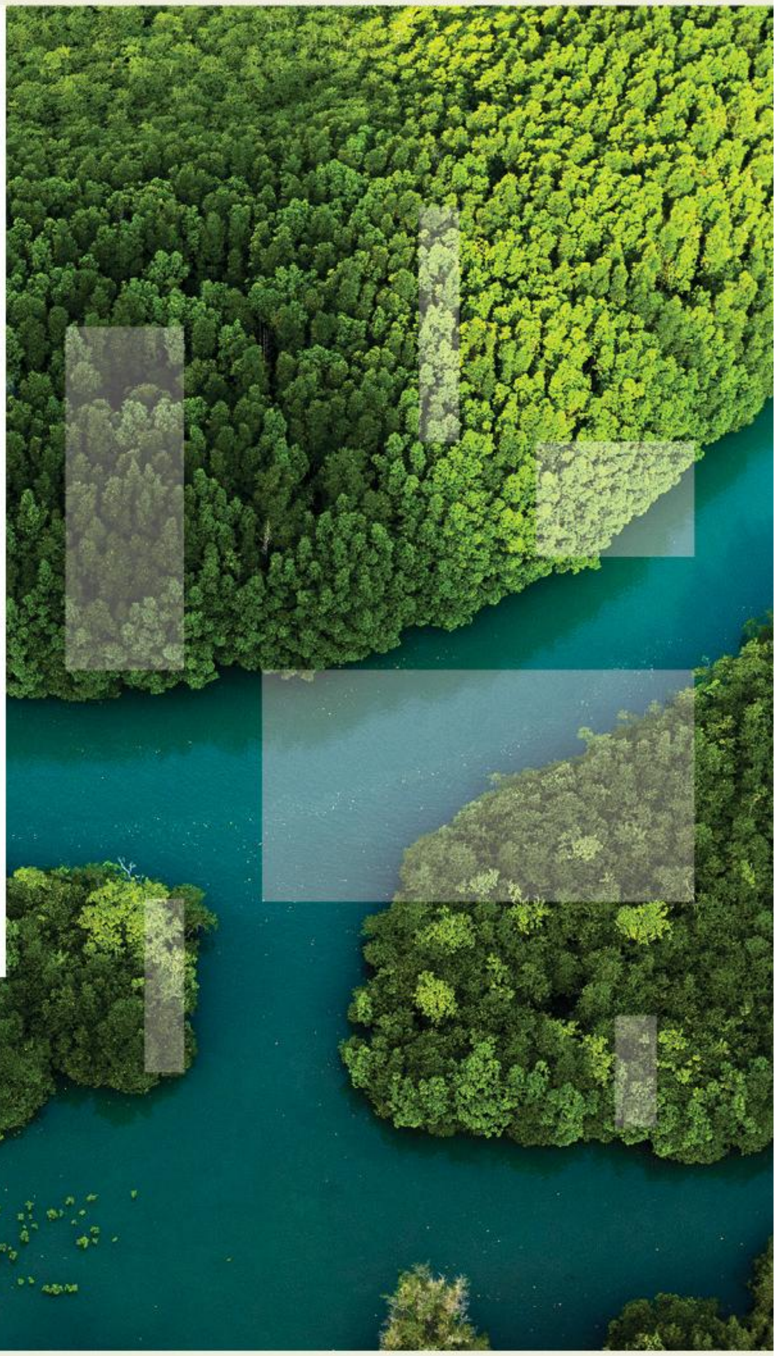
ANZ Australian Staff Superannuation Scheme

Report on the Actuarial Valuation required by Prudential Standard SPS 160 as at 31 December 2017

Statement of Advice

16 May 2018



Towers Watson Australia Pty Ltd
ABN 45 002 415 349 AFSL 229921

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Reliances and Limitations

This report is provided subject to the terms set out herein and in our contract for actuarial services dated 25 September 2003, as novated, and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

No responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

In preparing this report we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including Scheme provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency.

The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this letter and such inaccuracies may produce materially different results that could require that a revised letter be issued.

In our opinion, all calculations are in accordance with applicable legislative requirements, and the procedures followed and the results presented conform with applicable actuarial standards of practice.

Section 1: Executive Summary

1.1 I am pleased to present my report to ANZ Staff Superannuation (Australia) Pty Limited, the Trustee of the ANZ Australian Staff Superannuation Scheme (the Scheme), on the actuarial valuation required by the APRA Prudential Standard SPS 160.

Membership

1.2 As at 31 December 2017 there were 123 life time pensioners. Of these, 121 were current pensioners receiving pensions totalling $2.524 million. This amount includes the Pension Value Maintenance increase in January 2018. There were also one contingent pensioner and one deferred pensioner as at 31 December 2017. A summary of the pensioner movements for the period 1 January 2017 to 31 December 2017 is set out in Appendix B.

Results of the Valuation of the Pension Section

1.3 The financial assumptions adopted for the long-term valuation of the Scheme's pension liabilities were:

i.	Rate of Investment Return	5.25% p.a.
ii.	Rate of Pension Increases	2.0% p.a.

1.4 It is the difference between the assumed levels of investment return and pension increases (i.e. 3.25%), rather than their absolute values, which has a greater impact on the valuation of the pension liabilities. This difference reduced from 3.75% p.a. assumed in the previous actuarial investigation because of lower expectations of the long term investment return. All other assumptions remained the same.

1.5 The results of the valuation reveal a small deficit of $0.501 million as at 31 December 2017 between the balance of the Pension Section Account (PSA) and the value of the pension liabilities. The deficit of $1.630 million as at 31 December 2016 reduced because:

a the actual investment return for the assets backing the pension liabilities (11.3% over the year) was greater than the assumed return at the start of the year (5.75%);

b the actual pension indexation of 1.8% for the year was lower than the expected indexation of 2.0%; and

c there was an additional ANZ contribution of $700,000.

1.6 As at the middle of May we estimate that the deficit will be very similar to the deficit at 31 December 2017.

1.7 In the previous actuarial investigation I recommended the deficit be funded over three years to 31 December 2019, with three equal annual contributions of $700,000 the first of which has been made. Given the improvement in the financial position the remaining two $700,000 contributions would be expected to be excessive and I have updated my recommendation.

