

Saturday  
21 April  
8:00 pm



# **Australia and New Zealand Banking Group Limited**

ABN 11 005 357 522

**Half Year  
31 March 2007**

**Consolidated Financial Report  
Dividend Announcement and  
Appendix 4D**

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Name of Company: Australia and New Zealand Banking Group Limited  
ABN 11 005 357 522

Report for the half year ended 31 March 2007		
		A\$ million
Group operating revenue	↑13%^ to	5,613
Profit after tax attributable to shareholders	↑16%^ to	2,102
<b>Proposed interim dividend per ordinary share, fully franked at 30% tax rate</b>		<b>62 cents</b>
Interim 2006 dividend per ordinary share, fully franked at 30% tax rate		56 cents
<b>Record date for the proposed interim dividend</b>		<b>18 May 2007</b>
The proposed interim dividend will be payable to shareholders registered in the books of the Company at 7:00 pm (Melbourne time) on 18 May 2007.		
<b>Payment date for the proposed interim dividend</b>		<b>2 July 2007</b>
^ Compared to March 2006		

Highlights	
All figures compared to March 2006 half year unless otherwise indicated	
<b>Profit after tax</b>	
Profit \$2,102 million	up 16.1%
Cash* profit \$1,936 million	up 11.8%
Cash* profit before provisions \$2,995 million	up 12.1%
<b>Earnings per share</b>	
EPS 113.2 cents	up 15.0%
Cash* EPS 104.2 cents	up 10.9%
<b>Shareholder return</b>	
Interim dividend 62 cents	up 10.7%
Total Shareholder Return	17.1%
Cash Return on equity	19.7%
<b>Business highlights*</b>	
Strong revenue momentum and continued investment with 2,120 new FTEs	
Strong result in Personal – revenue up 14.4%, profit up 21.6%	
Institutional profit up 10.6%. Profit before provisions more modest at 4.2%	
Good underlying momentum in New Zealand Businesses up 13.5% but offset by provisioning	
Continued growth in customer acquisition in Australia and a successful turnaround in New Zealand	
Achieved targeted revenue and productivity:	
<b>Revenue growth 9.1%</b> (10.4% FX adjusted)	
<b>Cost-Income ratio 44.3%</b> (down 1.5% from 45.8%, medium-term target 40%)	
Credit quality remains strong, better than expected provisions due to recoveries late in the half	
Adjusted Common Equity ratio middle of target range at 4.4%	
* Adjusted for non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses)	

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**CONSOLIDATED FINANCIAL REPORT, DIVIDEND ANNOUNCEMENT and APPENDIX 4D**

Half year ended 31 March 2007

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This Results Announcement has been prepared for Australia and New Zealand Banking Group Limited (the "Company") together with its subsidiaries which are variously described as "ANZ", "Group", "ANZ Group", "us", "we" or "our".

All amounts are in Australian dollars unless otherwise stated. The Company has a formally constituted Audit Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 26 April 2007.

When used in this Results Announcement the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to ANZ and its management, are intended to identify 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 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 hereof or to reflect the occurrence of unanticipated events.

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# Media Release

For Release: 26 April 2007

## ANZ 2007 Interim Profit \$2,102 million

Profit after tax	
Profit \$2,102 million	up 16.1%
Cash* profit \$1,936 million	up 11.8%
Cash* profit before provisions \$2,995 million	up 12.1%

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Shareholder return	
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Continued growth in customer acquisition in Australia and a successful turnaround in New Zealand	
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## Media Release

For Release: 26 April 2007

### ANZ 2007 Interim Profit \$2,102 million

Australia and New Zealand Banking Group Limited (ANZ) today announced a record profit after tax of \$2,102 million for the half year ended 31 March 2007, up 16.1%. Earnings per share were 113.2 cents, up 15.0%.

The headline result included a one-off gain on the Fleetpartners sale. Adjusting for this, cash\* profit was \$1,936 million, up 11.8% and cash\* EPS was up 10.9%. The proposed Interim dividend of 62 cents is up 10.7% on last year.

ANZ Chief Executive Officer Mr John McFarlane said: "This is a good result in a highly competitive market. It builds on seven years of systematic investment in our customers and our people.

"We achieved strong revenue growth of 9.1%\*, or adjusting for exchange rates at 10.4%, which is above the top end of our target range. Good cost management enabled us to maintain a gap between revenue and expense growth of 3.5%, which brought down our cost income ratio by 1.5% to 44.3%. Although provisioning rose, it ended below our expectations as a result of a significant recovery late in the half. Return on equity remained broadly stable at 19.7%\*.

"We had particularly strong results in Personal, which was the highlight. INGA, Asia and Private Banking also delivered strong performances. New Zealand Businesses came in with their best underlying result in recent years, but was impacted by provisions increasing from unsustainably low levels. Institutional NPAT growth was double-digit, benefiting from net provision recoveries but was weaker in revenue and profit before provisions.

"We are continuing to invest in the future. Over the year, we added a further 2,120 people, and opened 24 new branches in Australia and New Zealand. We announced our intention to expand our international franchise in Malaysia, China, Guam and Laos. At the same time we managed to achieve good revenue/expense productivity. There is also a greater focus on efficiency, partly to help fund investment initiatives, but also to enhance bottom line results.

"Net interest margin decline was better than historical experience, falling just 5 basis points. Credit quality remains strong. Although provisions rose, they were significantly lower than we expected, due to a significant recovery late in the half. We continue to expect a significant increase in provisions in the second half, with no material recoveries expected.

"We continued to advance the foundation and capability of the organisation. Staff engagement again improved to 64% from 60%, and we have a culture that others would find difficult to replicate. We also have strong customer, community and shareholder recognition. Although there is still much more to do, ANZ is now clearly seen as a very different bank.

#### Outlook

Commenting on the outlook for ANZ, Mr McFarlane said: "Conditions remain supportive of good growth. Personal should continue to do well, but may find it difficult to sustain such unusually high levels of growth. We expect to see continued momentum in New Zealand, and have put in place a programme to drive improved underlying performance from Institutional. Looking ahead, the growth we are now seeing from Asia will become more material to the Group.

"For the 2007 year, ANZ's revenue and expenses are expected to be in line with previous guidance of 7%-10% revenue growth and 5%-7% cost growth. The credit environment should remain benign, but we still expect significantly higher credit costs in the second half.

"All in all, this is a good result. It sets us up well for the year as a whole and positions us well for the years ahead", Mr McFarlane said.

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\* Adjusted for non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses)



## Divisional Performance

**Personal** delivered another outstanding result with a clear strategy that was well executed. Profit growth was 21.6% on revenue growth of 14.4%. All businesses delivered double-digit earnings growth, with the exception of Mortgages, which was adversely impacted by the expectations of rising rates and strong price competition. Investment and Insurance Products (up 47%), Esanda (up 36%), Consumer Finance (up 39%) assisted by the sale of MasterCard shares, Pacific (up 20%), and Banking Products (up 22%), were all particularly strong.

Revenue growth was double the 7% expense growth. Staff numbers were up 8%, and we opened 9 new branches in the first half, with a further 31 openings planned in the second half. Credit costs increased in line with expectations at 18%, due to portfolio growth and the seasoning of our credit card and personal loan portfolios.

**Institutional** delivered net profit growth of 10.6%. However, revenue growth was more subdued at 5% with average net lending asset growth of 9% and deposit growth of 14%, offset by contracting credit margins. Staff numbers grew 11% and resultant expense growth was 7%, reducing Profit Before Provisions to 4%. Provisioning showed a net recovery of \$6 million with a significant recovery late in the half, offsetting modest new provisions. Over recent years, we have sought to curtail low margin asset growth and to reduce our reliance on lending over time. This naturally reduces revenue. Encouragingly, Return on Risk Weighted Assets improved accordingly. Strong revenue growth in Markets and Corporate & Structured Financing was offset by weaker performance from the other units.

**New Zealand Businesses** NPAT was up 8.1% in New Zealand dollars, with good revenue growth of 8%. Profit before provisions was strong at 13%, offset by a large increase in credit costs, which bounced from unsustainably low levels. Expense growth was well contained at 4%. Corporate and Commercial Banking, ANZ Retail, The National Bank Retail, Rural Banking, and UDC all delivered double-digit Profit Before Provisions growth. Despite higher credit costs they are still well below cycle average, and credit quality remains strong, with the level of net non-performing loans (0.08%) and individual provision charges (0.07%) well below that seen in Australia.

**Partnerships** delivered very strong growth, with revenue up 38% and NPAT up 30%. ING Australia is now delivering good momentum, with profit up 29%, and is well placed to deliver even better returns as it moves beyond the legacy issues that have constrained performance until now. International Partnerships NPAT grew 57%. Growth in Partnership earnings should accelerate in the second half, with the expected inclusion of AMMB Holdings Berhad (AMMB).

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**HIGHLIGHTS (continued)**

		<b>Group</b>		<b>Personal</b>	<b>Institutional Continuing</b>	<b>New Zealand Businesses (NZD)</b>
		<b>Half year Mar 2007</b>	<b>Change<sup>2</sup></b>	<b>Change<sup>2</sup></b>	<b>Change<sup>2</sup></b>	<b>Change<sup>2</sup></b>
<b>Key Business Drivers<sup>1</sup></b>						
Total assets	\$m	351,724	9%	11%	7%	13%
Deposits & other borrowings	\$m	210,585	7%	10%	16%	2%
Average interest earning assets	\$m	323,510	10%	12%	9%	13%
Net interest margin	bps	2.24	(5bps)	(2bps)	(11bps)	(10bps)
Net interest income	\$m	3,611	7%	11%	2%	9%
Other operating income	\$m	1,770	13%	24%	10%	7%
Total income	\$m	5,381	9%	14%	5%	8%
FTE	No.	33,183	7%	8%	11%	4%
Operating expenses	\$m	2,386	6%	7%	7%	4%
Profit before provisions <sup>3</sup>	\$m	2,995	12%	21%	4%	13%
Individual provision charge	\$m	188	0%	-45%	114%	-136%
Collective provision charge	\$m	52	44%	38%	-133%	-257%
Total provision for credit impairment	\$m	240	7%	-18%	112%	-825%
Cash profit	\$m	1,936	12%	22%	11%	8%
EVA	\$m	1,119	10%	24%	-1%	22%
<b>Other Measures<sup>1</sup></b>				<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
%						
of average net advances	%	0.14	-7%	(0.23)	0.02	(0.07)
Return on average assets	%	1.11	1%	1.01	1.17	1.06
Return on average RWAs	%	1.59	4%	1.72	1.41	1.36
Cost to income ratio	%	44.3	-3%	47.0	38.9	48.1
Cost to average assets	%	1.37	-5%	1.53	1.06	1.55

<sup>1</sup> All numbers adjusted for non-core items

<sup>2</sup> Compared to half year ended 31 March 2006

<sup>3</sup> Profit before credit impairment and income tax

## FINANCIAL HIGHLIGHTS

### Profit

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	3,611	3,575	3,368	1%	7%
Other operating income	2,002	1,614	1,595	24%	26%
Operating income	5,613	5,189	4,963	8%	13%
Operating expenses	(2,386)	(2,346)	(2,185)	2%	9%
Profit before credit impairment and income tax	3,227	2,843	2,778	14%	16%
Provision for credit impairment	(240)	(183)	(224)	31%	7%
Profit before income tax	2,987	2,660	2,554	12%	17%
Income tax expense	(883)	(780)	(742)	13%	19%
Minority interest	(2)	(3)	(1)	-33%	100%
<b>Profit attributable to shareholders of the Company</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>

### Cash profit

Profit has been adjusted to exclude the following non-core items to arrive at cash profit. Throughout this document figures and ratios that are calculated on a 'cash' basis have been shaded to distinguish them from figures calculated on a statutory basis.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit attributable to shareholders of the Company</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>
<b>Less: Non-core items</b>					
<b>Significant items<sup>1</sup></b>					
Sale of Esanda Fleetpartners	141	-	-	n/a	n/a
Settlement of ANZ National Bank claims	-	-	14	n/a	-100%
Settlement of NHB insurance claim	-	-	79	n/a	-100%
Total significant items	141	-	93	n/a	52%
Ineffective hedge fair value gains/losses <sup>2</sup>	28	21	13	33%	large
NZD revenue hedge volatility <sup>2</sup>	(3)	-	-	n/a	n/a
ANZ National Bank incremental integration costs <sup>3</sup>	-	-	(26)	n/a	-100%
Total non-core items	166	21	80	large	large
<b>Cash profit</b>	<b>1,936</b>	<b>1,856</b>	<b>1,731</b>	<b>4%</b>	<b>12%</b>

<sup>1.</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$195 million (\$141 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx)

<sup>2.</sup> The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$28 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to economic hedging as a non-core item (tax impact \$13 million (Sep 2006 half: \$10 million; Mar 2006 half: \$5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact \$1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page xx)

<sup>3.</sup> In the March 2006 half ANZ incurred \$26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was \$13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration

## FINANCIAL HIGHLIGHTS (continued)

### Cash profit, cont'd

Analysis of Cash<sup>1</sup> profit by key line item:

