in calculating basic earnings per share ($M)	**3,323**	3,495	2,911	-5%	14%
Add: interest on convertible subordinated debt ($M)	**141**	140	148	1%	-5%
Earnings used in calculating diluted earnings per share ($M)	**3,464**	3,635	3,059	-5%	13%
Less: Profit/(Loss) after tax from discontinued operations ($M)	**(600)**	85	(23)	large	large
Earnings used in calculating diluted earnings per share from continuing operations ($M)	**4,064**	3,550	3,082	14%	32%
Reconciliation of weighted average number of ordinary shares (WANOS) used in EPS calculations[2]					
WANOS used in calculating basic earnings per share	**2,909.6**	2,914.0	2,906.6	0%	0%
Add: Weighted average dilutive potential ordinary shares (M)					
Convertible subordinated debt (M)	**269.7**	243.0	247.1	11%	9%
Share based payments (options, rights and deferred shares) (M)	**10.0**	11.5	10.0	-13%	0%
Adjusted weighted average number of shares - diluted (M)	**3,189.3**	3,168.5	3,163.7	1%	1%

1. Post disposal of the discontinued operations, treasury shares held in Wealth Australia will cease to be eliminated in the Group's consolidated financial statements and will be included in the denominator used in calculating earnings per share. If the weighted average number of treasury shares held in Wealth Australia was included in the denominator used in calculating earnings per share from continuing operations for the half year ended 31 March 2018, basic earnings per share would have been 134.1 cents (Sep 17 half: 116.4 cents; Mar 17 half: 100.4 cents) and diluted earnings per share would have been 126.8 cents (Sep 17 half: 111.5 cents; Mar 17 half: 96.9 cents).

2. Weighted average number of ordinary shares excludes the weighted average number of treasury shares held in ANZEST and Wealth Australia as summarised in the table below:

	Mar 18 half (Million)	*Sep 17 half (Million)*	*Mar 17 half (Million)*
ANZEST Pty Ltd	*6.3*	*7.5*	*8.8*
Wealth Australia	*15.0*	*15.2*	*17.1*
Total treasury shares	*21.3*	*22.7*	*25.9*

7. Segment analysis

i) Description of segments

The Group operates on a divisional structure with six continuing divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth Australia, and Technology, Services & Operations (TSO) and Group Centre. For further information on the composition of divisions refer to the Definitions on page 121.

During the March 2018 half:

- the Group transferred Wealth Australia businesses to be divested and associated Group reclassification and consolidation impacts to discontinued operations;
- the Corporate business, formerly part of the Corporate and Commercial Banking business within the Australia division, was transferred to the Institutional division;
- the residual Asia Retail and Wealth businesses in Philippines, Japan and Cambodia not sold as part of the Asia Retail and Wealth divestment have been transferred to the Institutional division; and
- the Group made a further realignment by transferring Group Hub's divisional specific operations in TSO and Group Centre to the respective divisions. As these costs were previously recharged, there is no change to previously reported divisional cash profit. Divisional full time equivalents (FTEs) have been restated to reflect this change.

Other than the changes described above, there have been no other significant structural changes during the year. However, certain prior period comparatives have been restated to align with current period presentation. The divisions reported below are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

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 business units 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 11. The retained Wealth Australia business includes lenders mortgage insurance, share investing, financial planning and general insurance distribution.

ii) Operating segments

	Half Year[1]			Movement	
Operating Income	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Australia	**4,863**	4,784	4,651	2%	5%
Institutional	**2,544**	2,575	3,055	-1%	-17%
New Zealand	**1,616**	1,595	1,577	1%	2%
Wealth Australia	**186**	189	204	-2%	-9%
Asia Retail & Pacific	**303**	428	166	-29%	83%
TSO and Group Centre	**296**	269	323	10%	-8%
Subtotal	**9,808**	9,840	9,976	0%	-2%
Other[2]	**367**	(37)	(381)	large	large
Group total	**10,175**	9,803	9,595	4%	6%

	Half Year[1]			Movement	
Profit	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Australia	**1,915**	1,857	1,759	3%	9%
Institutional	**793**	859	1,065	-8%	-26%
New Zealand	**726**	692	677	5%	7%
Wealth Australia	**44**	37	58	19%	-24%
Asia Retail & Pacific	**106**	65	(222)	63%	large
TSO and Group Centre	**(91)**	(56)	18	63%	large
Subtotal	**3,493**	3,454	3,355	1%	4%
Other[2]	**430**	(44)	(421)	large	large
Group total	**3,923**	3,410	2,934	15%	34%

1. *Information has been restated and presented on a continuing operations basis.*
2. *In evaluating the performance of the operating segments, certain items are removed from the statutory profit where they are not considered integral to the ongoing performance of the segment and are revalued separately.*

7. Segment analysis, cont'd

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[1]			Movement	
Item gains/(losses)	Related segment	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Revaluation of policy liabilities	New Zealand	**10**	8	(33)	25%	large
Economic hedges	Institutional, TSO and Group Centre	**124**	(31)	(178)	large	large
Revenue hedges	TSO and Group Centre	**(40)**	(6)	105	large	large
Structured credit intermediation trades	Institutional	**3**	2	1	50%	large
Sale of SRCB	TSO and Group Centre	**333**	(17)	(316)	large	large
Total profit after tax from continuing operations		**430**	(44)	(421)	large	large