1.8 It would be reasonable for the Trustee to request ANZ to make further contributions to restore the surplus in 2018 and possibly to build a margin into the funding of the PSA. However, given the Pension Section is closed and its liability is reducing steadily, there is a risk of overfunding. As experience - particularly investment experience - emerges over time the funding position of the PSA is likely to fluctuate between an overfunded and an underfunded position. Part of the Employer Funding Reserve is also available to support the funding of the Pension Section.

1.9 To reduce the risk of overfunding the PSA, I recommend that the target date for full funding of 31 December 2019 be retained, but that no contribution be made in 2018 and the contribution required to provide full funding be made in 2019. At this time the contribution expected to be required in 2019 would be about $600,000 (the deficit increased for contribution tax). The amount will almost certainly vary because of experience and in particular investment returns. The contributions for 2019 will be re-assessed as part of the annual actuarial valuation at as 31 December 2018, to reflect the actual experience of the PSA.

Self Insurance Review

1.10 As at 31 December 2017 all insured benefits were insured with OnePath Life Limited. However, the Scheme continues to retain responsibility for death and disablement claims incurred prior to 2 March 2015, when the Scheme was self-insured.

1.11 The amount of the Death and Disablement Reserve, $49.7 million as at 31 December 2017, is expected to be significantly larger than required to meet the remaining claims incurred prior to 2 March 2015.

1.12 The Trustee has determined to use the Death and Disablement Reserve to provide a 30% premium rebate, and this amount has proved to be sustainable over the three years from 2 March 2015, the initial period for which the Trustee decided that it should be provided. We note that the Trustee reviews the sustainability of the rebate annually and retains the right to re-evaluate (i.e. reduce or discontinue) the level of the discount if experience is materially worse than expected.

1.13 The Death and Disablement Reserve is invested in the Balanced Growth investment strategy. This investment strategy is among the range of reasonable strategies that could be adopted, noting that it is large enough that it would be expected to remain sufficient even if there was some poor investment experience. As set out below, we recommend that the Trustee review the investment strategy if the amount of the Death and Disablement Reserve reduces to $25 million during the year.

Summary of Recommendations

1.14 No change is recommended to the standard employer contributions to the Scheme during 2018.

1.15 We recommend that the funding position of the Pension Section be reviewed annually, with the next review as at 31 December 2018. The next triennial actuarial investigation is due as at a date no later than 31 December 2019. If there is a funding deficit as at 31 December 2018 we will recommend a contribution be made during 2019 that would be expected to be sufficient to fully fund the Pension Section by 31 December 2019.

1.16 We recommend that the adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the premium discount, should be reviewed at least annually by the Trustee, with the next review to be conducted as at 31 December 2018.

1.17 The Death and Disablement Reserve is invested in the Balanced Growth option and therefore is subject to the risk of a fall in value. If there is a significant fall in asset values before the next review of the adequacy of the Death and Disablement Reserve is completed, we recommend the Trustee consider moving some of the assets into a more conservative investment option. We suggest using a trigger amount of $25 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed. If the Death and Disablement Reserve reaches this amount, while we suggest the investment strategy be reviewed, whether it is changed would depend on the Trustee's assessment at that time. The Funding and Solvency Certificate should also be reviewed if this occurs.

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DO:PSK TR: AB CR: AS, MB ER: AS, MB

Section 2: Introduction

Scope

2.1 APRA Prudential Standard SPS 160 requires annual actuarial investigations of superannuation funds which pay lifetime pensions, unless APRA determines an alternative frequency of investigations. The investigation has been prepared for the Trustee of the Scheme, ANZ Staff Superannuation (Australia) Pty Limited.

2.2 These annual actuarial investigations supplement the regular triennial actuarial investigations of the Scheme. Unlike a triennial actuarial investigation, we have not reviewed the experience in setting the assumptions for this investigation and have retained the same demographic assumptions as were determined as part of the last triennial actuarial investigation. The primary purposes of the actuarial investigation are to:

a Review the funding position of the Pension Section;

b Review the adequacy of the Death and Disablement Reserve, including its ability to continue to fund the 30% insurance premium discount currently provided; and

c Meet legislative requirements.

2.3 The next triennial actuarial investigation is due as at a date no later than 31 December 2019. The most recent triennial actuarial investigation was carried out by me as at 31 December 2016, with results set out in my report dated 29 May 2017.

2.4 This report satisfies the requirements of the Professional Standards 400, 402, 404 and 410 of the Institute of Actuaries of Australia.

Recommendations from Previous Actuarial Investigation

2.5 In the previous actuarial investigation as at 31 December 2016 we recommended that:

a ANZ should make contributions to the PSA of $700,000 per annum over the three year period to 31 December 2019. The contributions for the 2018 and 2019 years were to be re-assessed as part of the annual actuarial valuations as at 31 December 2017 and 31 December 2018 respectively.

b No change be made to the standard employer contributions to the Scheme.

c The funding position of the Pension Section be reviewed annually.

d At least $10.5 million be retained in the Employer Funding Reserve to support the Pension Section and provide ANZ’s subsidy of the charges for Death and TPD cover and administration costs in Section C.

e The adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the 30% premium discount currently in place, should be reviewed at least annually by the Trustee.

f If there is a significant fall in asset values before the next review of the adequacy of the Death and Disablement Reserve is completed, we recommended the Trustee consider moving some of the Reserve into a more conservative investment option. We suggested using a trigger amount of $30 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed.

2.6 We believe these recommendations have been addressed by the Trustee, although we have not confirmed the employer contributions made to the Scheme because they relate to members' accumulation accounts. The actuarial input into recommendations (a) and (c) is contained in this report. The market fall referred to in Section 2.5(f) did not occur.

Significant events since the Valuation Date

2.7 There have been no significant events between 31 December 2017 and the date of signing this report that impact the recommendations. The unit price movement of the Pension Section assets from 31 December 2017 to mid May is slightly higher than the investment return assumed in this report. As at 15 May 2018 we estimate that the deficit has not changed materially from 31 December 2017. This deficit is more than covered by the amount of the Employer Funding Reserve, which the Trustee can elect to use to fund the pension liabilities.

Section 3: Overview of the Scheme

Scheme Design

3.1 The ANZ Australian Staff Superannuation Scheme (the "Scheme") commenced on 1 April 1987. The Scheme's operations are governed by a Trust Deed dated 16 November 1987, as amended from time to time. We have been provided with a consolidated version of the Deed incorporating amendments which were effective up to and including 15 October 2015. There have been no further deed amendments since that time.