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	3,611	3,575	3,368	1%	7%
Other operating income	1,770	1,583	1,563	12%	13%
Operating income	5,381	5,158	4,931	4%	9%
Operating expenses	(2,386)	(2,346)	(2,259)	2%	6%
Profit before credit impairment and income tax	2,995	2,812	2,672	7%	12%
Provision for credit impairment	(240)	(183)	(224)	31%	7%
Profit before income tax	2,755	2,629	2,448	5%	13%
Income tax expense	(817)	(770)	(716)	6%	14%
Minority interest	(2)	(3)	(1)	-33%	100%
<b>Cash<sup>1</sup> profit</b>	<b>1,936</b>	<b>1,856</b>	<b>1,731</b>	<b>4%</b>	<b>12%</b>

### Earnings per share

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Earnings per ordinary share (cents)</b>					
Basic	113.2	101.6	98.4	11%	15%
Diluted	110.0	98.5	95.5	12%	15%
Cash <sup>1</sup> (basic adjusted for non-core items)	104.2	100.5	94.0	4%	11%

### Balance Sheet

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Assets</b>					
Liquid assets	15,433	15,019	13,870	3%	11%
Due from other financial institutions	6,439	9,665	8,336	-33%	-23%
Trading and available for sale assets	24,100	19,832	22,008	22%	10%
Net loans and advances including acceptances	281,822	269,384	255,745	5%	10%
Other	23,930	20,740	22,222	15%	8%
<b>Total assets</b>	<b>351,724</b>	<b>334,640</b>	<b>322,181</b>	<b>5%</b>	<b>9%</b>
<b>Liabilities</b>					
Due to other financial institutions	14,872	14,118	13,345	5%	11%
Deposits and other borrowings	210,585	204,794	196,850	3%	7%
Liability for acceptances	14,013	13,435	13,692	4%	2%
Bonds and notes	54,188	50,050	46,923	8%	15%
Other	37,156	32,337	32,575	15%	14%
<b>Total liabilities</b>	<b>330,814</b>	<b>314,734</b>	<b>303,385</b>	<b>5%</b>	<b>9%</b>
<b>Total shareholders' equity</b>	<b>20,910</b>	<b>19,906</b>	<b>18,796</b>	<b>5%</b>	<b>11%</b>

<sup>1</sup> Refer footnotes 1 to 3 on page 5

**Financial ratios**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M
<b>Profit attributable to shareholders of the Company</b>	2,102	1,877	1,811
<b>Cash<sup>1</sup> profit</b>	1,936	1,856	1,731
<b>EVA<sup>TM 2</sup></b>	1,119	1,069	1,013

**Profitability ratios**

Return on:			
Average ordinary shareholders' equity <sup>3</sup>	21.3%	20.4%	20.9%
Average ordinary shareholders' equity <sup>3</sup> (cash <sup>1</sup> profit basis)	19.7%	20.2%	20.0%
Average assets	1.21%	1.13%	1.15%
Average assets (cash <sup>1</sup> profit basis)	1.11%	1.11%	1.10%
Average risk weighted assets	1.73%	1.59%	1.60%
Average risk weighted assets (cash <sup>1</sup> profit basis)	1.59%	1.57%	1.53%
Total income	14.4%	14.2%	14.5%
Net interest margin	2.24	2.33	2.29
Profit per average FTE (\$)	64,203	59,187	58,202

**Efficiency ratios**

Operating expenses to operating income	42.5%	45.2%	44.0%
Operating expenses to average assets	1.37%	1.41%	1.39%
Operating expenses to operating income (cash <sup>1</sup> )	44.3%	45.5%	45.8%
Operating expenses to average assets (cash <sup>1</sup> )	1.37%	1.41%	1.44%

**Credit impairment provisioning**

Collective provision charge	52	33	36
Individual provision charge	188	150	188
Total provision charge	240	183	224
Individual provision charge as a % of average net advances	0.14%	0.11%	0.15%

**Ordinary share dividends (cents)**

Interim - 100% franked (Mar 06: 100% franked)	62	n/a	56
Final - 100% franked (Sep 06: 100% franked)	n/a	69	n/a
Ordinary share dividend payout ratio <sup>4</sup>	54.9%	68.0%	56.9%
Cash <sup>1</sup> ordinary share dividend payout ratio <sup>4</sup>	59.6%	68.8%	59.6%

**Preference share dividend (cents)**

Dividend paid <sup>5</sup>	17	15	12
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<sup>1.</sup> Refer footnotes 1 to 3 on page 5

<sup>2.</sup> EVA<sup>TM</sup> refers to Economic Value Added, a measure of shareholder value. See page xx for a reconciliation of EVA<sup>TM</sup> to reported net profit, a discussion of EVA<sup>TM</sup> and an explanation of its relevance as a performance measure

<sup>3.</sup> Average ordinary shareholders' equity excludes minority interest and preference share dividend

<sup>4.</sup> Dividend payout ratio is calculated using the proposed interim dividend as at 31 March 2007, the 30 September 2006 and 31 March 2006 dividends

<sup>5.</sup> Represents dividends paid on Euro Hybrid issued on 13 December 2004

**FINANCIAL HIGHLIGHTS (continued)**
**Financial ratios, cont'd**

	As at Mar 07	As at Sep 06	As at Mar 06	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Net Assets</b>					
Net tangible assets <sup>1</sup> per ordinary share (\$)	9.01	8.53	7.99	6%	13%
Net tangible assets <sup>1</sup> attributable to ordinary shareholders (\$M)	16,613	15,664	14,619	6%	14%
Total number of ordinary shares (M)	1,844.7	1,836.6	1,828.7	0%	1%
<b>Capital adequacy ratio (%)</b>					
Tier 1	6.7%	6.8%	6.8%		
Tier 2	4.3%	4.2%	4.0%		
Total capital ratio	10.3%	10.6%	10.4%		
Adjusted Common Equity ratio <sup>2</sup>	4.4%	4.7%	5.0%		
Risk weighted assets EOP (\$M)	250,485	240,219	230,653		
<b>Impaired assets</b>					
Collective provision (\$M)	1,981	1,940	1,903	2%	4%
Collective provision as a % of risk weighted assets	0.79%	0.81%	0.83%	-2%	-5%
Gross non-performing loans (\$M)	640	661	726	-3%	-12%
Individual provisions on non-performing loans <sup>3</sup> (\$M)	(275)	(279)	(305)	-1%	-10%
Net non-performing loans (\$M)	365	382	421	-4%	-13%
Individual provision as a % of total non-performing loans	43.0%	42.2%	42.0%	2%	2%
Gross non-performing loans as % of net advances	0.23%	0.25%	0.28%	-8%	-18%
Net non-performing loans as a % of net advances	0.13%	0.14%	0.16%	-7%	-19%
Net non-performing loans as a % of shareholders' equity <sup>4</sup>	1.7%	1.9%	2.2%	-11%	-23%
<b>Other information</b>					
Full time equivalent staff (FTEs)	33,183	32,256	31,063	3%	7%
Assets per FTE (\$M)	10.6	10.4	10.4	2%	2%
Market capitalisation of ordinary shares (\$M)	54,788	49,331	48,461	11%	13%

<sup>1.</sup> Equals shareholders' equity less preference share capital, minority interest and unamortised goodwill and other intangibles

<sup>2.</sup> Adjusted common equity is calculated as Tier 1 capital, less Innovative Tier 1 capital instruments (converted at balance date spot rates), less transitional Tier 1 capital relief and deductions. This measure is commonly used to assess the adequacy of common equity held. See page xx for a reconciliation to Tier 1 capital

<sup>3.</sup> Excludes individual provision on unproductive facilities

<sup>4.</sup> Includes minority interest

## FINANCIAL HIGHLIGHTS (continued)

### Business unit analysis

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit after income tax<sup>1</sup></b>					
Personal	709	654	583	8%	22%
Institutional	750	701	678	7%	11%
New Zealand Businesses <sup>2</sup>	351	339	337	4%	4%
Partnerships & Private Bank	103	91	79	13%	30%
Non-continuing businesses	-	22	31	-100%	-100%
Group Centre	23	49	23	-53%	0%
<b>Cash profit</b>	<b>1,936</b>	<b>1,856</b>	<b>1,731</b>	<b>4%</b>	<b>12%</b>
Non-core items <sup>3</sup>	166	21	80	large	large
<b>Profit</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>

<sup>1.</sup> Prior period numbers have been adjusted for organisational structure changes. Refer page xx for an explanation of the changes

<sup>2.</sup> New Zealand Businesses growth rates in NZD terms were (1%) and 8% for the September 2006 half year and March 2006 half year respectively

<sup>3.</sup> Refer footnotes 1 to 3 on page 5

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Net loans and advances including acceptances by business unit<sup>1</sup></b>					
Personal	140,226	133,652	126,776	5%	11%
Institutional	73,308	71,436	69,474	3%	6%
New Zealand Businesses <sup>2</sup>	66,672	61,937	56,935	8%	17%
Partnerships & Private Bank	1,592	1,270	1,204	25%	32%
Non-continuing businesses	-	1,054	1,337	-100%	-100%
Group Centre	24	35	19	-31%	26%
<b>Net loans and advances including acceptances</b>	<b>281,822</b>	<b>269,384</b>	<b>255,745</b>	<b>5%</b>	<b>10%</b>

<sup>1.</sup> Prior period numbers have been adjusted for organisational structure changes. Refer page xx for an explanation of the changes

<sup>2.</sup> New Zealand Businesses growth rates in NZD terms were 6% and 12% for the September 2006 half year and March 2006 half year respectively

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Deposits and other borrowings by business unit<sup>1</sup></b>					
Personal	67,748	64,977	61,818	4%	10%
Institutional	76,094	69,239	65,381	10%	16%
New Zealand Businesses <sup>2</sup>	42,467	41,987	40,135	1%	6%
Partnerships & Private Bank	1,233	1,159	983	6%	25%
Group Centre	23,043	27,432	28,533	-16%	-19%
<b>Deposits and other borrowings</b>	<b>210,585</b>	<b>204,794</b>	<b>196,850</b>	<b>3%</b>	<b>7%</b>

<sup>1.</sup> Prior period numbers have been adjusted for organisational structure changes. Refer page xx for an explanation of the changes

<sup>2.</sup> New Zealand Businesses growth rates in NZD terms were 7% and 9% for the September 2006 half year and March 2006 half year respectively

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Deposits and other borrowings by funding type</b>					
Customer funding	170,451	158,905	145,602	7%	17%
Wholesale funding	40,136	45,889	51,248	-13%	-22%
<b>Deposits and other borrowings</b>	<b>210,587</b>	<b>204,794</b>	<b>196,850</b>	<b>3%</b>	<b>7%</b>

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March 2007 half year compared to March 2006 half year

ANZ recorded a profit after tax of \$2,102 million for the half year ended 31 March 2007, an increase of 16% over the March 2006 half year. Earnings per share increased 15% to 113.2 cents over the March 2006 half year. After adjusting for non-core items<sup>1</sup> referred to on page xx, Cash<sup>1</sup> profit increased 12% to \$1,936 million and Cash EPS increased 11% to 104.2 cents.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit attributable to shareholders of the Company</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>
Less: Non-core items <sup>1</sup> (refer to page 13)	(166)	(21)	(80)	large	large
<b>Cash<sup>1</sup> profit</b>	<b>1,936</b>	<b>1,856</b>	<b>1,731</b>	<b>4%</b>	<b>12%</b>

Cash<sup>1</sup> profit

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	3,611	3,575	3,368	1%	7%
Other operating income	1,770	1,583	1,563	12%	13%
Operating income	5,381	5,158	4,931	4%	9%
Operating expenses	(2,386)	(2,346)	(2,259)	2%	6%
Profit before credit impairment and income tax	2,995	2,812	2,672	7%	12%
Provision for credit impairment	(240)	(183)	(224)	31%	7%
Profit before income tax	2,755	2,629	2,448	5%	13%
Income tax expense	(817)	(770)	(716)	6%	14%
Minority interest	(2)	(3)	(1)	-33%	100%
<b>Cash<sup>1</sup> profit</b>	<b>1,936</b>	<b>1,856</b>	<b>1,731</b>	<b>4%</b>	<b>12%</b>

Profit growth

Cash profit increased 12% to \$1,936 million. Core<sup>1</sup> revenue increased 9% with growth in average interest earning assets offset by reduced margins (-5 basis points), higher fee income from volume growth and pricing initiatives, higher markets income and higher other income from equity accounting earnings and other investments. Operating expense growth of 6% reflected ongoing investment in the business. Provision for credit impairment was flat with growth in Personal and New Zealand offset by high recoveries in Institutional.

Cash profit in Australia increased 19% over the March 2006 half year with solid growth across all Personal businesses and higher Institutional revenue, primarily in Markets. Provision for credit impairment reduced with a significant recovery during the March 2007 half.

Cash profit in New Zealand decreased 2% (an increase of 2% in NZD terms) reflecting weaker Markets income and an increase in collective provision charge. Operating income increased 4% in NZD terms with lending growth of 12% partly offset by a decline in net interest margin of 8 basis points and lower revenue in Markets following the strong performance in the March 2006 half. Operating expense growth was contained to 2%.

Cash profit in Asia and Pacific increased 40% and 7% respectively, driven by strong growth in the Institutional business in Singapore, higher equity accounting income in Asia and balance sheet growth in the Pacific.

Cash profit in the UK and US decreased driven by reduced profit in non-continuing businesses and repatriation of capital, partly offset by revenue growth in the March 2007 half with increased trading income in Markets.