1. *Information has been restated and presented on a continuing operations basis.*

8. Net loans and advances

	As at			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Australia					
Overdrafts	**5,843**	5,939	5,786	-2%	1%
Credit cards outstanding	**8,629**	8,632	8,846	0%	-2%
Commercial bills outstanding	**7,467**	8,471	9,232	-12%	-19%
Term loans - housing	**270,631**	264,105	255,721	2%	6%
Term loans - non-housing	**125,901**	124,307	123,464	1%	2%
Lease receivables	**1,072**	1,153	1,084	-7%	-1%
Hire purchase contracts	**893**	634	641	41%	39%
Other	**8**	15	415	-47%	-98%
Total Australia	**420,444**	413,256	405,189	2%	4%
Asia Pacific, Europe & America					
Overdrafts	**538**	449	743	20%	-28%
Credit cards outstanding	**13**	869	1,351	-99%	-99%
Term loans - housing	**729**	2,469	6,501	-70%	-89%
Term loans - non-housing[1]	**53,971**	50,901	52,131	6%	4%
Lease receivables	**210**	117	163	79%	29%
Other	**17**	34	320	-50%	-95%
Total Asia Pacific, Europe & America	**55,478**	54,839	61,209	1%	-9%
New Zealand					
Overdrafts	**809**	957	1,158	-15%	-30%
Credit cards outstanding	**1,558**	1,508	1,503	3%	4%
Term loans - housing	**73,751**	70,735	68,592	4%	8%
Term loans - non-housing	**41,306**	40,697	40,247	1%	3%
Lease receivables	**182**	189	198	-4%	-8%
Hire purchase contracts	**1,411**	1,263	1,115	12%	27%
Total New Zealand	**119,017**	115,349	112,813	3%	5%
Sub-total	**594,939**	583,444	579,211	2%	3%
Unearned income	**(441)**	(411)	(458)	7%	-4%
Capitalised brokerage/mortgage origination fees[2]	**1,044**	1,058	1,040	-1%	0%
Customer liability for acceptances[3]	**-**	-	565	n/a	-100%
Gross loans and advances (including assets reclassified as held for sale)	**595,542**	584,091	580,358	2%	3%
Provision for credit impairment (refer to Note 9)	**(3,595)**	(3,798)	(4,054)	-5%	-11%
Net loans and advances (including assets reclassified as held for sale)	**591,947**	580,293	576,304	2%	3%
Net loans and advances held for sale (refer to Note 11)	**(3,001)**	(5,962)	(12,269)	-50%	-76%
Net loans and advances	**588,946**	574,331	564,035	3%	4%

1. *Commercial bills outstanding are included in Term loans - non-housing. Restatement impact of $2,597 million for September 2017 and $2,065 million for March 2017.*
2. *Capitalised brokerage/mortgage origination fees are amortised over the expected life of the loan.*
3. *Customer liability for acceptances has been recognised as Other assets from 1 April 2017.*

9. Provision for credit impairment

	Half Year			Movement	
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Individual provision					
Balance at start of period	**1,136**	1,269	1,307	-10%	-13%
New and increased provisions	**728**	948	1,121	-23%	-35%
Write-backs	**(191)**	(280)	(221)	-32%	-14%
Adjustment for exchange rate fluctuations and transfers	**5**	(2)	(12)	large	large
Discount unwind	**(7)**	(8)	(24)	-13%	-71%
Bad debts written-off	**(651)**	(791)	(902)	-18%	-28%
Asia Retail and Wealth businesses divestment	**(4)**	-	-	n/a	n/a
Total individual provision	**1,016**	1,136	1,269	-11%	-20%
Collective provision					
Balance at start of period	**2,662**	2,785	2,876	-4%	-7%
Charge/(Release) to Income Statement	**(22)**	(75)	(67)	-71%	-67%
Adjustment for exchange rate fluctuations and transfers	**18**	(9)	(24)	large	large
Asia Retail and Wealth businesses divestment	**(79)**	(39)	-	large	n/a
Total collective provision[1]	**2,579**	2,662	2,785	-3%	-7%
Total provision for credit impairment	**3,595**	3,798	4,054	-5%	-11%

1. *The collective provision includes amounts for off-balance sheet credit exposures of $522 million as at 31 March 2018 (Sep 17: $544 million; Mar 17: $574 million). The impact on the Income Statement for the half year ended 31 March 2018 was a $26 million release (Sep 17 half: $20 million release; Mar 17 half: $46 million release).*

	Half Year			Movement	
Provision movement analysis	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
New and increased individual provisions	**728**	948	1,121	-23%	-35%
Write-backs	**(191)**	(280)	(221)	-32%	-14%
	537	668	900	-20%	-40%
Recoveries of amounts previously written-off	**(107)**	(114)	(114)	-6%	-6%
Individual credit impairment charge	**430**	554	786	-22%	-45%
Collective credit impairment charge/(release)	**(22)**	(75)	(67)	-71%	-67%
Credit impairment charge	**408**	479	719	-15%	-43%