3.2 The Scheme is a complying fund under the SIS Act, and is treated as a complying fund for tax purposes.

3.3 There are six sections of the scheme:

Employee Section (Section A)

- Open section for employed Members;
- Lump sum accumulation benefits on all causes of exit;
- Choice of insured cover levels where a Member dies or becomes totally and permanently disabled (TPD); and
- Voluntary salary continuance insurance.

Employee Section C

- Closed section for employed Members;
- Lump sum accumulation benefits on all causes of exit;
- Optional insured cover where a Member dies or becomes TPD; and
- Voluntary salary continuance insurance.

Personal Section (Retained Benefit Account (RBA) Section)

- Subject to a minimum account balance, a rollover facility for former Section A, Section C or SCA Section Members;
- Accepts both lump sum personal contributions and contributions from a new employer; and
- Limited choice of insured cover levels (death only) and opt-out total and permanent disablement for certain members.

Partner Section (Spouse Contribution Account (SCA) Section)

- Accumulation accounts for eligible spouses of employee and RBA Section Members who remain members of the Scheme;
- Optional death insurance; and
- Opt-out total and permanent disablement insurance for certain members.

Retirement Section (Account-Based Pension (ABP) Section)

- Subject to a minimum account balance, a tax effective facility which changes lump sum superannuation benefit into a flexible retirement income stream for members over their preservation age who roll in benefits from other Sections of the Scheme.

Pension Section

- Closed section providing lifetime indexed pensions for beneficiaries.

3.4 There are no sub-funds within the Scheme.

Insurance Arrangements

3.5 The "insured" part of death and TPD benefits have been insured with OnePath Life Limited since 2 March 2015. The insurance arrangements are covered in more detail in Section 9 of the report.

3.6 Terminal Medical Condition insurance is provided in conjunction with the death cover. Also, voluntary salary continuance insurance is in place and has always been externally insured. The salary continuance arrangements have no impact on the Death and Disablement Reserve.

3.7 The Trustee determined to use the Death and Disablement Reserve to provide a 30% premium discount for the 2017 year. The actuarial investigation as at 31 December 2016 recommended that the appropriateness of continuing this discount be monitored annually in actuarial investigations. The Trustee has determined to continue this discount for 2018.

Investment Arrangements

3.8 Under Member Investment Choice, there are four investment options - "Aggressive Growth", "Balanced Growth", "Cautious" and "Cash" – which Members can elect in any combination.

3.9 The Balanced Growth option remains the main investment approach of the Scheme and it also applies for the Pension Section and the internal reserve accounts, including the Death and Disablement Reserve and Employer Funding Reserve. It is the default option for Members who do not make an investment choice and is the option for MySuper Members.

3.10 The investment objectives and strategies of the Balanced Growth investment option is summarized below:

Balanced Growth	
Objectives	**Strategy**
■ Maximise returns over the long term whilst accepting a moderate degree of performance variability; and ■ Exceed inflation (CPI increases), on average, by at least 2.5% p.a. over rolling ten year periods.	The investment strategy of the Balanced Growth option typically combines around 56% in shares and property, 26% in alternatives and 18% in defensive assets (diversified fixed income and cash).

3.11 The investment objectives and strategy adopted for the Balanced Growth investment option are within the range of reasonable objectives and strategies for the internal reserve accounts and Pension Section Account given the size of the Scheme, the nature of the relevant liabilities and the financial position of the Scheme.

3.12 The Balanced Growth option is a suitable investment for the Pension Section assets having regard to the liquidity required to meet the expected future pension payments. Because the

Balanced Growth investment option is identical for the Pension Section and other Members, as the Pension Section reduces the illiquid alternative assets of the Pension Section are automatically redistributed to other Balanced Growth Members. Please also refer to our comments in Section 9 in respect of the suitability of the Balanced Growth option for the Death and Disablement Reserve.

3.13 The Scheme uses weekly unit prices to credit investment earnings to members' accounts. We consider this crediting rate policy adopted by the Trustee to be reasonable as it helps to limit cross subsidies between members invested in different options and between different sections of the Scheme.

Section 4: Membership

Membership Data

4.1 The membership data used in this investigation has been supplied by Mercer, the administrator of the Scheme.

4.2 Various checks have been applied to the data provided. We are satisfied that the data provided is reasonable and that there are no errors in the data which would have a material effect on the results of this actuarial valuation. We have relied upon the data provided.

Pensioner Data

4.3 As at 31 December 2017 there were 123 pensioners. Of these, 121 were current pensioners receiving pensions totalling $2.524 million. This amount includes the Pension Value Maintenance increase as at January 2018. There were also one contingent pensioner and one deferred pensioner as at 31 December 2017. A summary of the pensioner movements for the period 1 January 2017 to 31 December 2017 is set out in Appendix B.

Self-Insurance Data

4.4 While self-insurance ceased for claims incurred from 2 March 2015, the death and disablement claims incurred prior to this date remain self-insured. Also, the Death and Disablement Reserve continues to be used to provide a discount to members' insurance premiums.

4.5 We were previously provided with details of the amount of self-insurance cover of all Scheme members as at 31 December 2014. For this investigation we were provided with data on death and disablement claims to 31 December 2017, as well as the amount of premiums deducted during the year to 31 December 2017. Section 9 includes a summary of relevant data.

Section 5: Pension section assumptions and funding method

5.1 This section sets out the assumptions used in the valuation. The benefits provided to pensioners of the Scheme are summarised in Appendix A.

5.2 The financial assumptions used to value the liabilities are based on internal research carried out by Willis Towers Watson's research team. In particular, an investment earning rate of 5.25% p.a. and a rate of future pension increases of 2.0% p.a. were assumed. The assumed investment earning rates has reduced from 5.75% p.a. assumed in the previous report, while the assumed rate of future pension increases has remained unchanged.

To determine the expected rate of return on assets, we have considered the expected future investment returns for each major asset class. The estimated returns for each asset class have been used as the basis for calculating the expected rate of return on the assets supporting the Pension Section Account, based on the target asset allocation. The expected rate of return has reduced because lower returns are expected from major asset classes, primarily a reduction in the equity classes.

5.3 The demographic assumptions used are as detailed in the report on the actuarial investigation of the Scheme as at 31 December 2016 dated 29 May 2017. They are summarised in Appendix C.