<sup>1</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$195 million (\$141 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx). The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$28 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to economic hedging as a non-core item (tax impact \$13 million (Sep 2006 half: \$10 million; Mar 2006 half: \$5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact \$1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page xx). In the March 2006 half ANZ incurred \$26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was \$13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration.

March 2007 half year compared to March 2006 half year, cont'd

Impact of exchange rate movements<sup>1</sup>

Presented below is an analysis of the impact of foreign exchange movements on the income statement, net of earnings from economic revenue hedges put in place to hedge New Zealand revenue.

Movements in exchange rates have resulted in a \$22 million decrease in Cash<sup>2</sup> profit for the March 2007 half year, principally due to the translation of NZD earnings net of associated revenue hedges. 2006 NZD earnings were translated at an effective exchange rate of 1.105 and the March 2007 half year NZD earnings were translated at an effective rate of 1.145.

	Half Year Mar 07 v. Half Year Sep 06			Half Year Mar 07 v. Half Year Mar 06		
	FX unadjusted % growth	FX adjusted % growth	FX impact \$M	FX unadjusted % growth	FX adjusted % growth	FX impact \$M
Net interest income <sup>3</sup>	1%	1%	(9)	7%	8%	(38)
Other operating income <sup>4</sup>	12%	11%	15	13%	15%	(22)
Operating income	4%	4%	6	9%	10%	(60)
Operating expenses	2%	1%	(25)	6%	7%	27
Profit before credit impairment and income tax	7%	7%	(19)	12%	13%	(33)
Provision for credit impairment	31%	30%	(1)	7%	8%	1
Profit before income tax	5%	6%	(20)	13%	14%	(32)
Income tax expense	6%	7%	5	14%	16%	10
Minority interest	-33%	-33%	-	100%	100%	-
<b>Cash profit<sup>2</sup></b>	<b>4%</b>	<b>5%</b>	<b>(15)</b>	<b>12%</b>	<b>13%</b>	<b>(22)</b>

<sup>1</sup> ANZ has removed the impact of exchange rate movements realised to cash profit to provide a better indication of the Group's performance in local currency terms. Retranslation is net of revenue hedges, refer page 26

<sup>2</sup> Refer footnote 1 on page 11

<sup>3</sup> In 2006, revenue hedge earnings were included in net interest income which resulted in an impact in the March 2007 half of an increase over the March 2006 half of \$3 million and a decrease of \$49 million over the September half

<sup>4</sup> In 2007, revenue hedge earnings were included in other operating income which resulted in an impact in the March 2007 half of a decrease over the March 2006 half of \$1 million and a decrease of \$1 million over the September 2006 half

Profit drivers

Profit after tax increased 16% over the March 2006 half year and Cash<sup>1</sup> profit increased 12% over the March 2006 half year. For a discussion of the impact of non-core items refer [page xx](#).

Key influences on profit are shown below. Explanations are on cash profit adjusted for non-core items:

**Net interest ↑7% - Adjusted for non-core items<sup>1</sup> ↑7%:**

Net interest income was driven by growth of 10% in average interest earning assets (11% excluding the impact of exchange rates) with strong growth in New Zealand (9%, or 13% excluding exchange rate impact) and Personal (12%). Average deposits grew 13% (15% excluding exchange rates) following strong growth in Institutional (20%), Personal (15%) and New Zealand (6%, or 10% excluding exchange rates). Volume growth was offset by a 5 basis point decline in margin primarily from competitive pressures.

**Other income ↑25% - Adjusted for non-core items<sup>1</sup> ↑13%:**

Adjusted for non-core items, other income growth was underpinned by volume growth initiatives, strong markets income and increased equity accounting income and a \$27 million profit on the sale of MasterCard shares.

**Operating expenses ↑9% - Adjusted for non-core items<sup>1</sup> ↑6%:**

Operating expense growth was primarily due to annual salary increases and a 7% increase in staff numbers, largely in Personal and Institutional, as we continue to invest in the business.

**Provision for credit impairment ↑7% - Adjusted for non-core items<sup>1</sup> ↑7%:**

Individual provisions were unchanged with an increase in Personal due to higher provisions primarily in the Cards portfolio offset by Institutional with lower provisions raised and higher recoveries. The collective provision charge increased by \$16 million driven largely by a small increase in risk levels in New Zealand ANZ Retail and strong volume growth in Corporate & Commercial and volume increases in Institutional, partially offset by a reduction in Personal from moderating portfolio growth in Consumer Finance.

**Income tax ↑19% - Adjusted for non-core items<sup>1</sup> ↑14%:**

The increase in tax expense is driven by growth in profit before tax and an increase in the effective tax rate by 0.5% reflecting the run-off of certain structured financing transactions in non-continuing business and the withholding tax payable on future remittances of present profits from offshore operations.

<sup>1</sup> Refer footnote 1 on page 11

**March 2007 half year compared to September 2006 half year**

The Group recorded a profit after tax of \$2,102 million for the half year ended 31 March 2007, an increase of 12% over the September 2006 half. Basic earnings per share increased 11% (11.6 cents) to 113.2 cents.

Cash profit increased 4% over the September 2006 half which reflects seasonality in the halves and higher provision for credit impairment. Cash earnings per share (refer page xx) increased 4% (3.7 cents) to 104.2 cents.

Operating income increased 8% assisted by the profit on sale of Esanda Fleetpartners. After adjusting for non-core items, operating income increased 4%. Net interest income increased 1%, impacted by a reduction in interest income on revenue hedges (\$50 million or -3 basis points) and lower net interest income on derivative transactions \$35 million (offset in other income). Average interest earning assets grew 5%, primarily in Personal and New Zealand, which was partially offset by a decline in net interest margin of 6 basis points (excluding the impact of revenue hedges). Other income increased 12% reflecting increased profit on trading instruments in Institutional, which includes unrealised gains which are offset in net interest income. Operating expense growth was contained to 2% following the strong growth in the September 2006 half.

**Non-core items**

ANZ has adjusted the income statement for non-core items, as outlined below, to assist in understanding the core business performance by removing the volatility in reported results created by one-off significant items, ANZ National Bank incremental integration costs which ceased in the half year March 2006, and the timing differences in the recognition of fair value gains in profit on ineffective hedging contracts.

**Non-core items in the income statement**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Significant items</b>					
Sale of Esanda Fleetpartners	141	-	-	n/a	n/a
Settlement of ANZ National Bank claims	-	-	14	n/a	-100%
Settlement of NHB insurance claim	-	-	79	n/a	-100%
<b>Total significant items</b>	<b>141</b>	<b>-</b>	<b>93</b>	<b>n/a</b>	<b>52%</b>
Ineffective hedge fair value gains/losses	28	21	13	33%	large
NZD revenue hedge volatility	(3)	-	-	n/a	n/a
ANZ National Bank incremental integration costs	-	-	(26)	n/a	-100%
<b>Non-core items</b>	<b>166</b>	<b>21</b>	<b>80</b>	<b>large</b>	<b>large</b>

▪ **Significant items**

Significant items in the income statement are those items that management believe do not form part of the core business by virtue of their magnitude and infrequent nature and, as such, should be removed from profit when analysing the core business performance. The following are considered significant items:

- Sale of Esanda Fleetpartners (March 2007 half year)  
During the March 2007 half ANZ sold Esanda Fleetpartners, which had operations in Australia and New Zealand, to Nikko Principal Investments in Australia. Profit on disposal was \$195 million (\$141 million after tax) with \$128 million (\$74 million after tax) recognised in Australia and \$67 million (\$67 million after tax) recognised in New Zealand.
- Settlement of the NHB insurance claim (March 2006 half year)  
During the March 2006 half ANZ settled its \$130 million claim against a number of reinsurers in relation to the National Housing Bank (NHB) matter. ANZ has reported the \$113 million (\$79 million after tax) cost recovery as a significant item in 2006. \$1 million was received in 2005 and not treated as significant as it was immaterial.
- Settlement of ANZ National Bank claims (March 2006 half year)  
Following the purchase of National Bank of New Zealand Limited on 1 December 2003, a dispute arose with Lloyds TSB in relation to the accounting treatment in the Completion Accounts of the provision for retirement gratuities. The dispute was referred to arbitration and, as a result, ANZ National Bank received \$14 million in March 2006 (\$14 million after tax) in final settlement.

Non-core items, cont'd

▪ **Volatility resulting from the application of hedge accounting**

The Group enters into economic hedges to manage its interest rate and foreign exchange risk. The implementation of AIFRS accounting policies on hedge accounting from 1 October 2005 (1 October 2006 in respect of hedges of NZD revenue) introduced volatility within the Income Statement in respect of ineffective hedges as follows:

- ineffectiveness of designated accounting cash flow and fair value hedges; and
- approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges.

ANZ has separately reported the impact of volatility due to hedge ineffectiveness as a non-core item as the profit reported on hedge transactions is asymmetrical to the treatment of the hedged item and will reverse over time and as such is not part of the core operating performance. During the March 2007 half year ANZ has classified \$25 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to ineffective hedging and, from 1 October 2006, NZD revenue hedges as a non-core items (tax on hedges \$12 million (Sep 2006: \$10 million; Mar 2006: \$5 million)).

<b>Net unrealised loss (balance sheet position)</b>	<b>Mar 07 \$m</b>	<b>Sep 06 \$m</b>	<b>Mar 06 \$m</b>
Non-compliant hedges	44	84	102
NZD revenue hedges	5	-	-
Ineffective portion of effective cash flow and fair value hedges	9	11	24
<b>Net unrealised loss (balance sheet position)</b>	<b>58</b>	<b>95</b>	<b>126</b>

<b>Ineffective hedge fair value gains (income statement)</b>	<b>Half year Mar 07 \$m</b>	<b>Half year Sep 06 \$m</b>	<b>Half year Mar 06 \$m</b>
Non-compliant hedges	40	18	27
NZD revenue hedges	(5)	-	-
Ineffective portion of effective cash flow and fair value hedges	2	13	(9)
<b>Volatility resulting from the application of hedge accounting (before tax)</b>	<b>37</b>	<b>31</b>	<b>18</b>
<b>Volatility resulting from the application of hedge accounting (after tax)</b>	<b>25</b>	<b>21</b>	<b>13</b>

▪ **ANZ National Bank incremental integration costs**

Expenditure on the integration of ANZ National Bank, which was completed in March 2006, included both the reallocation of existing resources to integration and incremental integration costs. Incremental costs were those costs that did not recur once integration was completed and thus did not form part of the core ongoing cost base. During the March 2006 half year \$26 million after tax or \$39 million before tax of incremental integration costs was incurred.

Income and expenses

Net Interest Income

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	3,611	3,575	3,368	1%	7%
Average interest earning assets	323,510	305,962	294,364	6%	10%
Net interest margin (%)	2.24	2.33	2.29	-4%	-2%

▪ March 2007 half year compared to March 2006 half year

Net interest income increased \$243 million (7%) over the March 2006 half.

**Volume**

Average interest earning assets increased \$29.1 billion (10%):

- Average net advances grew by \$24.8 billion (10%). Growth in net advances in Australia was attributable to: Personal (\$14.0 billion or 11%), with \$10.6 billion or 11% in Mortgages; Institutional Australia (\$5.1 billion or 10%), with \$2.0 billion or 14% in Business Banking, \$2.5 billion or 8% in Debt Product Group, \$0.3 billion or 10% in Trade and Transaction Services Australia; and Non-continuing Businesses (-\$0.5 billion). New Zealand's average net advances increased by \$5.1 billion or 8% (increased \$8.6 billion or 12% in NZD terms). Average net advances increased by \$1.1 billion (12%) in Overseas Markets.
- Other interest earning assets increased \$4.3 billion (8%), driven by higher levels of liquid assets (\$2.6 billion) and trading securities (\$2.2 billion).

Average deposits and other borrowings grew \$12.3 billion or 6%. Growth in Australia was attributable to: Personal (\$6.2 billion or 11%), with \$4.6 billion or 13% in Banking Products and \$0.9 billion or 18% in Regional, Rural and Small Business Banking; Institutional Australia (\$6.1 billion or 16%), with \$5.7 billion or 28% in Trade and Transaction Services Australia; and \$2.9 billion or 15% in Treasury. Average deposits and other borrowings increased in New Zealand \$1.8 billion or 3% (increased \$4.5 billion or 7% in NZD terms comprising core deposits growth of 10%, partially offset by a decrease in Treasury Certificates of Deposits and Commercial Paper due to a switch to longer term funding). Average deposits and other borrowings decreased (\$4.8 billion or 20%) in Overseas Markets with exchange rate impact of -\$0.6 billion.

**Margin**

Net interest margin decreased 5 basis points from the March 2006 half:

- Funding mix (+1 basis point)  
Margins were assisted by substitution of customer deposits for wholesale funding (2 basis points), partially offset by decreasing proportions of free funds.
- Asset mix (-2 basis points)  
Reduction in margin was due to an increase in the proportion of lower yielding liquid assets and trading securities in Group Treasury and Institutional (2 basis points), with offsetting impacts between increasing proportions of higher yielding credit cards and lower proportions of Esanda leases.
- Competition (-7 basis points)  
Competitive pressures reduced margins, mainly in Australian and New Zealand Mortgages (3 basis points) and Institutional lending (2 basis points). In addition, migration to high yielding customer deposits and lower rate credit cards reduced margins (2 basis points).
- Wholesale rates (+1 basis point)  
Increased income on the investment of capital and rate insensitive deposits (+3 basis points) offset by a reduction in impacts from basis risk in variable rate mortgages and credit cards (-2 basis points).
- Other items (+2 basis points) include:
  - Lower funding costs associated with unrealised trading gains (+3 basis points), however this is directly offset by an equivalent decrease in trading income.
  - Other impacts include reduced effective yield fee income (-1 basis point), an increase in the proportion of credit card balances earning interest and prepayments on New Zealand Mortgages (+2 basis points).