10. Deposits and other borrowings

	As at			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Australia					
Certificates of deposit	**43,157**	50,565	51,875	-15%	-17%
Term deposits	**75,116**	72,679	72,471	3%	4%
On demand and short term deposits	**191,228**	190,480	179,928	0%	6%
Deposits not bearing interest	**10,548**	10,221	9,268	3%	14%
Deposits from banks and securities sold under repurchase agreements	**37,718**	35,896	37,824	5%	0%
Commercial paper	**21,658**	14,599	6,786	48%	large
Total Australia	**379,425**	374,440	358,152	1%	6%
Asia Pacific, Europe & America					
Certificates of deposit	**5,234**	2,894	4,629	81%	13%
Term deposits	**77,335**	78,863	90,449	-2%	-14%
On demand and short term deposits	**19,557**	21,769	23,468	-10%	-17%
Deposits not bearing interest	**4,362**	4,519	4,650	-3%	-6%
Deposits from banks and securities sold under repurchase agreements	**30,756**	23,251	24,765	32%	24%
Total Asia Pacific, Europe & America	**137,244**	131,296	147,961	5%	-7%
New Zealand					
Certificates of deposit	**1,897**	1,763	924	8%	large
Term deposits	**44,810**	41,829	40,236	7%	11%
On demand and short term deposits	**39,580**	38,143	38,762	4%	2%
Deposits not bearing interest	**9,334**	8,173	7,832	14%	19%
Deposits from banks and securities sold under repurchase agreements	**1,543**	145	662	large	large
Commercial paper and other borrowings	**3,297**	4,380	3,888	-25%	-15%
Total New Zealand	**100,461**	94,433	92,304	6%	9%
Total deposits and other borrowings (including liabilities reclassified as held for sale)	**617,130**	600,169	598,417	3%	3%
Deposits and other borrowings held for sale (refer to Note 11)	**(900)**	(4,558)	(17,010)	-80%	-95%
Total deposits and other borrowings	**616,230**	595,611	581,407	3%	6%

11. Discontinued operations and assets and liabilities held for sale

i) Discontinued operations

On 17 October 2017, the Group announced it had agreed to sell OnePath pensions and investments (OnePath P&I) and aligned dealer groups (ADG) business to IOOF Holdings Limited (IOOF). The aligned dealer groups business consists of aligned advice businesses that operate under their own Australian Financial Services licences. Completion is expected in the first half of the 2019 financial year, subject to certain conditions including regulatory approvals and completing the extraction of the OnePath P&I business from OnePath Life Insurance.

On 12 December 2017, ANZ announced that it had agreed to the sale of its life insurance business to Zurich Financial Services Australia (Zurich) to further simplify ANZ's Wealth Australia division. The transaction is subject to closing conditions and regulatory approval and ANZ expects it to close in the first half of the 2019 financial year.

As a result of the sale transactions outlined above, the financial results of the businesses to be divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a reporting perspective. This impacts the current and comparative financial information for Wealth Australia and TSO and Group Centre divisions.

Income Statement

	Half Year			Movement	
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Net interest income	**-**	-	(3)	n/a	-100%
Other operating income[1]	**(655)**	5	6	large	large
Net funds management and insurance income	**426**	469	398	-9%	7%
Operating income	**(229)**	474	401	large	large
Operating expenses	**(243)**	(237)	(244)	3%	0%
Profit/(Loss) before income tax	**(472)**	237	157	large	large
Income tax expense	**(128)**	(152)	(180)	-16%	-29%
Profit/(Loss) for the period attributable to shareholders of the Company	**(600)**	85	(23)	large	large

1. *Includes a $632 million loss relating to the reclassification of Wealth Australia businesses to held for sale.*

Cash Flow Statement

	Half Year			Movement	
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Net cash provided by/(used in) operating activities	924	558	799	66%	16%
Net cash provided by/(used in) investing activities	(1,133)	(492)	(1,675)	large	-32%
Net cash provided by/(used in) financing activities	179	(64)	864	large	-79%
Net cash provided by/(used in)	**(30)**	2	(12)	large	large

ii) Assets and liabilities held for sale

At 31 March 2018, assets and liabilities held for sale are re-measured at the lower of their existing 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 existing carrying value.

Assets and liabilities held for sale[1]

	As at 31 Mar 2018				As at 30 Sep 2017					As at 31 Mar 2017			
	Discontinued operations $M	UDC and Paymark $M	Metrobank Card Corporation $M	Total $M	Asia Retail and Wealth businesses $M	UDC $M	Shanghai Rural Commercial Bank $M	Metrobank Card Corporation $M	Total $M	Asia Retail and Wealth businesses $M	UDC $M	Shanghai Rural Commercial Bank $M	Total $M
Cash and cash equivalents	5	-	-	5	-	-	-	-	-	-	-	-	-
Derivative financial instruments	1	-	-	1	-	-	-	-	-	-	-	-	-
Available for sale assets	1,040	-	-	1,040	-	-	-	-	-	-	-	-	-
Net loans and advances	118	2,883	-	3,001	3,283	2,679	-	-	5,962	9,776	2,493	-	12,269
Investment in associates	1	7	60	68	-	-	1,748	120	1,868	-	-	1,735	1,735
Deferred tax assets	72	-	-	72	-	-	-	-	-	-	-	-	-
Goodwill and other intangible assets	946	124	-	1,070	-	122	-	-	122	-	118	-	118
Investments backing policy liabilities	38,803	-	-	38,803	-	-	-	-	-	-	-	-	-
Premises and equipment	5	-	-	5	-	-	-	-	-	-	-	-	-
Other assets	1,198	15	-	1,213	-	18	-	-	18	-	23	-	23
Total assets held for sale	**42,189**	**3,029**	**60**	**45,278**	**3,283**	**2,819**	**1,748**	**120**	**7,970**	**9,776**	**2,634**	**1,735**	**14,145**
Deposits and other borrowings	-	900	-	900	3,602	956	-	-	4,558	15,818	1,192	-	17,010
Current tax liabilities	(158)	36	-	(122)	-	22	-	-	22	-	31	-	31
Deferred tax liabilities	387	(9)	-	378	-	(8)	-	-	(8)	-	-	-	-
Policy liabilities	38,381	-	-	38,381	-	-	-	-	-	-	-	-	-
External unit holder liabilities	4,618	-	-	4,618	-	-	-	-	-	-	-	-	-
Payables and other liabilities	560	28	-	588	47	30	-	-	77	44	30	-	74
Provisions	29	1	-	30	43	1	-	-	44	50	1	-	51
Total liabilities held for sale	**43,817**	**956**	**-**	**44,773**	**3,692**	**1,001**	**-**	**-**	**4,693**	**15,912**	**1,254**	**-**	**17,166**