5.4 A projection method has been used to calculate the pension liabilities of the Scheme. The process involves:

- Projecting the benefits expected to be paid to pensioners, allowing in particular for Pension Value Maintenance (PVM) and supplementary pension increases;
- Discounting the projected benefit payments to a present value using the expected future investment earning rate;
- Comparing the present value of the Scheme's pension liabilities with the value of the assets held in the Pension Section Account, and
- If there is a shortfall of assets against liabilities, determining how the shortfall is to be funded.

5.5 The projection method is appropriate for the Pension Section which is closed, and where benefits are fully accrued. No allowance for administration expenses is required because ANZ meets these separately.

5.6 The factors of major significance in the valuation are the assumed future rates of investment earnings and pension increases as well as the assumed rates of pensioner mortality.

5.7 ANZ makes contributions to the Pension Section of such amounts as the Trustee determines on the advice of the actuary. The Trust Deed allows the transfer of amounts from the Employer Funding Reserve to the Pension Section, and therefore the amount of the Employer Funding Reserve can be taken into account in assessing the funding of the Pension Section. In recent years when a deficit has arisen the preference has been for ANZ to make additional contributions rather than transfer amounts from the Employer Funding Reserve.

Section 6: Assets and Liabilities

Assets at 31 December 2017

6.1 A copy of the signed financial statements for the year ended 31 December 2017 was provided for the purposes of these calculations. The financial statements for the year ended 31 December 2017 were audited by Dean Waters of KPMG and dated 26 March 2018. These financial statements show a net realisable value of assets available to pay benefits of $4,631.500 million as at 31 December 2017. We have relied upon the data provided.

Accumulation Account Liabilities at 31 December 2017

6.2 Most of the Scheme's liabilities are accumulation liabilities covering Section A, Section C, Spouse Contribution Account Section, Retained Benefit Account Section and Account Based Pension Section with account balances totalling approximately $4,499.399 million as at 31 December 2017.

6.3 The remaining net assets of the scheme, $132.101 million, comprise the Pension Section Account, the internal reserves and a small unallocated amount. This difference also includes the impact of timing and tax differences between the asset valuations used for unit prices and the financial statements.

6.4 As a result of these impacts, the remaining net assets of the scheme of $132.101 million are not exactly equal to the assets attributable to the Pension Section Account and the internal reserve accounts set out below. As the timing and tax differences become reflected in the unit prices, and consequently the accumulation account balances, this discrepancy will resolve.

Pension Section Account

6.5 The Pension Section Account is used to manage the funding of the pension benefits.

6.6 As at 31 December 2017, the balance in the Pension Section Account was $19.201 million.

Internal Reserve Accounts

6.7 A brief description of the internal reserve accounts is set out below:

- The Employer Funding Reserve (EFR) is a mechanism for allocating ANZ's contributions. The cost of the ANZ-financed portion of the death and TPD cover and administration costs for Section C members are also sourced from the Employer Funding Reserve. The Trustee is able to transfer amounts from the EFR to the Pension Section Account.

- The Scheme Operating Reserve (SOR) facilitates the financial management of the Scheme and may be used in certain circumstances to address operational risk events or claims against the Scheme arising from operational risk events. Currently the SOR is the designated reserve for holding assets to meet the Scheme's Operational Risk Financial Requirement, as required under Prudential Standard SPS 114.

- The Death and Disablement Reserve (DDR) operates as an insurance fund within the Scheme for the death and TPD cover provided to members prior to 2 March 2015 and is used to manage cashflows related to the insured arrangements in place from that date. Currently the Reserve is also being used to meet some of the cost of death and disablement cover for members.

6.8 The following table sets out the balances in each of the internal reserve accounts at 31 December 2017:

Reserves	$'000
Employer Funding Reserve	19,418
Scheme Operating Reserve	24,370
Death and Disablement Reserve	49,679
TOTAL	**93,467**

Section 7: Financial Position as at 31 December 2017

7.1 Under the provisions of the Trust Deed, the balance of the Pension Section Account (PSA) is specifically allocated for the funding of the pension liabilities.

7.2 As at 31 December 2017, the estimated liability for future pension payments amounted to $19.702 million.

7.3 The balance of the PSA was $19.201 million as at 31 December 2017. Comparing this balance with the estimated liability for future pension payments at that date implies a deficit of $0.501 million as at 31 December 2017.

7.4 The deficit of $1.630 million as at 31 December 2016 reduced because:

a the actual investment return for the assets backing the pension liabilities (11.3% over the year) being greater than the assumed return at the start of the year (5.75%);

b the actual pension indexation of 1.8% for the year being lower than the expected indexation of 2.0%; and

c the additional ANZ contribution of $700,000.

This favourable experience was partially offset by the reduction in the expected future investment return used to value the liability, which led to an increase in the liability in the order of $0.6 million.

7.5 In the previous actuarial investigation I recommended the deficit be funded over three years to 31 December 2019, with three equal annual contributions of $700,000 the first of which has been made. Given the improvement in the financial position the remaining two $700,000 contributions would be expected to be excessive and I have updated my recommendation.

7.6 It would be reasonable for the Trustee to request ANZ to make further contributions to restore the surplus in 2018 and possibly to build a margin into the funding of the PSA. However, given the Pension Section is closed and its liability is reducing steadily, there is a risk of overfunding. As experience - particularly investment experience - emerges over time the funding position of the PSA is likely to fluctuate between an overfunded and an underfunded position. Part of the Employer Funding Reserve is also available to support the funding of the Pension Section.

7.7 To reduce the risk of overfunding the PSA, I recommend that the target date for full funding of 31 December 2019 be retained, but that no contribution be made in 2018 and the contribution required to provide full funding be made in 2019. At this time the contribution expected to be required in 2019 would be about $600,000 (the deficit increased for contribution tax). The amount will almost certainly vary because of experience and in particular investment returns. The contributions for 2019 will be re-assessed as part of the annual actuarial valuation at as 31 December 2018, to reflect the actual experience of the PSA.

7.8 It is necessary to determine an appropriate amount to set aside from the Death and Disablement Reserve to meet incurred but not reported insurance claims and pending insurance claims and to exclude these amounts when assessing the coverage of vested benefits. As part of the outsourcing of the Scheme's insurance arrangements, the Trustee has decided to retain the liability for incurred but not reported claims, at least in the short term. The Death and Disablement Reserve currently stands at $49.679 million, which is of the order of three and one half times annual premiums. We consider it is likely that this will be significantly more than sufficient to meet the liabilities in respect of pending and IBNR claims, but clearly this cannot be known for certain. Also, at least in the short term the Trustee has reasonably decided to use some of the Reserve to subsidise members' premiums, and this commitment can be treated as a liability. These current uses for the Death and Disablement Reserve are consistent with the funds being treated as members' assets, and therefore, not available to meet the pension liabilities. Therefore for the purposes of calculating the Vested Benefit Index I have excluded the full amount of the Death and Disablement Reserve from the net value of assets.