## Income and expenses, cont'd

### Net Interest Income, cont'd

#### ▪ March 2007 half year compared to September 2006 half year

Net interest income at \$3,611 million was 1% (\$36 million) higher than the September 2006 half.

#### *Volume*

Average interest earning assets increased \$17.5 billion (6%):

- Average net advances grew by \$15.0 billion (6%). Growth in Australia was attributable to: Personal (\$6.2 billion or 5%), with \$4.8 billion or 5% in Mortgages; Institutional Australia (\$2.3 billion or 4%) with \$0.7 billion or 5% in Business Banking, \$1.3 billion or 4% in Debt Product Group; and Non-continuing Businesses (-\$0.2 billion). New Zealand's average net advances increased by \$6.5 billion or 10% (NZD3.4 billion or 5% in NZD terms). Average net advances grew by \$0.2 billion (3%) in Overseas Markets.
- Other interest earning assets increased \$2.5 billion (4%), driven by higher levels of liquid assets (\$1.5 billion), trading securities (\$0.1 billion), available-for-sale assets and interbank lending (\$1.3 billion).

Average deposits and other borrowings grew \$6.2 billion or 3%. Growth in Australia was attributable to: Personal (\$3.3 billion or 5%), with \$2.8 billion or 8% in Banking Products and \$0.6 billion or 12% in Regional, Rural and Small Business Banking; and Institutional Australia (\$3.5 billion or 9%) with \$4.1 billion or 19% in Trade & Transaction Services Australia; and -\$1.1 billion or 5% in Treasury. Average deposits and other borrowings increased in New Zealand \$4.8 billion or 9% (NZD2.3 billion increase or 4% in NZD terms). Average deposits and other borrowings decreased (\$4.3 billion or 18%) in Overseas Markets, with exchange rate impacts -\$0.6 billion.

#### *Margin*

Net interest margin was down 9 basis points to 2.24% from the September 2006 half:

- Funding mix (+1 basis point)  
Margins were assisted by substitution of customer deposits for wholesale funding (2 basis points), partially offset by decreasing proportions of free funds.
- Asset mix (-2 basis points)  
Reduction in margin was due to an increase in the proportion of lower yielding liquid assets and trading securities in Group Treasury and Institutional (2 basis points).
- Competition (-4 basis points)  
Competitive pressures reduced margins, mainly in Australian and New Zealand Mortgages (2 basis points) and Institutional lending (1 basis point). In addition, margins have been reduced by migration into high yielding customer deposits principally in New Zealand (1 basis point).
- Wholesale rates (+1 basis point)  
Wholesale rate movements benefited margins through increases in earnings on the investment of capital and rate insensitive deposits (+2 basis points) offset by increased basis risk on variable rate mortgages and credit cards (-1 basis point).
- Other items (-5 basis points) include:
  - Foreign exchange revenue hedging no longer classified as interest income (-3 basis points or \$49 million).
  - Higher funding costs associated with unrealised trading gains (-2 basis points), however this is directly offset by an equivalent increase in trading income.
  - Reduced effective yield fee income (-1 basis point).
  - Other impacts include interest received on tax refunds in the prior period and an increase in the proportion of retail broker payments, offset by an increase in the proportion of credit card balances earning interest and prepayments on New Zealand Mortgages.

Income and expenses, cont'd

Other Operating Income

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Other operating income</b>					
Total fee income	1,143	1,116	1,029	2%	11%
Foreign exchange earnings	237	220	227	8%	4%
Profit on trading instruments	173	65	144	large	20%
Other	217	182	163	19%	33%
<b>Core other operating income</b>	<b>1,770</b>	<b>1,583</b>	<b>1,563</b>	<b>12%</b>	<b>13%</b>
Ineffective hedge fair value gains/losses <sup>1</sup>	41	31	18	32%	large
NZD revenue hedge volatility	(4)	-	-	n/a	n/a
Significant items <sup>1</sup>	195	-	14	n/a	large
<b>Total other income</b>	<b>2,002</b>	<b>1,614</b>	<b>1,595</b>	<b>24%</b>	<b>26%</b>

Composition of Markets' income

Net interest income	50	85	28	-41%	79%
Foreign exchange earnings	178	166	172	7%	3%
Profit on trading instruments	156	74	146	large	7%
Fee and other income	13	19	6	-32%	large
<b>Total Markets' operating income</b>	<b>397</b>	<b>344</b>	<b>352</b>	<b>15%</b>	<b>13%</b>

<sup>1</sup> Refer footnote 1 on page 11

▪ March 2007 half year compared to March 2006 half year

Other operating income increased \$407 million (26%). Core other operating income increased \$207 million (13%) after excluding non-core items (refer pages xx to xx for details). The following explanations are based on core other operating income:

- Fee income increased \$114 million (11%):
  - Lending fee income increased \$17 million (8%)
    - Personal increased \$23 million. Banking Products increased \$8 million as a result of growth in the number of transaction accounts and pricing initiatives. Mortgages increased \$7 million due to pricing initiatives as well as growth in account numbers and Esanda increased \$4 million as a result of higher predetermination fee income.
    - New Zealand increased \$4 million (NZD increase \$6 million) due to a \$2 million increase in NBNZ Retail as a result of increased revenue from overdraft management fees and a \$2 million increase in ANZ Retail as a result of pricing initiatives.
    - Institutional decreased \$13 million. Corporate & Structured Financing decreased \$8 million with a change in business mix (higher non-lending fees) and Working Capital decreased \$6 million due to lower loan administration fees.
  - Non-lending fee income increased \$97 million (12%)
    - Personal increased \$69 million. Consumer Finance increased \$41 million due to volume growth and pricing initiatives. Banking Products increased \$15 million driven by new product and pricing initiatives. Investment and Insurance Products grew \$13 million due to an increase in income generated by financial planners.
    - Institutional increased \$42 million. Corporate & Structured Financing increased \$28 million with significant growth experienced within the advisory and structured debt portfolios. Working Capital increased \$7 million due to a \$2 million increase in Cash Management and Transaction Services reflecting stronger growth in current account fees and ANZ Online fees and \$2 million higher fee revenue in commodity trade finance deals from China. Markets increased \$6 million reflecting the strategic focus to grow the credit business.
    - Non-continuing businesses decreased \$9 million due to the sale of Esanda Fleetpartners.
- Foreign exchange earnings increased \$10 million. Institutional increased \$11 million with a \$7 million increase in Markets due to growth particularly in the currency trading business and a \$5 million increase in Working Capital as a result of continuing growth particularly from international payments revenue.
- Profit on trading instruments increased \$29 million:
  - Corporate & Structured Financing increased \$13 million as a result of mark to market gains on private equity securities held in a trading portfolio.
  - Markets increased \$11 million driven by good performance within the Rates business. Included within the Markets growth was a \$23 million decrease due to unrealised positions which were offset in net interest income.
  - Working Capital increased \$5 million due to the mark to market of the credit derivative swap portfolio.

**Income and expenses, cont'd**

**Other Operating Income, cont'd**

- Other operating income increased \$54 million (33%):
  - Partnerships & Private Bank increased \$30 million. INGA equity accounted income rose \$17 million reflecting increased capital investment earnings and reduced remediation expenses. International Partnerships increased \$11 million due mainly to equity accounted income from Bank of Tianjin (formerly Tianjin City Commercial Bank).
  - Personal increased \$35 million. Consumer Finance increased \$17 million due mainly to the sale of MasterCard shares. Mortgages increased \$11 million from higher sales volumes and associated LMI policy premiums.
  - New Zealand increased \$10 million due mainly to the sale of MasterCard shares.
  - Non-continuing businesses decreased \$13 million as the first half of 2006 included a \$12 million gain from settlement of the sale warranties relating to the sale of the London headquartered project finance business.
  - Institutional decreased \$5 million. Corporate & Structured Financing decreased \$4 million as the first half of 2006 included a \$6 million gain on sale of power assets.
- Movements in average exchange rates over the March 2006 half year decreased total other income by \$22 million.

Total Markets income is impacted by mix impacts between the categories within other operating income and net interest income. The effect for the 2007 half year was to decrease total other income by \$23 million (offset in net interest income).

▪ **March 2007 half year compared to September 2006 half year**

Other operating income increased \$388 million (24%). After adjusting for non-core items (refer [pages xx to xx](#) for details), core other operating income increased \$187 million (12%).

The following explanations are based on core other operating income:

- Fee income increased \$27 million (2%). Growth is typically slower in the first half:
  - Lending fee income increased \$17 million (8%):
    - Personal increased \$11 million with Banking Products increasing \$7 million as a result of growth in the number of transaction accounts and pricing initiatives.
    - New Zealand increased \$5 million due to pricing initiatives.
  - Non-lending fee income increased \$10 million (1%):
    - New Zealand increased \$7 million (NZD decreased \$4 million) due to the impact of movements in exchange rates.
    - Institutional increased \$10 million (4%). Working Capital increased \$10 million reflecting increased deposit volumes, higher commodity trade fees and higher volume in custody and clearing.
    - Non-continuing businesses decreased \$9 million due to the sale of Esanda Fleetpartners.
- Foreign exchange earnings increased \$17 million (8%). Institutional increased \$16 million due to Markets increasing \$12 million as a result of growth principally in the currency trading business, and Working Capital increasing \$4 million as a result of continuing growth particularly from international payments revenue.
- Profit on trading instruments increased \$108 million due to Institutional. Markets increased \$82 million driven by a strong performance within the Rates business. Included within the Markets growth was a \$34 million increase due to unrealised gains which were offset in net interest income. Corporate & Structured Financing increased \$12 million as a result of mark to market gains on private equity securities held in a trading portfolio and mark to market impacts of Working Capital's credit derivatives were up \$13 million.
- Other operating income increased \$35 million (19%):
  - Partnerships & Private Bank increased \$18 million. INGA equity accounted profits grew \$12 million with a 12% increase in core operating profit and a 45% increase in capital investment earnings. International Partnerships increased \$7 million due to a \$5 million increase in Bank of Tianjin as the March 2007 half includes a full 6 months of equity accounted income.
  - Personal increased \$16 million. Consumer Finance increased \$11 million due mainly to the sale of MasterCard shares.
  - New Zealand increased \$5 million due mainly to the sale of MasterCard shares.
  - Institutional decreased \$9 million. Markets decreased \$6 million as the second half of 2006 included \$6 million due to bond sales which was not repeated in 2007.
- Movements in average exchange rates over the September 2006 half increased total other income by \$15 million.

The Markets mix impact increased total other income by \$34 million (offset in net interest income).



Income and expenses, cont'd

Expenses

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Operating expenses</b>					
Personnel expenses	1,451	1,390	1,365	4%	6%
Premises expenses	223	207	204	8%	9%
Computer expenses	278	284	258	-2%	8%
Other expenses	434	465	432	-7%	0%
<b>Core operating expenses</b>	<b>2,386</b>	<b>2,346</b>	<b>2,259</b>	<b>2%</b>	<b>6%</b>
Significant items - settlement of NHB insurance claim	-	-	(113)	n/a	-100%
ANZ National Bank incremental integration costs <sup>1</sup>	-	-	39	n/a	-100%
<b>Total operating expenses</b>	<b>2,386</b>	<b>2,346</b>	<b>2,185</b>	<b>2%</b>	<b>9%</b>
<b>Total employees</b>	<b>33,183</b>	<b>32,256</b>	<b>31,063</b>	<b>3%</b>	<b>7%</b>

<sup>1</sup> For March 2006 these costs are personnel costs of \$22 million, computer costs of \$6 million, and other costs of \$11 million

▪ **March 2007 half year compared to March 2006 half year**

Operating expenses increased \$201 million (9%) or \$127 million (6%) adjusting for non-core items (refer page xx for details). The following explanations exclude non-core items:

- Personnel costs were up \$86 million (6%) with a 7% increase in staff numbers. Increases in staff numbers were mainly in the following business units:
  - Personal staff numbers increased 8%. Retail Banking staff numbers increased 7% due to the opening of new branches under the Branch Investment Program together with extending opening hours of branches. Mortgages increased 11% due to increased volumes. Consumer Finance increased 12% to resource increased volumes, cards initiatives and additional collections staff.
  - Institutional increased 11% due to a 15% increase in Working Capital reflecting new operations sites and Markets increasing 21% with increases in frontline staff to support the revenue strategy in Commodities, Corporate Sales and Asia business.
  - New Zealand grew 4% due to increases in frontline staff to facilitate business growth and compliance staff required for Basel II projects.
  - Partnership & Private Bank increased 43% driven mainly by the expansion program in Cambodia and increasing specialist staff to follow the growth agenda in Private Banking.
- Premises costs increased \$19 million (9%) mainly driven by higher rental expense reflecting additional space requirements, opening of new branches and ATMs as well as market rental growth.
- Computer costs increased \$20 million (8%) due to increased software purchases of \$10 million which includes additional software and software licence fees and a \$4 million increase in data communication costs.
- Other expenses were \$2 million higher. Non lending losses decreased \$20 million compared with the first half of 2006 due to Institutional and New Zealand (the latter included a NZD 10 million New Zealand Commerce Commission settlement impact). Advertising spend decreased \$9 million as a result of Consumer Finance cost initiatives and March 2006 half including the cost of launching ANZ Everyday Visa Debit. Travel expenses increased \$10 million and professional fees rose \$8 million with small increases spread across most business units. Freight costs grew \$4 million, depreciation charges increased \$3 million and indirect taxes increased \$3 million.
- Movements in exchange rates decreased cost growth by \$27 million.