1. *Amounts in the table above are shown net of intercompany balances.*

11. Discontinued operations and assets and liabilities held for sale, cont'd

Other strategic divestments presented as assets and liabilities held for sale in the prior periods:

- **Asia Retail and Wealth Businesses**

  The Group announced that it had agreed to sell Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank on 31 October 2016, and its Retail business in Vietnam to Shinhan Bank Vietnam on 21 April 2017. The Group successfully completed the transition of businesses in China, Singapore and Hong Kong in the September 2017 half, and Vietnam, Taiwan, and Indonesia in the March 2018 half. These businesses were part of the Asia Retail & Pacific division.

- **UDC Finance (UDC) and Paymark Limited (Paymark)**

  On 11 January 2017, the Group announced that it had entered into a conditional agreement to sell UDC to HNA Group (HNA). On 21 December 2017, the Group announced that it had been informed that New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018.

  On 20 March 2018, the Group announced that it was continuing to examine a broad range of options for UDC's future including an Initial Public Offering (IPO) and trade sale. As a result of the ongoing process, the assets and liabilities of UDC continue to meet the criteria to be reclassified to held for sale as at 31 March 2018.

  On 17 January 2018, the Group entered into an agreement to sell its 25% shareholding in Paymark to Ingenico Group. The carrying amount of the Group's investment in Paymark at 31 March 2018 is $7 million and the asset is reclassified to held for sale. The transaction is subject to regulatory consents. These businesses are part of the New Zealand division.

- **Shanghai Rural Commercial Bank**

  On 3 January 2017, the Group announced it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). On 18 September 2017, the Group announced a revision to the 3 January 2017 arrangement in which Baoshan Iron & Steel Co. Ltd. (Bao) replaced Shanghai Sino-Poland Enterprise Management Development Corporation Limited to join China COSCO Shipping Corporation Limited (COSCO) to acquire ANZ's 20% stake in SRCB. Under the updated arrangement, COSCO and Bao each acquired a 10% stake in SRCB. The key financial terms of the revised sale agreement were unchanged from the original transaction announcement. The sale was completed in the March 2018 half. This asset was part of the TSO and Group Centre division.

- **Metrobank Card Corporation**

  On 18 October 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company (Metrobank) in relation to its 40% stake in the Philippines based Metrobank Card Corporation (MCC). The Group agreed to sell 20% of its stake, and entered into a put option to sell the remaining 20% stake, exercisable in the fourth quarter of 2018 on the same terms for the same consideration. The first 20% stake sale was completed in the March 2018 half. This asset is part of the TSO and Group Centre division.

Income Statement impact relating to assets and liabilities held for sale

During the March 2018 half year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $632 million loss relating to the reclassification of the Wealth Australia business to held for sale, comprising a $277 million impairment, and $355 million of costs (net of tax) associated with the sale. This loss is recognised in discontinued operations.
- $85 million gain relating to the sale of the remaining Asia Retail and Wealth businesses, net of costs associated with the sale including $14 million of tax expenses. This gain is recognised in continuing operations.
- $18 million gain relating to UDC comprising a cost recovery in respect of the terminated transaction process. This gain is recognised in continuing operations.
- $247 million net gain relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million adjustment for tax. This gain is recognised in continuing operations.
- $121 million net gain relating to MCC comprising a $121 million gain on sale of the first 20% stake, $1 million of foreign exchange gains, $3 million loss on release of reserves, and a $2 million adjustment for tax. This gain is recognised in continuing operations.

During the September 2017 half year, the Group recognised the following impacts in continuing operations in relation to assets and liabilities held for sale:

- $14 million gain recognised on the partial completion of the Asia Retail and Wealth sale comprising sale premium and recoveries, net of related sale costs.
- $17 million loss relating to the Group's investment in SRCB comprising $1 million of foreign exchange losses, and $16 million of tax expenses.

During the March 2017 half year, the Group recognised the following impacts in continuing operations in relation to the assets and liabilities:

- $324 million loss relating to the reclassification of the Group's Asia Retail and Wealth businesses to held for sale comprising $225 million of software, goodwill and other assets impairment charges, and $99 million of costs associated with the sale. The Group also recognised a $40 million tax benefit as a result of the loss on reclassification to held for sale.
- $316 million loss relating to the Group's investment in SRCB comprising of a $219 million impairment to the investment, $11 million of foreign exchange losses, and $86 million of tax expenses.