7.9 The total of all accumulation members' accounts in all sections of the Scheme is $4,499.399 million. Adding the pension liability to this amount gives the total amount of Vested Benefits of $4,519.101 million.

7.10 As at 31 December 2017, the Scheme's Vested Benefit Index excluding the full SOR from the assets is 100.8%. If only the ORFR target amount (which the Trustee has set at 0.28% of net assets) is excluded from the assets the Vested Benefits Index is 101.1%. In both cases the overall Scheme is not in an unsatisfactory financial position. The VBI is reasonably stable because the vast majority of the Scheme's Vested Benefits relate to accumulation members' accounts. The negative unallocated amount is assumed to be credited to members' vested benefits in calculating the VBIs.

7.11 Other funding indices, often also calculated for superannuation funds, are identical to the Vested Benefit Index. In particular:

a The Accrued Benefits Index, the market value of assets (excluding the ORFR) divided by the actuarial value of accrued benefits;

b The Minimum Requisite Benefits Index, the market value of assets (excluding the ORFR) divided by the SG benefits (Minimum Requisite Benefits) of members. These benefits are not defined for pensioners, but are taken to equal the total pensions so that Minimum Requisite Benefits equal Vested Benefits.

7.12 We also note:

a If the pension liabilities were to be outsourced to an external insurance company, the amount required to be paid to the insurer would be materially higher than the liability calculated in this report. This is because insurers are required to keep capital reserves and in practice invest conservatively;

b Because the Pension Section is invested in the Balanced Growth Option, it shares liquidity with the main accumulation default option. Therefore, it is unlikely that the Scheme would be forced to sell illiquid assets at a discount to meet pension payments; and

c The situation on wind-up is considered in Section 8.

7.13 Because the Vested Benefit Index is calculated for the entire Scheme (as the Pension Section is not a legal sub-fund as defined in SPS 160), the Pension Section forms only a very small portion of the Vested Benefits with the remainder of the liability being in respect of accumulation members. For this reason the shortfall limit should continue to be 100%.

Section 8: Certification required under SPS 160 in respect of Pension Liabilities

8.1 Paragraph 23(h) of SPS 160 requires the Actuary to form an opinion as to whether there is a high probability that the pensions payable from the Scheme will continue to be paid. A "high degree of probability" is prescribed to be 70% or more.

8.2 In forming this opinion, it is necessary to identify the assets which would be available to finance future pension payments. The principles set out in the relevant Professional Standard issued by the Institute of Actuaries of Australia require the Actuary to consider which assets would be available to meet the current pension liabilities (after allowing for benefit liabilities which rank ahead of or equally with the current pensions) if the Scheme were to be wound up.

8.3 Under the provisions of the Trust Deed and Rules, the balance of the Pension Section Account is specifically allocated for the funding of the pension liabilities. There are facilities for amounts to be transferred by the Trustee from the Employer Funding Reserve to the Pension Section Account to meet the pension liabilities. There are also provisions which would allow further assets from other internal reserves to be used to support the pension liabilities. In addition, pension indexation is not guaranteed on wind up of the Scheme so the value of the pension liabilities would be reduced in those circumstances.

8.4 Taking into account the assets which would be available to meet future pension payments and the value of the pension liabilities on wind up, I have formed the opinion that there is currently a high probability that the pensions payable from the Scheme will be able to be paid.

8.5 In conclusion, this analysis allows us to provide the required certification under SPS 160.

Section 9: Death and Disablement cover

9.1 This section discusses:

a Insurance arrangements from 2 March 2015;

b The level of the Death and Disablement Reserve and its adequacy to meet incurred but not reported (IBNR) claims and fund the current premium discount; and

c The appropriateness of the remaining self-insurance, in respect of claims incurred prior to 2 March 2015.

9.2 The death and disablement experience affects the solvency of the Scheme. As part of this actuarial investigation it is also appropriate to assess the adequacy of the amount of the Death and Disablement Reserve.

Death and Disablement Cover from 2 March 2015

9.3 In order to comply with Stronger Super legislation the Scheme externally insured the insurance of death and disablement benefits to OnePath Life from 2 March 2015. We have been advised that the Scheme is only required to pay insured claims paid by the external insurer where they are incurred on or after 2 March 2015. Whilst stop loss insurance was put in place to cover some of the cost of claims incurred prior to 2 March 2015, the Scheme has retained most of this self-insurance risk. The insurance arrangements are reasonable.

9.4 In summary the death and disablement arrangements from 2 March 2015 are:

- All death and disablements incurred from 2 March 2015 are externally insured with OnePath Life. The Trust Deed has been amended so that an insured component of a death or disablement benefit will only be paid to a member if admitted and paid by OnePath Life. Hence, the payment of a death and disablement benefits requires no additional funding from the Scheme or ANZ.

- Amounts are deducted from the accounts of Section A, RBA and SCA Members monthly equal to the premiums for their chosen level of insured benefit, less a 30% discount. Premiums are also paid to OnePath Life monthly. The 30% discount in premium is funded from the Death and Disablement Reserve.

- ANZ subsidises the equivalent of 20% of the cost of death and disablement cover for Section C Members. The relevant subsidy is transferred annually from the Employer Funding Reserve to the Death and Disablement Reserve. Amounts are deducted from the accounts of Section C Members equivalent to the balance of the cost of death and disablement cover, less a 10% discount, making a 30% discount in total. The 10% discount is funded from the Death and Disablement Reserve.

- The premiums deducted from members' account (and the Employer Funding Reserve for 20% of the Section C cost) are paid into the Death and Disablement Reserve. The death and disablement benefits payable from the Scheme, net of the applicable Members' total account balances are paid from the Death and Disablement Reserve.

- Admitted insurance claims paid by OnePath Life are paid into the Death and Disablement Reserve.