**Income and expenses, cont'd**

**Expenses, cont'd**

**▪ March 2007 half year compared to September 2006 half year**

Operating expenses increased \$40 million (2%).

- Personnel expenses increased \$61 million (4%) as a result of annual salary increases and a 3% increase in staff numbers mainly in the following business units:
  - Personal staff numbers increased 4%. Mortgages increased 7% due to increased volumes. Investment and Insurance Products increased 9% due to the ongoing recruitment of financial planners.
  - Institutional staff numbers increased 5% due to a 5% increase in Working Capital reflecting new operations sites and Corporate & Structured Financing increasing 14% particularly due to growth in Structured Debt.
- Premises costs increased \$16 million (8%) reflecting additional space requirements, opening of new branches and ATMs as well as market rental growth.
- Computer costs decreased \$6 million (2%). A \$9 million reduction in other computer costs due to Mortgages re-assessment of software projects in September 2006 half year was offset by a \$4 million increase in computer repairs due to the timing of computer maintenance contracts.
- Other expenses decreased \$31 million:
  - Advertising spend decreased \$24 million due to Consumer Finance decreasing \$14 million as the second half of 2006 included expenditure relating to the launch of new products including chip cards, designmycard and Platinum. New Zealand decreased \$4 million with NBNZ marketing spend greater in the second half.
  - Card processing expense decreased \$13 million, due mainly to the second half of 2006 expenditure on microchip rollout costs.
- Movements in exchange rates increased costs by \$25 million.

**Credit Risk**

**Provision for credit impairment charge**

The credit impairment charge was \$240 million, up \$16 million from the March 2006 half and up \$57 million from the September 2006 half. Personal and New Zealand predominantly drove the increases, partially offset by decreases in Institutional.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Personal	192	173	163	11%	18%
Institutional	(6)	8	50	large	large
New Zealand Businesses	33	1	3	large	large
Partnerships & Private Bank	19	15	9	27%	large
Non-continuing businesses	-	(14)	(1)	-100%	-100%
Group Centre	2	-	-	n/a	n/a
<b>Provision for credit impairment charge</b>	<b>240</b>	<b>183</b>	<b>224</b>	<b>31%</b>	<b>7%</b>

**Individual provision charge**

The individual provision charge was \$188 million, which was flat in relation to the March 2006 half and up \$38 million from the September 2006 half. Since the March 2006 half Institutional has continued to record a release due to provisions being lower than recoveries and particularly influenced by a significant recovery late in the half. This was partly offset by a higher charge in Personal, largely in consumer businesses, primarily driven by strong asset growth in prior periods maturing to expected default rates and a modest rise in bankruptcy losses. The New Zealand charge increased, reflecting a return to more normalised levels.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Personal	159	146	110	9%	45%
Institutional	(8)	(7)	56	14%	large
New Zealand Businesses	23	8	10	large	large
Partnerships & Private Bank	14	14	8	0%	75%
Non-continuing businesses	-	(11)	4	-100%	-100%
<b>Individual provision charge</b>	<b>188</b>	<b>150</b>	<b>188</b>	<b>25%</b>	<b>0%</b>

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>New and increased provisions</b>					
Personal	213	198	156	8%	37%
Institutional	80	58	106	38%	-25%
New Zealand Businesses	37	39	29	-5%	28%
Partnerships & Private Bank	15	16	9	-6%	67%
Non-continuing businesses	-	-	7	n/a	-100%
<b>New and increased provisions</b>	<b>345</b>	<b>311</b>	<b>307</b>	<b>11%</b>	<b>12%</b>

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Recoveries and writebacks</b>					
Personal	(54)	(52)	(46)	4%	17%
Institutional	(88)	(65)	(50)	35%	76%
New Zealand Businesses	(14)	(31)	(19)	-55%	-26%
Partnerships & Private Bank	(1)	(2)	(1)	-50%	0%
Non-continuing businesses	-	(11)	(3)	-100%	-100%
<b>Recoveries and writebacks</b>	<b>(157)</b>	<b>(161)</b>	<b>(119)</b>	<b>-2%</b>	<b>32%</b>

Credit Risk, cont'd

Collective provision charge

The collective provision charge was \$52 million, up \$16 million from the March 2006 half and up \$19 million from the September 2006 half. The charge for both halves was driven by asset growth and changes in portfolio risk. This was partially offset by the continued release of the scenario impact provision taken in 2005 to reflect the risk change of materially higher and sustained oil prices.

The increase on both halves was predominantly driven by New Zealand, due to strong portfolio growth, reduced oil shock releases and a stable risk profile relative to a modest improvement last year. Personal offset the increase since the March 2006 half due mainly to slowing growth rates across the division, particularly in the unsecured portfolios, coupled with a lower rate of risk movement than in the first half of 2006. Institutional offset the increase since the September 2006 half due to slowing growth rates across the division and a higher oil shock provision release.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Lending growth	63	61	70	3%	-10%
Risk profile	18	22	(5)	-18%	large
Portfolio mix	7	(2)	8	large	-13%
Scenario impact <sup>1</sup>	(36)	(45)	(32)	-20%	13%
Non-continuing business	-	(3)	(5)	-100%	-100%
<b>Collective provision charge</b>	<b>52</b>	<b>33</b>	<b>36</b>	<b>58%</b>	<b>44%</b>

<sup>1</sup> Scenario impact includes oil price shock and offshore risk provision in 2005 and the modelled unwind of the oil price shock provision to offset the emergence of related Individual and Collective provisions from these scenario impacts

The analysis of the collective provision charge by business unit is set out below:

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Collective provision charge</b>					
Personal	33	27	53	22%	-38%
Institutional	2	15	(6)	-87%	large
New Zealand Businesses	10	(7)	(7)	large	large
Partnerships & Private Bank	5	1	1	large	large
Non-continuing businesses	-	(3)	(5)	-100%	-100%
Group Centre	2	-	-	n/a	n/a
<b>Collective provision charge</b>	<b>52</b>	<b>33</b>	<b>36</b>	<b>58%</b>	<b>44%</b>

Expected loss

Management believe that disclosure of modelled expected loss data will assist in assessing the longer term expected loss rates on the lending portfolio as it removes the volatility in reported earnings created by the use of AIFRS credit loss provisioning. The expected loss concept also aligns with the Basel II advanced approach to capital management. The expected loss methodology is used internally for Economic Value Added (EVA) reporting and as a factor when determining the dividend payout ratio. Expected loss outcomes are subject to change as Basel II validation work is completed.

Expected loss was \$388 million, an increase of \$54 million over the March 2006 half and an increase of \$31 million over the September 2006 half. The increase in both halves was predominantly driven by growth and product mix movements in Personal, particularly in Consumer Finance, and moderately higher losses in Esanda due to lower recovery values on defaulted motor vehicle facilities, however the risk movement is slowing in comparison to the previous two halves.

Credit Risk, cont'd

	% of Group Net Advances	Half year Mar 07	Half year Sep 06	Half year Mar 06
<b>Expected loss by segment<sup>1</sup></b>				
Personal	49%	0.29%	0.28%	0.26%
Institutional	26%	0.32%	0.31%	0.30%
New Zealand Businesses	24%	0.17%	0.16%	0.18%
Partnerships & Private Bank	1%	2.33%	2.68%	1.65%
Non-continuing businesses	<1%	0.36%	0.34%	0.43%
<b>Total</b>	100%	0.28%	0.27%	0.26%
<b>Expected loss (\$million)</b>		388	357	334

<sup>1</sup> Expected loss = Annualised expected loss divided by average net lending assets

Gross non-performing loans

Gross non-performing loans decreased to \$640 million, down \$86 million from 31 March 2006 and down \$21 million from 30 September 2006. Institutional has primarily driven the decrease in both halves due to low levels of downgrades and strong asset realisation and repayments since September 2006. Partially offsetting this was Personal driven by slightly higher Mortgage defaults.

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Gross non-performing loans</b>					
Personal	180	138	126	30%	43%
Institutional	357	408	441	-13%	-19%
New Zealand Businesses	96	99	138	-3%	-30%
Partnerships & Private Bank	7	7	5	0%	40%
Non-continuing businesses	-	9	16	-100%	-100%
<b>Total gross non-performing loans</b>	640	661	726	-3%	-12%

Net non-performing loans

Net non-performing loans are \$365 million (Sep 2006: \$382 million; Mar 2006: \$421 million) representing 1.7% of shareholders' equity as at 31 March 2007 (Sep 2006: 1.9%; Mar 2006: 2.2%). The Group has an individual provision coverage ratio of 43%.

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Net non-performing loans</b>					
Personal	81	61	55	33%	47%
Institutional	229	266	279	-14%	-18%
New Zealand Businesses	55	53	78	4%	-29%
Non-continuing businesses	-	2	9	-100%	-100%
<b>Total net non-performing loans</b>	365	382	421	-4%	-13%
<b>Individual provision coverage</b>	43%	42%	42%		

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Net unproductive facilities</b>					
Personal	3	3	4	0%	-25%
Institutional	75	20	55	large	36%
New Zealand Businesses	4	7	6	-43%	-33%
<b>Total net unproductive facilities</b>	82	30	65	large	26%

**Income Tax Expense**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Income tax expense on profit	883	780	742	13%	19%
Effective tax rate	29.6%	29.3%	29.1%		
Income tax expense on cash profit <sup>1</sup>	817	770	716	6%	14%
Effective tax rate (cash profit <sup>1</sup> )	29.7%	29.3%	29.2%		

<sup>1</sup> Refer footnote 1 on page 11

**March 2007 half year compared to March 2006 half year**

The Group's income tax expense increased by \$141 million to \$883 million resulting in an effective tax rate of 29.6%, up 0.5% from the March 2006 half year. This movement results mainly from the continued run-off of certain structured finance transactions, the non-taxable settlement of the ANZ National Bank warranty claim which was included in the March 2006 half year and the withholding tax payable on future remittances of present profits from offshore operations. These were offset by the non-assessable gain on the sale of Fleetpartners in New Zealand.

Adjusted for non-core items, the Group's income tax expense increased by \$101 million to \$817 million resulting in an effective tax rate of 29.7%, an increase of 0.5%. This is due mainly to the continued run-off of certain structured finance transactions and the withholding tax payable on future remittances of present profits from offshore operations.

**March 2007 half year compared to September 2006 half year**

The Group's income tax expense increased by \$103 million to \$883 million, a rise of 0.3% in the effective tax rate. This increase is due mainly to the continued run-off of certain structured finance transactions and favourable prior period adjustments included in September 2006 half year. These were offset by the non-assessable gain on the sale of Fleetpartners in New Zealand.

Adjusted for non-core items, the group's income tax expense increased by \$47 million to \$817 million resulting in an effective tax rate of 29.7%, up 0.4%, as described above.

**Earnings per share**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Earnings per share<sup>1</sup> (cents)</b>					
Basic	113.2	101.6	98.4	11%	15%
Diluted	110.0	98.5	95.5	12%	15%

**Cash earnings per share**

Profit attributable to shareholders of the Company (\$M)	2,102	1,877	1,811	12%	16%
Less: non-core items included in profit after tax <sup>2</sup> (\$M)	(166)	(21)	(80)	large	large
Cash Profit (\$M)	1,936	1,856	1,731	4%	12%
Preference share adjustments <sup>3</sup> (\$M)	(17)	(15)	(12)	13%	42%
Earnings adjusted for non-core items (\$M)	1,919	1,841	1,719	4%	12%
Weighted average number of ordinary shares (M)	1,841.6	1,832.2	1,828.4	1%	1%
<b>Cash earnings per share (cents)</b>	104.2	100.5	94.0	4%	11%

<sup>1</sup> Refer page xx for full calculation

<sup>2</sup> Refer pages xx to xx

<sup>3</sup> The EPS calculation excludes the Euro preference shares

Earnings per share increased 15.0% (14.8 cents) to 113.2 cents on the March 2006 half. Cash EPS for the Group increased 10.9% or 10.2 cents on the March 2006 half. The main drivers of the increase in Cash EPS on the March 2006 half are:

- Growth in continuing business profit before credit impairment (after tax), which contributed 13.9%.
- Partly offset by an after tax increase in the continuing businesses credit impairment charge (0.4%), run-off of non-continuing businesses (1.8%) and dilution from an increase in the weighted average number of shares (0.8%).

Earnings per share increased 11.4% (11.6 cents) on the September 2006 half. Cash EPS for the Group increased 3.7% or 3.7 cents on the September 2006 half. The main drivers of the increase in Cash EPS on the September 2006 half are:

- Growth in continuing business profit before credit impairment (after tax) and preference shares, which contributed 7.0%.
- Partly offset by an after tax increase in the continuing businesses credit impairment charge (1.6%), run-off of non-continuing businesses (1.2%) and dilution from an increase in the weighted average number of shares (0.5%).