These impacts are included in 'Other income' and 'Income tax expense' (refer Note 2 and 4).

12. Debt issuances

	Half Year			Movement	
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 v. Sep 17	Mar 18 v. Mar 17
Total unsubordinated debt	**97,576**	90,263	88,778	8%	10%
Additional Tier 1 Capital[1]					
Convertible Preference Shares (ANZ CPS)					
ANZ CPS3[2]	**-**	573	1,340	-100%	-100%
ANZ Capital Notes (ANZ CN)					
ANZ CN1[3]	**1,117**	1,116	1,116	0%	0%
ANZ CN2[4]	**1,604**	1,604	1,603	0%	0%
ANZ CN3[5]	**961**	963	962	0%	0%
ANZ CN4[6]	**1,609**	1,608	1,607	0%	0%
ANZ CN5[7]	**924**	925	-	0%	n/a
ANZ Capital Securities[8]	**1,188**	1,206	1,218	-1%	-2%
ANZ NZ Capital Notes[9]	**467**	457	454	2%	3%
Tier 2 Capital[10]					
Perpetual subordinated notes	**1,174**	1,150	1,156	2%	2%
Term subordinated notes	**8,216**	8,108	10,841	1%	-24%
Total subordinated debt	**17,260**	17,710	20,297	-3%	-15%
Total debt issuances	**114,836**	107,973	109,075	6%	5%

1. *ANZ Capital Notes, ANZ Capital Securities and the ANZ NZ Capital Notes are Basel 3 compliant instruments.*
2. *On 28 September 2011, ANZ issued $1,340 million of convertible preference shares (CPS3). On 28 September 2017, ANZ bought back and cancelled $767 million of CPS3 and on 1 March 2018 ANZ repaid all remaining CPS3 for their issue price of $100 each.*
3. *On 7 August 2013, ANZ issued capital notes (CN1) which will convert into ANZ ordinary shares on 1 September 2023 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, on 1 September 2021 the notes are redeemable or convertible to ANZ ordinary shares (on similar terms to mandatory conversion) by ANZ.*
4. *On 31 March 2014, ANZ issued capital notes (CN2) which will convert into ANZ ordinary shares on 24 March 2024 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, on 24 March 2022 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
5. *On 5 March 2015, ANZ acting through its New Zealand Branch issued capital notes (CN3) which will convert into ANZ ordinary shares on 24 March 2025 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, on 24 March 2023 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
6. *On 27 September 2016, ANZ issued capital notes (CN4) which will convert into ANZ ordinary shares on 20 March 2026 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, on 20 March 2024 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
7. *On 28 September 2017, ANZ issued capital notes (CN5) which will convert into ANZ ordinary shares on 20 March 2027 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, on 20 March 2025 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
8. *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.*
9. *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. Subject to certain conditions, on 25 May 2020 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ Bank NZ.*
10. *The convertible dated subordinated notes are Basel 3 compliant instruments. APRA has granted transitional capital treatment for all other outstanding subordinated notes until their first call date or, in the case of the perpetual subordinated notes the earlier of the end of the transitional period (December 2021) and the first call date when a step-up event occurs. 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.*

13. 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/Other[1,2] As at			Maximum Exposure to Credit Risk As at		
On-balance sheet positions[3]	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**
Net loans and advances[2]	**591,947**	580,293	576,304	**(548)**	(562)	(590)	**592,495**	580,855	576,894
Other financial assets	**329,365**	307,789	304,820	**50,524**	50,472	47,684	**278,841**	251,317	257,136
Total other financial assets	**921,312**	888,082	881,124	**49,976**	49,910	47,094	**871,336**	832,172	834,030
Off-balance sheet positions									
Undrawn and contingent facilities[2,4]	**233,527**	232,162	236,054	**548**	562	590	**232,979**	231,600	235,464
Total	**1,154,839**	1,120,244	1,117,178	**50,524**	50,472	47,684	**1,104,315**	1,063,772	1,069,494

1. *Excluded comprises bank notes and coins and cash at bank within liquid assets, equity securities within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed onto the policy holder. In September 2017, equity securities and precious metal exposures recognised as trading securities and trade dated assets recognised as settlement balances owed to ANZ have been excluded as they do not carry credit risk. Comparatives have been restated accordingly.*
2. *Other relates to the transfer of individual and collective provisions related to off-balance sheet facilities held in net loans and advances. The provisions are transferred for the purposes of showing the maximum exposure to credit risk by relevant facility type in this and the following tables.*
3. *On-balance sheet positions include assets and liabilities reclassified as held for sale.*
4. *Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies.*

Credit Quality

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- *Neither past due nor impaired assets by credit quality*

  The credit quality of financial assets is managed by the Group using internal customer credit ratings (CCRs) based on their current probability of default. The Group's masterscales are mapped to external rating agency scales, to enable wider comparisons.

- *Past due but not impaired assets by ageing*

  Ageing analysis of past due loans is used by the Group to measure and manage emerging credit risks. Financial assets that are past due but not impaired include those which are assessed, approved and managed on a portfolio basis within a centralised environment (for example credit cards and personal loans) that can be held on a productive basis until they are 180 days past due, as well as those which are managed on an individual basis. A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the value of supporting collateral is sufficient to cover amounts outstanding.