- Death and disablement claims incurred prior to 2 March 2015 remain self-insured by the Scheme. They are paid from the Death and Disablement Reserve.
- The Scheme reinsured for two years from 2 March 2015:
  - The excess of any self-insured claim above $750,000;
  - Up to a maximum amount in respect of all claims of $5 million.
- The re-insurance cover has expired and no other insurance is currently carried by the Scheme in respect of death and TPD benefits.

Analysis of Self-Insurance Arrangements

9.5 The following table, which summarises the risk profile at 31 December 2014 of members who had self-insured cover in the Scheme, illustrates the level of self-insurance risk which remained with the Scheme in respect of pre 2 March 2015 claims.

	Number of Members	Number of Members with Insurance	Average Sum Insured	Total Sum Insured ($m)
Section A	17,740	16,109	355,492	5,727
Section C	1,207	979	116,043	114
RBA Section	12,293	9,452	268,103	2,534
SCA Section	258	56	162,469	9
Total	**31,498**	**26,596**	**315,214**	**8,383**

9.6 As at 31 December 2014, there were only a relatively small proportion of members with cover over $1 million. While low, there remains a small risk that a small number of large claims which were incurred prior to the external insurance commencing from 2 March 2015 could erode the reserve.

Catastrophe Risk

9.7 With external insurance in place from 2 March 2015, the catastrophe risk is now very small. The external insurer OnePath Life bears the risk in respect of a catastrophe from that date and external catastrophe insurance is no longer required. It is unlikely that a self-insured catastrophe could have occurred prior to 2 March 2015 and not be known to the Trustee.

Adequacy of the Death and Disablement Reserve

9.8 A consequence of the external insurance arrangements is that it is no longer necessary for the Scheme to set self-insurance premium rates. However, actuarial oversight remains necessary and appropriate for considering the adequacy of the Death and Disablement Reserve to:

a Cover pending and incurred but not reported (IBNR) claims in respect of the period prior to 2 March 2015; and

b Fund the 30% discount to the premiums being charged to members' accounts (i.e. 70% of the premium being charged by OnePath Life is being passed on to members).

9.9 The Death and Disablement Reserve has increased from $49.3 million to $49.7 million over the year to 31 December 2017, due to strong investment returns exceeding claim payments and the 30% premium discount paid from the Reserve.

9.10 The value of IBNR claims was estimated as part of 31 December 2016 triennial actuarial investigation, based on claims data to that date. We were also advised by the Trustee that all pending claims totalled approximately $1.2 million.

9.11 The estimate of the excess Death and Disablement Reserve at 31 December 2016, was:

Amount of Death and TPD Reserve Excess ($ Million)	
Reserve 31 December 2016	49.3
Less Pending	1.2
Less IBNR	0.8 to 5.1
Expected Excess Reserve	43.0 to 47.3

9.12 In the year to 31 December 2017 there were four claims reported which were incurred prior to 2 March 2015. The total sums insured for these four claims is $920,000. It is unlikely that higher than expected IBNR claims will exceed the excess Death and Disablement Reserve available. At this time it is not necessary to determine how much additional Death and Disablement Reserve should be retained to allow for claims being greater than expected because the Trustee has decided to keep all of the reserve and use the excess gradually to provide members a 30% rebate in premiums.

9.13 The amount of the Death and Disablement Reserve is expected to be significantly larger than required to meet the remaining claims incurred prior to 2 March 2015.

Premium Rebate

9.14 The annual insurance premium is in the order of $12 - $13 million. In the 2017 year the cost of the 30% premium rebate being provided by the Scheme was in the order of $3.8 million (gross of tax) per annum. We would expect this amount to increase over time because the average sums insured are expected to increase.

9.15 This amount of rebate is expected to be easily sustainable over the period to 31 December 2019, the date of the next triennial valuation. However, we note that the Trustee retains the right to re-evaluate (i.e. reduce or discontinue) the level of the discount within this period in case experience is materially worse than expected.

9.16 We recommend that the adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the premium discount, should be reviewed at least annually by the Trustee. We recommend that the next review be conducted as at 31 December 2018.

Investment of the Death and Disablement Reserve

9.17 The Death and Disablement Reserve is invested in the Balanced Growth option and therefore is subject to the risk of a fall in value. The strong position of the Death and Disablement Reserve means that it should be able to withstand a fall in value and still be expected to be sufficient to cover claims and provide the premium rebates for a significant length of time.

9.18 Because the Scheme retains the risk in respect of IBNR claims incurred prior to 2 March 2015, the majority of the claims would be expected to be paid within a few years. Along with the current pending claims this means that there will be a reasonable outflow of funds expected over the next few years. Therefore, it would be reasonable for the Trustee to decide to transfer all or part of the Death and Disablement Reserve to a more conservative investment strategy. We have previously recommended that the Trustee consider such a change in investment strategy and it has decided to retain the existing Balanced Growth strategy for the time being.

9.19 If there is a significant fall in asset values before these amounts are paid we would recommend the Trustee consider moving some of the assets into a more conservative investment option. We suggest using a trigger amount of $25 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed. If the Death and Disablement Reserve reaches this amount, while we suggest the investment strategy be reviewed, whether it is changed would depend on the Trustee's assessment at that time. This trigger amount should also be reduced over time and we would be pleased to do this as part of our annual actuarial tasks and review of the adequacy of the Death and Disablement Reserve.

Salary Continuance Insurance

9.20 Section A and Section C members can apply for salary continuance insurance through the Scheme. This cover is not available for RBA Section, ABP Section or SCA Section members. Salary continuance insurance provides a monthly benefit payment of up to 75% of salary (subject to a maximum of $20,000 per month) for up to two years. The salary continuance benefit is insured with OnePath Life and should not cause any additional funding strain on the Death and Disablement Reserve.

Section 10: Material Risks

The purpose of this section of this report is to identify the material risks for the Scheme which are associated with the actuarial assumptions or actuarial management of the Scheme, in particular to the Pension Section and self-insurance. We also comment on the way in which the identified financial risks are being managed by the Trustee.

The material risks are:

Underperformance of Scheme's Investments

10.1 The risk faced by the Pension Section, in particular, is that the investment returns earned on the assets will not be as high as expected. This means that the financial position of the Pension Section would deteriorate and additional funding may be required. The Trustee continues to monitor the position of the Pension Section annually, and it considers the liabilities and the funding position when determining the investment strategy, and this remains appropriate.