Dividends

	Half year Mar 07	Half year Sep 06	Half year Mar 06	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Dividend per ordinary share (cents)</b>					
Interim (fully franked)	62	n/a	56	n/a	11%
Final (fully franked)	n/a	69	n/a	n/a	n/a
<b>Ordinary share dividend payout ratio (%)</b>	54.9%	68.0%	56.9%		
Profit after tax (\$M)	2,102	1,877	1,811	12%	16%
Non-core items <sup>1</sup> (\$M)	(166)	(21)	(80)	large	large
Cash <sup>1</sup> profit (\$M)	1,936	1,856	1,731	4%	12%
<b>Dividend payout ratio of cash<sup>1</sup> profit (%)</b>	59.6%	68.8%	59.6%		

<sup>1</sup> Refer footnote 1 on page 11

The Directors propose that an interim dividend of 62 cents be paid on each eligible ordinary share, up 6 cents (11%) on the 2006 interim dividend and broadly in line with the growth in Cash EPS (adjusted for non-core items). The proposed interim dividend will be fully franked for Australian tax purposes.

The Group has a dividend reinvestment plan (DRP) and a bonus option plan (BOP). Recent changes to the terms and conditions of the DRP and BOP, notified to shareholders, removed the participating cap and allowed ANZ the discretion to either issue new shares or purchase existing shares in order to satisfy its obligation to provide shares under the DRP; shares provided under the BOP will continue to be satisfied through the issue of new shares. In respect of the 2007 interim dividend, ANZ intends to provide shares under both the DRP and BOP through the issue of new shares. Election notices from shareholders wanting to commence participation in the DRP or BOP for the 2007 interim dividend or to vary their current participation election, must be completed and returned to ANZ's Share Registrar by 5.00 pm (Melbourne time) on the record date, namely 18 May 2007. It is proposed that the interim dividend will be paid on 2 July 2007. Subject to receiving effective contrary instructions from the shareholder, dividends payable to shareholders with a registered address in Great Britain (including the Channel Islands and the Isle of Man) or New Zealand will be converted to their local currency at ANZ's daily forward exchange rate at the close of business on 30 May 2007 for value on the payment date.

The Group expects current timing differences will generate future Australian franking credits and therefore the Group expects it will be able to maintain full franking for the foreseeable future.

EVA Reconciliation

One measure of shareholder value is EVA<sup>TM</sup> (Economic Value Added) growth relative to prior periods. EVA<sup>TM</sup> for the half year ended 31 March 2007 at \$1,119 million, an increase of \$106 million on the March 2006 half and \$50 million on the September 2006 half.

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>EVA<sup>TM</sup></b>					
<b>Profit after tax</b>	2,102	1,877	1,811	12%	16%
Non-core items <sup>1</sup>	(166)	(21)	(80)	large	large
Cash Profit	1,936	1,856	1,731	4%	12%
Credit cost adjustment	(103)	(120)	(74)	-14%	39%
Economic profit	1,833	1,736	1,657	6%	11%
Imputation credits	378	351	313	8%	21%
Adjusted economic profit	2,211	2,087	1,970	6%	12%
Cost of ordinary capital	(1,075)	(1,003)	(945)	7%	14%
Cost of preference share capital	(17)	(15)	(12)	13%	42%
<b>EVA<sup>TM</sup></b>	<b>1,119</b>	<b>1,069</b>	<b>1,013</b>	<b>5%</b>	<b>10%</b>

<sup>1</sup> Refer footnote 1 on page 11

EVA<sup>TM</sup> is a measure of risk adjusted accounting profit used for evaluating business unit performance and is a factor in determining the variable component of remuneration packages. It is based on net profit after tax, adjusted for non-core items, credit costs, the cost of capital, and imputation credits (measured at 70% of Australian tax). Of these, the major component is the cost of capital, which is calculated on the risk adjusted or economic capital at a rate of 11%. At the Group level, total capital is used so the cost of capital reflects the full resources provided by shareholders. The credit cost adjustment replaces the credit impairment charge with expected losses after tax at the rate applicable in the relevant geography. At ANZ, economic capital is equity allocated according to a business unit's inherent risk profile. It is allocated for several risk categories including: credit risk, operating risk, interest rate risk, basis risk, mismatch risk, investment risk, trading risk deferred acquisition costs risk and other risk. The methodology used to allocate capital to business units for risk is designed to help drive appropriate risk management and business strategies.

**Market Risk**

Below are aggregate Value at Risk (VaR) exposures at 97.5% and 99% confidence levels covering both physical and derivatives trading positions for the Bank's principal trading centres. Figures are converted from USD at closing exchange rates.

**97.5% confidence level 1 day holding period**

	As at Mar 07	High for period Mar 07	Low for period Mar 07	Ave for period Mar 07	As at Sep 06	High for period Sep 06	Low for period Sep 06	Ave for period Sep 06
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Value at risk at 97.5% confidence								
Foreign exchange	0.5	1.3	0.2	0.6	0.5	1.6	0.3	0.7
Interest rate	3.2	4.9	1.3	2.3	1.7	3.2	0.8	1.8
Credit Spread	1.6	1.7	0.7	1.1	1.1	1.7	0.7	1.1
Diversification benefit	(1.9)	n/a	n/a	(1.5)	(1.4)	n/a	n/a	(1.5)
<b>Total VaR</b>	<b>3.4</b>	<b>4.4</b>	<b>1.4</b>	<b>2.5</b>	<b>1.9</b>	<b>3.6</b>	<b>0.9</b>	<b>2.1</b>

**99% confidence level 1 day holding period**

	As at Mar 07	High for period Mar 07	Low for period Mar 07	Ave for period Mar 07	As at Sep 06	High for period Sep 06	Low for period Sep 06	Ave for period Sep 06
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Value at risk at 99% confidence								
Foreign exchange	0.7	1.7	0.3	0.7	0.7	2.0	0.3	0.8
Interest rate	3.6	6.2	1.7	3.1	2.0	4.4	1.3	2.4
Credit Spread	2.8	2.9	1.0	2.1	2.8	3.6	1.1	2.3
Diversification benefit	(2.3)	n/a	n/a	(2.5)	(2.9)	n/a	n/a	(2.6)
<b>Total VaR</b>	<b>4.8</b>	<b>6.7</b>	<b>1.7</b>	<b>3.4</b>	<b>2.6</b>	<b>4.9</b>	<b>1.2</b>	<b>2.9</b>

**Revenue related cash flow hedges**

The Group has used derivative instruments to hedge against the adverse impact on future offshore revenue streams from exchange rate movements. Movements in average exchange rates, net of associated revenue hedges, resulted in a decrease of \$21 million in the Group's profit after tax for March 2007 half when comparing to the March 2006 half (Sep 2006 half: decrease \$15 million). This included the impact of earnings from associated revenue hedges, which increased by \$2 million (before tax) from March 2006 half (Sep 2006 half: decrease \$50 million). Hedge revenue is booked in the Group Centre.

From 1 October 2006, new AIFRS rules do not permit economic hedging of offshore revenue streams to be accounted for in the same manner as that permitted under first year AIFRS transitional rules or AGAAP. As a consequence, from 1 October 2006 revenue hedges of the Group's offshore revenue streams are marked to market through the income statement. In addition, AIFRS requires that realised and unrealised positions on revenue hedges at 1 October 2006 be taken directly to retained earnings. This resulted in a realised gain of \$141 million transferred to retained earnings at 1 October 2006.

The most significant offshore revenue stream is derived from the New Zealand geography (refer page xx) and the debt component of New Zealand Dollar intra-group funding of this business, which amounted to NZD1.77 billion at 31 March 2007. Details of revenue hedges are set out below.

	Half year Mar 07	Half year Sep 06	Half year Mar 06
	\$M	\$M	\$M
<b>NZD Revenue hedges</b>			
Net open position NZD (notional principal)	869	1,148	2,486
Amount taken to income (pre tax)	(6)	49	(3)
<b>Amount taken to income (pre tax cash basis)</b>	<b>(1)</b>	<b>49</b>	<b>(3)</b>

At 30 September 2006 the Group had NZD1.55 billion of capital hedges with the accumulated unrealised losses of approximately \$23 million (net of tax) which had been taken to the Foreign Currency Translation Reserve. During the March 2007 half, these capital hedges were de-designated and were marked to market through the income statement as a partial economic hedge of the expected 2007 NZD earnings. In the March 2007 half:

- NZD780 million of economic hedges were matured and a realised loss of \$1.4 million (pre-tax) was booked to the Income Statement.
- NZD220 million of economic hedges for 2008 were taken out at a spot rate of approximately NZD1.12/A\$.
- An unrealised loss of \$4.6 million (pre-tax) on the outstanding NZD1.0 billion of economic hedges was booked to the Income Statement as a non-core item as these are viewed by management as hedges of NZ revenue in the second half of 2007 and 2008.

Approximately 90% of the anticipated September 2007 half NZD revenue streams (including inter-group funding) have been hedged at an effective all-in rate of NZD1.145/A\$.



**Balance Sheet**

Total assets increased by \$29.5 billion (9%) since 31 March 2006 to \$351.7 billion. Exchange rate movements accounted for a net increase of \$1.1 billion, consisting of an increase of \$2.8 billion in New Zealand partly offset by a reduction of \$1.7 billion in Overseas Markets. Excluding the impact of exchange rate movements, total assets increased \$21.7 billion (10%) in Australia, \$5.1 billion (6%) in New Zealand and \$1.6 billion (8%) in Overseas Markets.

The explanations in the table below describe movements in the major asset classes.

**Liquid assets ↑11%** (Excl Exchange Rates ↑13%)

Liquid assets increased by \$1.6 billion to \$15.4 billion at 31 March 2007. Australia increased \$2.2 billion from customer-related repurchase agreement activity in Institutional offset by lower holdings of liquid assets in Group Treasury. New Zealand increased \$0.8 billion primarily from higher liquidity. Overseas Markets decreased by \$1.4 billion due to a switch from bank certificates of deposits to available for sale assets in the United Kingdom and the United States.

**Due from other financial institutions ↓23%** (Excl Exchange Rates ↓21%)

Due from other financial institutions decreased by \$1.9 billion to \$6.4 billion at 31 March 2007 due mainly to a reduction in interbank lending volumes in New Zealand and America.

**Trading securities ↑64%** (Excl Exchange Rates ↑63%)

Trading securities volumes increased \$5.5 billion to \$14.3 billion at 31 March 2007 primarily in Institutional in Australia reflecting a strategic decision to increase participation in the Debt Capital Markets to support customer issuance and investment needs.

**Derivatives ↑7%** (Excl Exchange Rates ↑7%)

Derivative assets increased \$0.8 billion to \$12.2 billion at 31 March 2007 driven principally by the significant appreciation of the AUD against all major currencies throughout the half together with increased trading activities.

**Available-for-sale assets ↓26%** (Excl Exchange Rates ↓25%)

Available-for-sale asset volumes decreased \$3.5 billion to \$9.8 billion at 31 March 2007 due to the de-consolidation of two Special Purpose Vehicles at September 2006 and the sale/closure of customer facilities within Debt Products Group, Institutional.

**Net loans and advances ↑11%** (Excl Exchange Rates ↑10%)

Net loans and advances increased \$25.8 billion to \$267.8 billion at 31 March 2007. Excluding the impact of exchange rate movement, the increase was \$24.2 billion (10%).

Growth in Australia was \$16.8 billion or 10%:

- Personal (\$12.6 billion or 10%) with \$10.1 billion as a result of growth in housing loans from Mortgages. Consumer Finance increased \$0.9 billion, reflecting the success of the Low Rate MasterCard product.
- Institutional Australia (\$4.2 billion or 10%) largely in Debt Products Group, with growth of \$2.8 billion driven by increased demand for funding of mergers and acquisition activity. Business Banking increased \$1.3 billion (10%).

New Zealand grew by \$9.1 billion (14%). After excluding the impact of exchange rates, growth was \$6.9 billion, or 11%, with increases in ANZ Retail Banking (\$2.2 billion or 15%), The National Bank Retail (\$2.5 billion or 11%), Corporate & Commercial Banking NZ (\$1.7 billion or 17%), and Rural Banking (\$1.4 billion or 13%) offset by a decrease in NZ Institutional (0.7 billion or 10%).

Overseas Markets decreased by \$0.1 billion (-2%). After excluding the impact of exchange rates, growth was \$0.5 billion (6%) primarily from an increase in Asia of \$0.3 billion and an increase in Pacific of \$0.3 billion.

**Balance Sheet, cont'd**

Total liabilities increased by \$27.4 billion (9%) from 31 March 2006. Exchange rate movements accounted for a net decrease of \$0.4 billion consisting of a \$2.3 billion increase in New Zealand offset by a reduction of \$2.7 billion in Overseas Markets.

The explanations in the table below describe movements in the major liability classes.

**Due to other financial institutions ↑11% (Excl Exchange Rates ↑14%)**

Due to other financial institutions increased by \$1.5 billion to \$14.9 billion at 31 March 2007. Volumes in Australia increased \$2.6 billion principally in the Markets business in Institutional with increased interbank repurchase agreement activity partly offset by decreases in New Zealand and International Markets.