- *Restructured and impaired assets presented as gross amounts and net of individual provisions.*

  ANZ regularly reviews its portfolio and monitors adherence to contractual terms. When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified and reported as individually impaired and an individual provision is allocated against it.

  As described in the summary of significant accounting policies in the 2017 Annual Financial Report, impairment provisions are created for financial instruments that are reported on the balance sheet at amortised cost. For instruments reported at fair value, impairment provisions are treated as part of overall change in fair value and directly reduce the reported carrying amounts.

13. Credit risk, cont'd

	Loans and advances As at			Other financial assets As at			Off-balance sheet credit related commitments As at		
	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 $M	Sep 17 $M	Mar 17 $M	Mar 18 $M	Sep 17 $M	Mar 17 $M
Neither past due nor impaired									
Strong credit profile[1]	**427,729**	410,343	435,778	**274,815**	246,774	252,646	**194,393**	190,083	193,658
Satisfactory risk[2]	**131,229**	137,432	107,026	**3,859**	4,429	4,322	**36,756**	39,578	39,217
Sub-standard but not past due or impaired[3]	**16,767**	16,879	17,101	**167**	114	158	**1,761**	1,858	2,520
Subtotal	**575,725**	564,654	559,905	**278,841**	251,317	257,126	**232,910**	231,519	235,395
Past due but not impaired									
1-29 days	**8,974**	8,790	9,123	**-**	-	-	**-**	-	-
30-59 days	**2,576**	2,143	2,355	**-**	-	-	**-**	-	-
60-89 days	**1,233**	1,148	1,148	**-**	-	-	**-**	-	-
>90 days	**3,038**	2,953	2,771	**-**	-	-	**-**	-	-
Subtotal	**15,821**	15,034	15,397	**-**	-	-	**-**	-	-
Restructured and impaired									
Impaired loans	**1,863**	2,118	2,478	**-**	-	-	**-**	-	-
Restructured items[4]	**76**	167	367	**-**	-	-	**-**	-	-
Non-performing commitment and contingencies	**-**	-	-	**-**	-	-	95	99	85
Other	**-**	-	-	**-**	-	10	**-**	-	-
Gross impaired financial assets	**1,939**	2,285	2,845	**-**	-	10	**95**	99	85
Individual provisions	**(990)**	(1,118)	(1,253)	**-**	-	-	**(26)**	(18)	(16)
Subtotal	**949**	1,167	1,592	**-**	-	10	**69**	81	69
Total	**592,495**	580,855	576,894	**278,841**	251,317	257,136	**232,979**	231,600	235,464

1. *Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings "Aaa" to "Baa3" and "AAA" to "BBB-" of Moody's and Standard & Poor's respectively. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly.*
2. *Customers that have consistently 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. This rating broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's and Standard & Poor's respectively. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly (Sep 17: Net loans and advances $585 million, Credit related commitments $187 million; Mar 17: Net loans and advances $550 million, Credit related commitments $186 million).*
3. *Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's and Standard & Poor's respectively. In 2018, collective provisions against Satisfactory and Sub-standard risk, which previously had been allocated against Strong credit profile are now reallocated to Satisfactory and Sub-standard risk. Comparatives have been restated accordingly (Sep 17: Net loans and advances $639 million, Credit related commitments $85 million; Mar 17: Net loans and advances $762 million, Credit related commitments $114 million).*
4. *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.*

14. Fair value measurement

The Group carries a significant number of financial instruments on the balance sheet at fair value. In addition the Group also holds assets classified as held for sale which are 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: - trading securities - securities short sold - derivative financial assets and liabilities - available-for-sale assets - 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.
Net loans and advances, deposits and other borrowings and debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market 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) below.

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 in accordance with the fair value hierarchy:

14. Fair value measurement, cont'd

	Fair value measurements			
As at March 2018	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Assets				
Trading securities[1]	38,517	6,541	-	**45,058**
Derivative financial instruments	259	70,593	63	**70,915**
Available for sale assets[1, 2]	63,283	5,921	1,035	**70,239**
Net loans and advances (measured at fair value)	-	145	-	**145**
Assets held for sale[3]	-	42,544	-	**42,544**
Other assets	4	139	-	**143**
Total	**102,063**	**125,883**	**1,098**	**229,044**
Liabilities				
Deposits and other borrowings (designated at fair value)	-	2,470	-	**2,470**
Derivative financial instruments	1,008	69,570	46	**70,624**
Liabilities held for sale[3]	-	43,817	-	**43,817**
Payables and other liabilities (measured at fair value)[5]	1,884	161	-	**2,045**
Debt issuances (designated at fair value)	-	1,785	-	**1,785**
Total	**2,892**	**117,803**	**46**	**120,741**
As at September 2017				
Assets				
Trading securities[1]	40,435	3,170	-	43,605
Derivative financial instruments	433	61,996	89	62,518
Available for sale assets[1]	61,694	7,479	211	69,384
Net loans and advances (measured at fair value)	-	156	-	156
Investments backing policy liabilities[1]	27,308	10,306	350	37,964
Assets held for sale[3]	-	1,748	-	1,748
Total	129,870	84,855	650	215,375
Liabilities				
Deposits and other borrowings (designated at fair value)	-	3,497	-	3,497
Derivative financial instruments	275	61,900	77	62,252
Policy liabilities[4]	-	37,106	-	37,106
External unit holder liabilities (life insurance funds)	-	4,435	-	4,435
Payables and other liabilities (measured at fair value)[5]	1,726	166	-	1,892
Debt issuances (designated at fair value)	-	1,752	-	1,752
Total	2,001	108,856	77	110,934
As at March 2017				
Assets				
Trading securities[1]	40,714	3,371	-	44,085
Derivative financial instruments	378	63,407	97	63,882
Available for sale assets[1]	58,353	6,111	221	64,685
Net loans and advances (measured at fair value)	-	314	18	332
Investments backing policy liabilities[1]	26,640	10,603	359	37,602
Assets held for sale[3]	-	1,735	-	1,735
Total	126,085	85,541	695	212,321
Liabilities				
Deposits and other borrowings (designated at fair value)	-	2,771	-	2,771
Derivative financial instruments	600	64,352	98	65,050
Policy liabilities[4]	-	36,847	-	36,847
External unit holder liabilities (life insurance funds)	-	4,227	-	4,227
Payables and other liabilities[5]	2,001	126	-	2,127
Debt issuances (designated at fair value)	-	1,786	-	1,786
Total	2,601	110,109	98	112,808