10.2 With the Scheme's death and disablement cover now externally insured, the impact of investment risk on the Death and Disablement Reserve is reduced. The Scheme retains the risk for pending and incurred but not reported claims at 2 March 2015 (with some reinsurance cover against large claims). The Death and Disablement Reserve is also currently being used to provide a premium rebate for members. However the Reserve is in a strong position and should be able to withstand any adverse market movements. It would take a large negative investment return to reduce the Death and Disablement Reserve to the extent that it was expected to be insufficient. In Section 9 we recommend that the investment strategy of the Death and Disablement Reserve be reviewed if its amount reduces to a specified value of $25 million.

10.3 To a lesser extent the Scheme's other reserves are at risk of investment underperformance. However as these reserves are well funded and/or not set aside to meet significant known liabilities, underperformance of investments is unlikely to require any particular action from the Trustee or Employer.

Inflation Risk

10.4 Higher than expected indexation of pensions would increase the Scheme's liability and may require additional funding.

10.5 Pensions are increased annually at a rate equivalent to the lesser of 3% and the rate of increase in the Consumer Price Index – Average of All Groups ("CPI") for the 12 months ending with the September quarter prior to the implementation of the increase. The inflation risk on the annual increases is therefore contained by the 3% cap.

10.6 Every year the Trustee considers a supplementary pension increase. Typically this increase is set so that pensions increase at the CPI rate each year. However the Trustee is not obliged to grant a supplementary increase and, if inflation was to increase, the Trustee could decide to award a lower supplementary increase, or even no increase.

Increasing Life Expectancy

10.7 The Scheme has a liability for life time pensions of $19.702 million at 31 December 2017. The assumptions regarding pensioner mortality that we have used for this valuation explicitly allow for gradual future improvements in mortality.

10.8 There is a risk that a future breakthrough in medical diagnosis or treatment could lead to a significant increase in life expectancies and this would increase Scheme liabilities. However, given the high average age of the pensioners the risk of a large increase in the value of liabilities is low.

Self Insurance

10.9 The Scheme's self-insurance, including catastrophe risk, is now low and limited to claims which occurred prior to 2 March 2015. Claims are met from the Death and Disablement Reserve and the risk to the Trustee is that this currently well-funded reserve will not be sufficient to meet claims which arise.

10.10 The adequacy of the Death and Disablement Reserve is considered in Section 9

Other

10.11 The Scheme faces a variety of operational, legislative and other risks which may in some circumstances lead to cost increases. We understand that the Trustee monitors and takes action on such risks as part of its risk management framework. There is also the risk that ANZ will not pay contributions recommended in rectify a funding deficiency. We also note that when compared to the size of ANZ's operations, the cost of most risks is likely to be very small.

Section 11: Statements required under SPS 160

This summary provides the information which must be contained in the report of an initial or regular actuarial investigation, in accordance with paragraph 23 of Prudential Standard SPS 160.

a At 31 December 2017, the value of the assets of the Scheme, excluding the Scheme Operating Reserve that includes the Scheme's Operational Risk Financial Requirement (ORFR) target amount was $4,607.130 million. The amount required to meet the ORFR is held in the Scheme Operating Reserve, which is materially larger than the Scheme's ORFR target amount. If only the target amount is deducted the net value of the assets becomes $ 4,618.532 million.

b The projected likely future financial position of the Scheme's pension liabilities during the three years following the valuation date and based on my best estimate assumptions and assuming zero contribution in the year to 31 December 2018 and $600,000 in the year to 31 December 2019 are made by ANZ, is as follows.

Date	Assets ($m)	Vested Benefits ($m)	Vested Benefits Index (%)
31 December 2017	19.2	19.7	97.5%
31 December 2018	17.7	18.2	97.1%
31 December 2019	16.8	16.8	100.0%
31 December 2020	15.5	15.5	100.0%

The projected financial position is shown only for the lifetime pensioner members. The account balances of all accumulation members are fully funded and expected to remain fully funded during the three year projection period. The coverage of vested benefits for the whole Scheme is expected to remain above 100%. Part of the Employer Funding Reserve is also available to support the funding of the Pension Section. Allowing for the $24.4 million in the Employer Funding Reserve the Pension Section is well funded.

c In my opinion, the value of the assets of the Scheme at 31 December 2017, excluding the amount held to meet the ORFR, was adequate to meet the liabilities in respect of the accrued benefits of members of the Scheme (measured as the value of members' accrued entitlements using the valuation assumptions). I consider that the assumptions and valuation methods set out in this report are appropriate for determining the accrued benefit liability.

d At 31 December 2017 the Scheme was in a satisfactory financial position, as defined in SPS 160. In my opinion the Scheme does not need to be treated as being in an unsatisfactory financial position. The shortfall limit (currently 100%) does not need to be reviewed.

e At 31 December 2017 the value of the liabilities of the Scheme in respect of minimum benefits of the members of the Scheme is $4,519.1 million. This amount of minimum benefits excludes the amount of pending and incurred but not reported death and disablements benefits, which are met from the Death and Disablement Reserve. If estimates of these amounts are added, the minimum benefits are $4,525.4 million. Minimum benefits are as defined in Regulation 5.04 of the Superannuation Industry (Supervision) Regulations.

f Funding and Solvency Certificates for the Scheme covering the period from 31 December 2016 to 31 December 2017 have been obtained. The Scheme was solvent, as defined in the Superannuation Industry (Supervision) Regulations, at 31 December 2017. In my opinion, I expect that the solvency of the Scheme will be able to be certified in any other Funding and Solvency Certificate required under the Regulations during the three year period to 31 December 2020.

g It is recommended that ANZ makes contributions at the rates set out below for the period to 31 December 2020:

i. at the rate required under the Superannuation Guarantee legislation, subject to a minimum of 7% of Salary for Section C Members;

ii. the salary sacrifice contributions payable on behalf of Members; and

iii. any amounts recommended in the 31 December 2018 actuarial valuation to address the deficit in the Pension Section Account. It is estimated that a contribution of $600,000 will be required in the year to 31 December 2019.

ANZ should also cover the administration expenses of the Scheme, which are not covered by deductions from Members' accounts. Fees received and credited to the Employer Funding Reserve may continue to be used to meet ANZ's administration costs by means of short term employer contribution holidays.

h In my opinion, as at 31 December 2017 there is a high degree of probability that the Scheme will be able to pay the defined benefit pensions as required under the Scheme's governing rules.