**Deposits and other borrowings ↑7% (Excl Exchange Rates ↑7%)**

Deposits and other borrowings increased \$13.7 billion to \$210.6 billion at March 2007. Excluding the impact of exchange rate movement, the increase was \$14.2 billion (7%).

Australia increased \$16.9 billion (14%) largely as a result of increases in the following businesses:

- Institutional increased \$8.3 billion (21%) with increased deposits in Working Capital (\$8.0 billion) following the Collateralised Loan Obligation issuance in September 2006 and growth in current accounts, Business Banking (\$1.5 billion) and Markets (\$1.2 billion) partly offset by a reduction in Corporate & Structured Financing (\$2.3 billion).
- Personal increased \$5.6 billion (10%) due mainly to the growth in cash management account products and term deposit balances in Banking Products (\$4.6 billion), Regional, Rural & Small Business Banking (\$0.9 billion) and Mortgages (\$0.5 billion), partly offset by a reduction in deposits in Esanda (\$0.5 billion).
- Treasury increased \$3.0 billion largely due to an increase requirement for short term domestic funding.

New Zealand increased \$4.5 billion (9%). After excluding the impact of exchange rates, growth was \$2.7 billion (5%) with increases largely in ANZ Retail Banking (\$1.1 billion), The National Bank Retail (\$1.2 billion), Institutional (\$1.7 billion) and Private Banking (\$0.5 billion), offset by a reduction in Treasury (\$2.1 billion).

Overseas Markets decreased by \$7.7 billion (-31%). After excluding the impact of exchange rates, the decline was \$5.5 billion (-24%), largely due to decreased certificates of deposits Europe and North America (\$8.0 billion), partially offset by an increase in Asia (\$2.1 billion) and Pacific (\$0.5 billion).

**Derivatives ↑35% (Excl Exchange Rates ↑35%)**

Derivative liabilities increased \$3.5 billion to \$13.6 billion at 31 March 2007. The increase is driven by the significant appreciation of the AUD against all major currencies throughout the half together with increased trading activities.

**Payables and other liabilities ↑5% (Excl Exchange Rates ↑6%)**

Payables and other liabilities increased \$0.5 billion to \$10.2 billion at 31 March 2007 primarily due to an increase in trade dated liabilities in Treasury.

**Bonds and Notes ↑15% (Excl Exchange Rates ↑15%)**

Bonds and notes increased \$7.3 billion to \$54.2 billion at 31 March 2007. Excluding exchange rate movements, bonds and notes increased by \$5.1 billion (14%) in Australia and \$1.8 billion (20%) in New Zealand in response to increased term funding requirements.

**Loan Capital ↑6% (Excl Exchange Rates ↑6%)**

Loan capital increased \$0.7 billion to \$11.8 billion at 31 March 2007 in response to term funding requirements.

Capital Management

	As at Mar 07	As at Sep 06	As at Mar 06
Tier 1	6.7%	6.8%	6.8%
Tier 2	4.3%	4.2%	4.0%
Deductions	(0.7%)	(0.4%)	(0.4%)
Total	10.3%	10.6%	10.4%
ACE	4.7%	5.0%	5.0%
Transitional Tier 1 Capital Relief	(0.3%)	(0.3%)	0%
Adjusted ACE	4.4%	4.7%	5.0%
Target ACE	4.0%-4.75%	4.0%-4.75%	4.5%-5.0%
RWA \$m	250,485	240,219	230,653

Further details of the components of capital and the capital adequacy calculation are set out on pages xx to xx

Prudential issues - APRA changes to prudential standards covering AIFRS impacts and Tier 1 hybrid capital

APRA changes to prudential standards, APS 110: 'Capital Adequacy' and APS 111: 'Capital Adequacy: Measurement of Capital' became effective on 1 July 2006. Transitional rules mean that some changes are not fully effective until January 2008 and potentially January 2010.

AIFRS and capital deductions

The changes to the prudential standards impacted the capital base of the Group in the following ways:

- The Group's Tier 1 capital base was reduced by \$716 million at 1 July 2006 due to new or higher deductions for such items as capitalised software, net deferred tax assets, hedge accounting ineffectiveness and defined pension plan deficits, offset by a small release in the collective provision for loan losses. APRA now requires verification letters from the Group's auditors and tax advisors before netting of deferred tax assets and liabilities is permitted in individual offshore sites and as such ANZ has had to take a Tier 1 deduction for net deferred tax assets from July 2006. ANZ has since obtained the requisite verification letter for ANZ National Bank and now nets deferred tax assets and liabilities for New Zealand.
- The Group's upper Tier 2 capital base was reduced by \$17 million at 1 July 2006 due to the release of the collective provision for loan losses, offset by an allowance for the recognition of post acquisition earnings and movement in reserves for associates.
- APRA introduced transitional rules to January 2008, whereby the Group can add back to its capital base the adverse impact of adopting the new prudential standards on 1 July 2006. The Group has taken Tier 1 and Upper Tier 2 transitional relief of \$716 million and \$17 million respectively. These amounts are fixed for the period to January 2008. The end of the transitional period is expected to be aligned with the adoption of the Basel II accord.

**Capital Management, cont'd**

**ACE Ratio**

The ACE ratio at 4.4% remains within the Group's targeted capital range of 4.00% to 4.75%. During the half, the ACE ratio declined 25 basis points principally due to:

- net profit, excluding non-core items (Esanda Fleetpartner sale profit), and after preference share dividends, of \$1.9 billion (+80 basis points);
- ordinary share dividend commitments, net of BOP and DRP Plan accrual, of \$1.0 billion (-43 basis points);
- increase in risk weighted assets, excluding the impact of exchange rate movements and sale of Esanda Fleetpartners (-21 basis points);
- increase in investment/profit retention in funds management businesses, associates and commercial operations (-8 basis points);
- business investments and disposal (-50 basis points) including deductions for contingent offers and commitments as required by APRA to purchase interests in AMMB Holdings Berhad (-35 basis points), Shanghai Rural Commercial Bank (-13 basis points), E\*Trade (-11 basis points) and smaller Asian and Pacific banks (-2 basis points) offset by the disposal of Esanda Fleetpartners (+12 basis points);
- policy and regulatory changes (+19 basis points) including first time accrual of the DRP and BOP (+5 basis points); AIFRS requirement to recognise in retained earnings at 1 October 2006 a \$141 million unbooked gain on New Zealand foreign exchange hedges (+6 basis points); netting of New Zealand deferred tax assets against deferred tax liabilities following gaining the required verification letters required under the prudential standards (+8 basis points); and
- other (-2 basis points) which includes the impact of exchange rate movements; movement in capitalised expenses, deferred fee income, and capitalised software and share issuances to staff and option conversions.

**Hybrid Capital and Tier 1 Capital**

The Group raises hybrid capital to further strengthen the Group's capital base and ensure compliance with APRAs prudential capital requirements.

There was no issuance of new hybrid capital during the half and, as at 31 March 2007, the Group had three Innovative hybrid Tier 1 capital instruments outstanding.

**Innovative Hybrid Capital details**

	<b>ANZ StEPS</b>	<b>US Stapled Trust Security</b>	<b>Euro Hybrid</b>
Amount (in issue currency)	\$1,000 million	USD1,100 million	€500 million
Accounting classification	Debt (post AIFRS)	Debt	Equity
Regulatory (APRA) classification	Tier 1	Tier 1	Tier 1
March 2007 balance (A\$)	\$1,000 million	\$1,362 million	\$871 million
Interest rate	BBSW +1.00%	Tranche 1 (US\$350m) Coupon: 4.48% Tranche 2 (US\$750m) Coupon: 5.36%	Euribor +0.66%

At 31 March 2007, ANZ has an Innovative hybrid usage rate of 19.4% (nil for Non-innovative), which is above the limit applicable from 1 January 2008 and as such expects to apply for the transitional relief contemplated in the prudential standard.

### Deferred acquisition costs and deferred income

The Group recognises assets that represent deferred acquisition costs relating to the acquisition of interest earning assets, and liabilities that represent deferred income relating to income received in advance of services performed.

#### Deferred acquisition costs

At 31 March 2007 the Group's assets included \$575 million (Sep 2006: \$569 million; Mar 2006: \$549 million) in relation to costs incurred in acquiring interest earning assets. During the half year, amortisation of \$155 million (Sep 2006 half: \$155 million; Mar 2006 half: \$138 million) was recognised as an adjustment to the yield earned on interest earning assets.

#### Deferred income

At 31 March 2007, the Group had deferred income of \$370 million (Sep 2006: \$406 million; Mar 2006: \$426 million) in relation to income received in advance. At 31 March 2007, this includes \$4 million (Sep 2006: \$3 million; Mar 2006: \$5 million) deferred service type fees. These fees are deferred and will be amortised over the period of service under AASB 118: 'Revenue'.

At 31 March 2007, fee income of \$314 million (Sep 2006: \$343 million; Mar 2006: \$364 million) that is integral to the yield of an originated financial instrument, net of any direct incremental costs, has been capitalised. This income is deferred and recognised against net loans and advances over the expected life of the financial instrument under AASB 139: 'Financial Instruments: Recognition and Measurement'. At 31 March 2007, the Group's liabilities included other deferred income of \$52 million (Sep 2006: \$60 million; Mar 2006: \$57 million).

The balances of deferred acquisition costs and deferred income at period end were:

	Deferred Acquisition Costs <sup>1</sup>			Deferred Income		
	Mar 07 \$M	Sep 06 \$M	Mar 06 \$M	Mar 07 \$M	Sep 06 \$M	Mar 06 \$M
Personal <sup>2</sup>	444	440	447	138	149	143
Institutional	12	21	10	189	212	240
New Zealand Businesses	95	80	67	42	42	39
Other <sup>3</sup>	24	28	25	1	3	4
<b>Total</b>	<b>575</b>	<b>569</b>	<b>549</b>	<b>370</b>	<b>406</b>	<b>426</b>

<sup>1</sup> Deferred acquisition costs largely include the amounts of brokerage capitalised and amortised in the three Business segments: Personal, Esanda and New Zealand Businesses. Deferred acquisition costs also include capitalised debt raising expenses

<sup>2</sup> Comprises deferred acquisition costs of \$292 million for Esanda (Sep 2006: \$289 million; Mar 2006: \$294 million) and deferred income of \$49 million for Esanda (Sep 2006: \$47 million; Mar 2006: \$52 million)

<sup>3</sup> Includes Group Centre and Partnerships & Private Bank

#### Deferred acquisition costs analysis:

	March 2007		September 2006	
	Amortisation Costs \$M	Capitalised Costs <sup>1</sup> \$M	Amortisation Costs \$M	Capitalised Costs <sup>1</sup> \$M
Personal <sup>2</sup>	130	133	137	131
Institutional <sup>3</sup>	3	(6)	-	12
New Zealand Businesses	18	33	18	26
Other <sup>4</sup>	4	-	-	1
<b>Total</b>	<b>155</b>	<b>160</b>	<b>155</b>	<b>170</b>

<sup>1</sup> Costs capitalised during the year exclude brokerage trailer commissions paid

<sup>2</sup> Comprises amortised costs of \$91 million for Esanda (Sep 2006: \$88 million) and capitalised costs of \$94 million for Esanda (Sep 2006: \$99 million)

<sup>3</sup> Includes reversal of break costs on Stadium acquisition

<sup>4</sup> Includes Group Centre and Partnerships & Private Bank

#### Software capitalisation

At 31 March 2007, the Group's intangibles included \$425 million in relation to costs incurred in acquiring and developing software. Details are set out in the table below:

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Balance at start of period	397	390	386	2%	3%
Software capitalised during the period	90	75	62	20%	45%
Amortisation during the period	(58)	(57)	(57)	2%	2%
Software written-off	(4)	(9)	(1)	-56%	large
Other	-	(2)	-	-100%	n/a
<b>Total software capitalisation</b>	<b>425</b>	<b>397</b>	<b>390</b>	<b>7%</b>	<b>9%</b>

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**Income Statement (including effect of movements in foreign currencies)**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit after income tax</b>					
Personal	709	654	583	8%	22%
Institutional	750	701	678	7%	11%
New Zealand Businesses	351	339	337	4%	4%
Partnerships & Private Bank	103	91	79	13%	30%
Non-continuing businesses	-	22	31	-100%	-100%
Group Centre	23	49	23	-53%	0%
Cash profit	1,936	1,856	1,731	4%	12%
Non-core items <sup>1</sup>	166	21	80	large	large
<b>Profit</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>

**Income Statement (prior period figures adjusted to remove the impact of exchange rate movements<sup>2</sup>)**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit after income tax</b>					
Personal	709	654	582	8%	22%
Institutional	750	705	670	6%	12%
New Zealand Businesses	351	355	324	-1%	8%
Partnerships & Private Bank	103	91	79	13%	30%
Non-continuing businesses	-	22	31	-100%	-100%
Group Centre	23	14	23	64%	0%
Cash profit <sup>2</sup>	1,936	1,841	1,709	5%	13%
Non-core items <sup>1</sup>	166	21	81	large	large
<b>Profit</b>	<b>2,102</b>	<b>1,862</b>	<b>1,790</b>	<b>13%</b>	<b>17%</b>
FX impact on reported profit <sup>2</sup>	-	15	21	-100%	-100%
<b>Reported profit</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>12%</b>	<b>16%</b>

The Group from time to time modifies the organisation of its businesses to facilitate delivery of the strategic agenda. Prior period numbers are adjusted for such changes to allow comparability. Changes since 30 September 2006 have been:

- Institutional: Within the Institutional division there have been a number of changes impacting all units including a review of customer segmentation between businesses. Business Banking now includes certain customers that were previously reported in Corporate Banking. Corporate Banking moved to a "product neutral model" with lending and deposit products booked in Working Capital, structured products reported in Corporate & Structured Financing and vanilla hire purchase and leasing products booked in Esanda. Costs for Corporate Banking are included in the Relationship & Infrastructure unit. Markets includes the New Zealand interest rate risk management activities previously reported in New Zealand Businesses. Debt & Transactions Services has been renamed Working Capital.
- Personal: Prior period results for Esanda Fleetpartners in Australia have been transferred to Non-continuing businesses. In addition, the asset finance activities from Institutional have been added to the division.
- New Zealand: Prior period results for Esanda Fleetpartners have been transferred to Non-continuing businesses. In addition, the interest rate risk management activities are now included in Institutional.
- There were also a number of minor restatements as a result of customer segmentation, changes to internal transfer pricing methodologies and the realignment of support functions.