1. *During the March 2018 half, $753 million was transferred from Level 2 to Level 1 following increased trading activity to support the quoted prices (Sep 17: $44 million; Mar 17: nil). There were no material transfers from Level 1 to Level 2 (Sep 17: $92 million; Mar 17: $621 million). We deem transfers into and out of Level 1 and Level 2 to have occurred as at the beginning of the reporting period in which the transfer occurred.*
2. *During the March 2018 half, $676 million was transferred from Level 1 to Level 3 following a change in the valuation approach used to measure the investment in Bank of Tianjin.*
3. *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 the fair value gross of transaction costs but net of intercompany eliminations.*
4. *Policy liabilities relate only to life investment contract liabilities, as we designated these at fair value through profit or loss.*
5. *Payables and other liabilities relates to securities short sold, classified as held for trading and measured at fair value through profit or loss.*

14. 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 $1,052 million (Sep 17: $573 million; Mar 17: $597 million). The financial instruments which incorporate significant unobservable inputs primarily include:

- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- reverse mortgage swaps for which the mortality rate cannot be observed; and
- equities for which there is no active market or traded prices cannot be observed.

Movements in the Level 3 balance are due to:

- investments backing policy liabilities being classified to Level 2 as part of assets held for sale following the agreed sale of the Wealth businesses, and;
- our available-for-sale investment in Bank of Tianjin being transferred to Level 3 following a change in the valuation approach used to measure the asset.

There were no other material transfers in or out of Level 3 during the period.

Bank of Tianjin (BoT)

A revised valuation technique was applied to the investment in BoT as the Group considers that, in light of persistent illiquidity, the share price of BoT is not representative of fair value. 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.

The application of this valuation approach resulted in a $306 million increase in the carrying value of the investment during the period to $982 million (Sep 17: $676 million). The increase has been recognised as an unrealised gain in the available for sale revaluation reserve within shareholders' equity and accordingly, there is no impact from this revaluation on the Income Statement for the March 2018 half.

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 to derive 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 $98 million increase or decrease to the fair value of the investment, 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

The Group does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (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 not material.

iii) Financial assets and liabilities not measured at fair value

The classes of financial assets and liabilities listed in the table below are generally 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 the financial assets and liabilities at balance date in the table below.

14. Fair value measurement, cont'd

	Carrying amount in the balance sheet			Fair Value
	At amortised cost $M	At fair value $M	Total $M	$M
As at March 2018				
Financial assets				
Net loans and advances[1]	591,684	263	591,947	592,352
Financial liabilities				
Deposits and other borrowings[1]	614,660	2,470	617,130	617,254
Debt issuances	113,051	1,785	114,836	115,811
Total	**727,711**	**4,255**	**731,966**	**733,065**
As at September 2017				
Financial assets				
Net loans and advances[1]	580,137	156	580,293	580,479
Financial liabilities				
Deposits and other borrowings[1]	596,672	3,497	600,169	600,359
Debt issuances	106,221	1,752	107,973	109,251
Total	702,893	5,249	708,142	709,610
As at March 2017				
Financial assets				
Net loans and advances[1]	575,972	332	576,304	576,650
Financial liabilities				
Deposits and other borrowings[1]	595,646	2,771	598,417	598,654
Debt issuances	107,289	1,786	109,075	110,178
Total	702,935	4,557	707,492	708,832

1. *Net loans and advances and deposits and other borrowings include amounts reclassified to assets and liabilities held for sale (refer to Note 11).*

15. Shareholders' equity

Issued and quoted securities	Half Year		
Ordinary share capital	**Mar 18 No.**	**Sep 17 No.**	**Mar 17 No.**
Closing balance	**2,898,758,978**	2,937,415,327	2,936,037,009
Issued/(Repurchased) during the period[1]	**(38,656,349)**	1,378,318	8,560,349