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

Quality Assurance

I confirm that Willis Towers Watson's professional excellence processes have been followed.

Andrew Sach
Fellow of the Institute of Actuaries of Australia
16 May 2018

Appendix A: Summary of Pension Section Benefits and Conditions and Death and Disablement cover

Given the purpose of this report, specific details regarding the other sections of the Scheme are not provided. Details of Section A, Section C, Spouse Contribution Account Section, and Retained Benefit Account Section can be found in the 31 December 2016 triennial actuarial investigation report dated 29 May 2017. The Trust Deed was last amended 15 October 2015.

Pension Section

Spouse's Pension Option

Where applicable, the standard survivorship pension is 60% of the former member's pension. A former member may give up part of his or her pension to provide an additional survivorship pension to his or her spouse, payable from the date of that former member's death.

Commutation of Spouse Pensions

A spouse who becomes entitled to a spouse's pension may commute 100% of his or her pension, other benefits and contingent benefits.

The Trustee, at its discretion, may permit commutation of other pensions.

Pension Value Maintenance

All pensions are reviewed at least every two years and increased according to the increase in Consumer Price Index, subject to the resulting pension not exceeding the initial pension increased at a rate of 3% per annum compounded over the period since commencement of that pension. Notwithstanding this, the Trustee may, with the agreement of the Principal Company, agree to higher increases to the pension.

In a Scheme termination situation pensions are not subject to pension value maintenance.

Death and Disablement Benefits

The Trust Deed allows the Trustee to reduce all insured benefits to the extent any sum insured is not received from the relevant external insurer.

Sections A and C Death and Disablement Benefits

Death or Total and Permanent Disablement

The benefit payable is:

i. the sum of the Member's account balances; plus

ii. the insured benefit (if any).

The Section A insured benefit is equal to the amount calculated by the following formula:

> Number of blocks of cover taken out by the member x Total Employment Cost or Annual Base Salary if applicable at leaving ANZ employment x (1 – Reduction Factor)

The Reduction Factor is calculated as a factor of zero for members under 56, and increases by 10% for each year between ages 57 and 65 (reaching 90% at age 65).

The maximum number of blocks of cover that a member may take out is seven, and the insured benefit is subject to different maximums for death, disablement and terminal medical condition as agreed with OnePath Life Limited. The maximum sums insured permitted are currently $5 million for death, and $3 million for disablement and $2.5 million for terminal medical conditions.

For Section A Members, the insured cover on death or disablement ceases at age 66.

Three blocks of cover are provided to new Employees by default. Satisfactory health evidence is required to increase the number of blocks of cover or if cover is over $1 million, except by half a block in prescribed circumstances. Members can also elect to reduce their number of blocks of cover.

The insured cover options for Section C Members are as shown in the following table:

Insured Cover Option	Insured Benefit
No Cover	Nil
Multi-level Cover	The greater of: i. 15% of Salary at the date of death or disablement for each year of potential service to the NRD; and ii. 3.5 times Salary at the date of death or disablement less the sum of the Members' account balances.

For Section C Members, the insured cover on disablement ceases at age 60.

Salary Continuance Insurance

Section A and Section C members can apply for salary continuance insurance through the Scheme. This cover is not available for Retained Benefit Account, Account Based Pension or Spouse Contribution Account members. This cover is externally insured.

Spouse Contribution Account Section

Death

SCA Section members may be paid an additional benefit on death. The additional benefit is based on "blocks" of cover of $50,000 each, with a maximum of seven blocks. To conform with MySuper requirements, from 1 January 2014 certain members have age-based minimum death cover at the levels set out in Schedule 1 of the Superannuation Guarantee (Administration) Regulations 1993.

Total and Permanent Disablement

To conform with MySuper requirements certain SCA Section members have age-based total and permanent disablement cover at the levels set out in Schedule 1 of the Superannuation Guarantee (Administration) Regulations 1993.

To be eligible for this cover:

- The member must have death cover; and
- The member must have had a contribution to his or her account every 12 months.

These members can opt out of the cover at any time.

From 1 October 2017, members are eligible for TPD cover up to the amount of death cover, if underwritten.

Retained Benefits Account Section

Death

RBA Section members may be paid an additional benefit on death. The additional benefit is subject to a maximum of their death benefit at the time they transferred from the employee sections to the RBA Section. To conform with MySuper requirements, from 1 January 2014 certain members have age-based minimum death cover at the levels set out in Schedule 1 of the Superannuation Guarantee (Administration) Regulations 1993.

Total and Permanent Disablement

From 1 January 2014, to conform with MySuper requirements certain RBA Section members have age-based total and permanent disablement cover at the levels set out in Schedule 1 of the Superannuation Guarantee (Administration) Regulations 1993. To be eligible for this cover:

- The member must have death cover; and
- The member must have had a contribution to his or her account every 12 months.

These members can opt out of the cover at any time.

From 1 October 2017 transferring members can have the same level of cover as held in the Employee Section.

Appendix B: Summary of Pensioner Movements from 1 January 2017 to 31 December 2017

Pensioner Membership

	1 January 2017 to 31 December 2017		
	Current	Deferred / Contingent	Total
Number of pensioners as at 1 January 2017	134	2	136
Plus			
Reversionary Pensioners	2		2
Less			
Deceased Pensioners	(15)		(15)
Commutations			
Ceased Child Pensioners			
Adjust			
Transfers from Deferred / Contingent to Current			
Number of pensioners as at 31 December 2017	121	2	123

Appendix C: Valuation Basis

Rates of Investment Return and Pension Increases

The following assumptions were used for the long term projections of the liabilities of the Pension Section:

Rate of Investment Return 5.25% p.a.

Indexation of Pensions 2.0% p.a.

Pensioner Mortality

Of every 10,000 pensioners of each type shown below, the following numbers were assumed to die each year: Mortality improvement of 1% p.a. for each year from 1 July 2011 is assumed at all ages.

Age	Males	Females
40	12	7
50	26	16
60	59	36
70	151	93
80	466	298
90	1,449	1,152
100	2,810	2,726

Age of Pensioners' Spouses

Wives were assumed to be three years younger than their husbands.

Expenses

The rate of investment return referred to above is assumed to be net of investment expenses.

Taxation

It has been assumed that the current taxation regime will continue and that the Scheme will remain a "complying superannuation fund" for taxation purposes. Concessional tax arrangements apply for lifetime pensioners therefore no tax is levied on investment earnings.

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