1. *The Company issued 8.1 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2017 final dividend (7.5 million shares for the 2017 interim dividend; 8.6 million shares for the 2016 final dividend). Following the provision of the 8.1 million shares, the Company repurchased 6.6 million of shares via an on-market share buy-back resulting in 6.6 million shares being cancelled. On 18 December 2017, the Company announced its intention to buy-back up to $1.5 billion of shares on-market as part of the Group's broader capital management plan. To date, the Company has bought back $1,132 million of shares resulting in 40.1 million shares being cancelled during the half.*

	Half Year			Movement	
Shareholders' equity	**Mar 18 $M**	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Ordinary share capital	**27,933**	29,088	29,036	-4%	-4%
Reserves					
Foreign currency translation reserve	**257**	(196)	(140)	large	large
Share option reserve	**70**	87	67	-20%	4%
Available for sale revaluation reserve	**119**	38	31	large	large
Cash flow hedge reserve	**117**	131	180	-11%	-35%
Transactions with non-controlling interests reserve	**(22)**	(23)	(23)	-4%	-4%
Total reserves	**541**	37	115	large	large
Retained earnings	**30,900**	29,834	28,640	4%	8%
Share capital and reserves attributable to shareholders of the Company	**59,374**	58,959	57,791	1%	3%
Non-controlling interests	**126**	116	117	9%	8%
Total shareholders' equity	**59,500**	59,075	57,908	1%	3%

16. Changes in composition of the Group

There were no acquisitions or disposals of material controlled entities for the half year ended 31 March 2018.

17. Investments in Associates

	Half Year			Movement	
	Mar 18	**Sep 17**	**Mar 17**	**Mar 18 v. Sep 17**	**Mar 18 v. Mar 17**
Share of associates' profit	**88**	127	173	-31%	-49%

Contributions to profit[1]	**Contribution to Group profit after tax**			**Ownership interest held by Group**		
Associates	**Half Year**			**As at**		
	Mar 18 $M	**Sep 17 $M**	**Mar 17 $M**	**Mar 18 %**	**Sep 17 %**	**Mar 17 %**
P.T. Bank Pan Indonesia	**45**	51	50	**39**	39	39
AMMB Holdings Berhad	**42**	48	48	**24**	24	24
Shanghai Rural Commercial Bank[2]	**-**	-	58	**-**	20	20
Other associates[3]	**1**	28	17	**n/a**	n/a	n/a
Share of associates' profit	**88**	127	173			

1. *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.*
2. *On 3 January 2017, the Group announced that it had agreed to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB). The Group ceased equity accounting for the investment in SRCB from that date. The sale concluded during the March 2018 half.*
3. *Includes Metrobank Card Corporation (MCC). On 18 October 2017, the Group announced it had entered into an agreement with its joint venture partner Metropolitan Bank & Trust Company (Metrobank) in relation to its 40% stake in the Philippines based Metrobank Card Corporation (MCC). The Group agreed to sell 20% of its stake (sale completed in the March 2018 half), and entered into a put option to sell the remaining 20% stake, exercisable in the fourth quarter of FY18 on the same terms for the same consideration. MCC was reclassified as an asset held for sale and the Group ceased equity accounting for the investment from 1 October 2017.*

18. 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 2017.

19. 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 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 2017 ANZ Annual Financial Report for a description of contingent liabilities and contingent assets as at 30 September 2017. A summary of some of those contingent liabilities, and new contingent liabilities that have arisen in the current reporting period, is set out below.

- **Bank fees litigation**

  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. A further action, limited to late payment fees only, commenced in August 2014.

  The penalty and statutory claims in the March 2013 class action failed and the claims have been dismissed. The August 2014 action was discontinued in October 2016.

  The original claims in the 2010 class action have been dismissed. A new claim has been added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees.

- **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, SIBOR, or SOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws, anti-racketeering laws, the Commodity Exchange Act, and (in the BBSW case only) 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.

- **Franchisee litigation**

  In February 2018, two related class actions were brought against the Company. The primary action alleges that the Company breached contractual obligations and acted unconscionably when it lent to the applicant, and other 7-Eleven franchisees. The action seeks to set aside the loans to those franchisees and claims unspecified damages. The second action seeks to set aside related mortgages and guarantees given to the Company. The matters are at an early stage.

- **Regulatory and customer exposures**

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

- **Royal Commission**

  The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017. The Commission has been asked to submit its final report by 1 February 2019 (and may choose to give an interim report by 30 September 2018). The Commission is likely to result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

- **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 potential claims under those warranties, indemnities and commitments.

20. Subsequent events since balance date

There have been no significant events from 31 March 2018 to the date of signing this report.

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 2018 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

30 April 2018

Independent Auditor's Review Report to the shareholders of Australia and New Zealand Banking Group Limited

KPMG

Report on the half year Condensed Consolidated Financial Statements

Conclusion

We have reviewed the accompanying half year 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 half year Condensed Consolidated Financial Statements comprise:

- the condensed consolidated balance sheet as at 31 March 2018;
- the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cash flows for the half-year ended on 31 March 2018;
- Notes 1 to 20 comprising a basis of preparation 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 half year 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 2018 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*.

Responsibilities of the Directors for the half year Condensed Consolidated Financial Statements

The Directors of the Company are responsible for:

- the preparation of the half year 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 half year Condensed Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the half year Condensed Consolidated Financial Statements

Our responsibility is to express a conclusion on the half year 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 half year 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 2018 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 half year 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
30 April 2018

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 2018, 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
KPMG
Melbourne
30 April 2018

A M Kitchen
Alison Kitchen
Partner