<sup>1</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$195 million (\$141 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx). The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$28 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to economic hedging as a non-core item (tax impact \$13 million (Sep 2006 half: \$10 million; Mar 2006 half: \$5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact \$1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page xx).

In the March 2006 half ANZ incurred \$26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was \$13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration.

<sup>2</sup> ANZ has removed the impact of exchange rate movements to provide readers with a better indication of the business unit performance in local currency terms. Retranslation is net of revenue hedge earnings.

**BUSINESS PERFORMANCE REVIEW (continued)**
**Personal**  
 Brian Hartzler

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	1,609	1,560	1,453	3%	11%
Other external operating income	664	630	534	5%	24%
Operating income	2,273	2,190	1,987	4%	14%
External operating expenses	(906)	(923)	(843)	-2%	7%
Net inter business unit expenses	(162)	(161)	(151)	1%	7%
Operating expenses	(1,068)	(1,084)	(994)	-1%	7%
Profit before credit impairment and income tax	1,205	1,106	993	9%	21%
Provision for credit impairment	(192)	(173)	(163)	11%	18%
Profit before income tax	1,013	933	830	9%	22%
Income tax expense and minority interest	(304)	(279)	(247)	9%	23%
<b>Profit</b>	<b>709</b>	<b>654</b>	<b>583</b>	<b>8%</b>	<b>22%</b>

**Consisting of:**

Mortgages	191	190	178	1%	7%
Banking Products	182	168	149	8%	22%
Consumer Finance	146	132	105	11%	39%
Regional, Rural and Small Business Banking <sup>1</sup>	81	79	73	3%	11%
Esanda	61	51	45	20%	36%
Pacific	36	35	30	3%	20%
Investment and Insurance Products	22	18	15	22%	47%
Other <sup>2</sup>	(10)	(19)	(12)	-47%	-17%
	<b>709</b>	<b>654</b>	<b>583</b>	<b>8%</b>	<b>22%</b>

**Balance Sheet**

Net loans & advances including acceptances	140,226	133,652	126,776	5%	11%
Other external assets	3,631	3,289	3,030	10%	20%
External assets	143,857	136,941	129,806	5%	11%
Customer funding	63,823	60,003	56,529	6%	13%
Wholesale funding	3,925	4,974	5,289	-21%	-26%
Deposits and other borrowings	67,748	64,977	61,818	4%	10%
Other external liabilities	2,632	2,431	2,154	8%	22%
External liabilities	70,380	67,408	63,972	4%	10%
Risk Weighted Assets	84,717	80,650	76,552	5%	11%
Average net loans & advances including acceptances	136,671	129,997	122,390	5%	12%
Average deposits and other borrowings	66,539	63,038	60,103	6%	11%

**Ratios**

Net interest margin	2.33%	2.35%	2.35%		
Return on assets	1.01%	0.98%	0.93%		
Return on risk weighted assets	1.72%	1.67%	1.57%		
Operating expenses to operating income	47.0%	49.5%	50.0%		
Operating expenses to average assets	1.53%	1.62%	1.59%		
Individual provision (charge)/credit	(159)	(146)	(110)	9%	45%
Individual provision (charge)/credit as a % of average net advances	(0.23%)	(0.22%)	(0.18%)		
Collective provision (charge)/credit	(33)	(27)	(53)	22%	-38%
Collective provision (charge)/credit as a % of average net advances	(0.05%)	(0.04%)	(0.09%)		
Net non-performing loans	81	61	55	33%	47%
Net non-performing loans as a % of net advances	0.06%	0.05%	0.04%		
Total employees	13,389	12,932	12,385	4%	8%

<sup>1.</sup> Comprises Rural Commercial & Agribusiness Products and Small Business Banking

<sup>2.</sup> Other includes the branch network, whose costs are fully recovered from product business units and marketing and support costs



**March 2007 half year compared to March 2006 half year**

Overall profit after tax increased 22% reflecting strong income performance from lending and deposit growth (11% and 10% respectively), and the benefits from ongoing investment in the business.

Operating income was up 14% driven by strong volumes, partly from our expanded footprint across all businesses.

Operating expenses increased 7% due to additional frontline staff to service higher business volumes, more branches and ATMs demonstrating our continued investment in our More Convenient Banking customer proposition.

Key factors driving the result included:

- Net interest income increased 11% with strong balance sheet growth partly offset by margin decline of 2 basis points. Banking Products grew 16% with deposits up 13% and Consumer Finance grew by 11% with balance sheet growth of 13% offset by a reduction in margins due to higher growth in lower margin products. Mortgages grew 6% with declining margins reflecting increased sales of fixed rate products and higher funding costs. Pacific grew 12% reflecting benefits from revenue initiatives. Small Business grew 24% reflecting our expanded sales force driving strong balance sheet growth (lending up 40% and deposits up 24%). Regional and Rural grew 10% and Esanda increased 6%.
- Other operating income increased 24%. There was a one-off benefit of \$18 million in Consumer Finance from the sale of the remaining MasterCard shares from the initial public offer in May 2006, offset in part by a \$9 million reduction compared with first half 2006 from debit interchange reform (mirrored by lower interchange expense). Consumer Finance grew by 19% (excluding the MasterCard profit) due to stronger issuing and lending fees. Mortgages grew other income 44%, benefiting from the full effect of fee initiatives implemented last half, higher premium income from our mortgage insurance business and residual income from securitisation. Banking Products grew other income by 23% as account numbers increased. Esanda grew other operating income significantly as one-off charges in the first half 2006 were not repeated and the finance company was repositioned for profitable growth. Investment and Insurance Products income was up by 23% as more planners generated higher sales volumes. Pacific grew other income 19%. Small Business Banking grew other income 10% while Regional & Rural Banking other income was up 8%.
- Operating costs increased 7%. Debit interchange reform reduced costs by \$9 million. Investment in the footprint continued with 24 extra branches since 31 March 2006, a further 342 ATMs and 1004 additional staff, mainly in customer-facing and transformation roles.
- Credit costs increased 18% reflecting volume growth in unsecured lending and a slightly higher risk mix in the portfolio with greater growth from low rate card products.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased 8% over the previous half. Income growth was driven by lending and deposit growth across the business (up 5% and 4% respectively) offset by margin compression of 2 basis points in the half. Debit interchange reform (broadly neutral impact on earnings) saw both income and costs \$9 million lower. Market share was maintained in retail mortgages and grew in retail deposits and personal lending. Investment in the retail footprint expanded with 9 more branches and 153 extra ATMs, as well as increasing our sales force.

Above system balance sheet growth drove strong earnings in Banking Products, while Mortgages, Consumer Finance, Regional & Rural and Small Business Banking experienced slower system growth and declining margins from higher funding costs and competition impacts. Investment and Insurance Products showed strong growth driven by our financial planning business while Esanda increased earnings 20% over the half.

Net interest income increased 3%. Small Business Banking net interest income grew 14% as business expansion continued. Banking Products net interest grew 7% on balance sheet growth of 6%. Margin pressure saw Mortgages net interest flat as margin decline of 4 basis points offset balance sheet growth of 5%. Consumer Finance net interest increased 2%, with balance sheet growth of 7% mainly in lower margin products. Net interest income in Regional & Rural Banking was up 3%, Esanda increased 2% and Pacific grew 1%.

Other operating income increased 5%. The prior half included \$9 million higher debit interchange income. Mortgages other income was up 11% as mortgage insurance earnings and residual securitisation income rose, Banking Products other income grew 7% while Consumer Finance other income growth is seasonally lower in the March half as more annual fees are charged in the second half; the sale of MasterCard shares this half generated \$18 million in income compared to \$9 million last half. Investment & Insurance Products income was up 7%, while Esanda and Pacific grew by 14% and 13%. Small Business Banking other income was flat and Regional & Rural Banking other income fell 3%.

Operating costs decreased 1% following the high growth in the September 2006 half. Main drivers included: debit interchange reform (\$9 million), lower marketing and software amortisation and savings in consulting spend, travel, restructure costs and card expenses.

Credit costs increased 11% reflecting write-offs from growth in credit card and personal loan balances. A significant number of additional collections staff have been put in place with beneficial outcomes.

**BUSINESS PERFORMANCE REVIEW (continued)**

Personal  
Brian Hartzler

**Personal division by business unit**

	Comparison to March 2006									
	March 2007					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
Mortgages	530	246	284	11	191	9%	8%	10%	83%	7%
Banking Products	527	260	267	7	182	17%	10%	25%	n/a	22%
Consumer Finance	553	216	337	128	146	19%	5%	30%	17%	39%
Rural Commercial & Agribusiness Products	148	70	78	4	51	10%	11%	8%	100%	4%
Small Business Banking	98	51	47	5	30	20%	19%	21%	25%	25%
Esanda	198	75	123	36	61	11%	6%	15%	-16%	36%
Pacific	117	65	52	2	36	15%	7%	27%	large	20%
Investment and Insurance Products	100	71	29	(1)	22	23%	20%	32%	n/a	47%
Other <sup>3</sup>	2	14	(12)	-	(10)	-80%	-52%	-37%	n/a	-17%
<b>Personal Division</b>	<b>2,273</b>	<b>1,068</b>	<b>1,205</b>	<b>192</b>	<b>709</b>	<b>14%</b>	<b>7%</b>	<b>21%</b>	<b>18%</b>	<b>22%</b>

	Comparison to September 2006									
	March 2007					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
Mortgages	530	246	284	11	191	1%	0%	2%	22%	1%
Banking Products	527	260	267	7	182	7%	5%	9%	17%	8%
Consumer Finance	553	216	337	128	146	5%	-6%	13%	15%	11%
Rural Commercial & Agribusiness Products	148	70	78	4	51	2%	-1%	5%	100%	0%
Small Business Banking	98	51	47	5	30	10%	13%	7%	67%	7%
Esanda	198	75	123	36	61	3%	-1%	6%	-12%	20%
Pacific	117	65	52	2	36	5%	5%	6%	100%	3%
Investment and Insurance Products	100	71	29	(1)	22	8%	4%	16%	n/a	22%
Other <sup>3</sup>	2	14	(12)	-	(10)	-85%	-64%	-54%	n/a	-47%
<b>Personal Division</b>	<b>2,273</b>	<b>1,068</b>	<b>1,205</b>	<b>192</b>	<b>709</b>	<b>4%</b>	<b>-1%</b>	<b>9%</b>	<b>11%</b>	<b>8%</b>

<sup>1.</sup> PBP (profit before provision) is profit before credit impairment and income tax

<sup>2.</sup> Credit impairment expense

<sup>3.</sup> Other includes the branch network, whose costs are fully recovered from product business units and marketing & support costs

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**Institutional (Continuing)**

Steve Targett

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	1,016	1,059	993	-4%	2%
Other external operating income	725	601	662	21%	10%
Operating income	1,741	1,660	1,655	5%	5%
External operating expenses	(535)	(523)	(493)	2%	9%
Net inter business unit expenses	(142)	(136)	(141)	4%	1%
Operating expenses	(677)	(659)	(634)	3%	7%
Profit before credit impairment and income tax	1,064	1,001	1,021	6%	4%
Provision for credit impairment	6	(8)	(50)	large	large
Profit before income tax	1,070	993	971	8%	10%
Income tax expense and minority interest	(320)	(292)	(293)	10%	9%
<b>Profit</b>	<b>750</b>	<b>701</b>	<b>678</b>	<b>7%</b>	<b>11%</b>

**Consisting of:**

Working Capital <sup>1</sup>	442	394	374	12%	18%
Markets <sup>2</sup>	156	137	149	14%	5%
Business Banking	121	131	128	-8%	-5%
Corporate & Structured Financing	100	111	95	-10%	5%
Relationships and Infrastructure <sup>3</sup>	(69)	(72)	(68)	-4%	1%
	<b>750</b>	<b>701</b>	<b>678</b>	<b>7%</b>	<b>11%</b>

**Balance Sheet**

Net loans & advances including acceptances	73,308	71,436	69,474	3%	6%
Other external assets	59,156	48,328	54,830	22%	8%
External assets	132,464	119,764	124,304	11%	7%
Customer funding	67,469	61,342	54,408	10%	24%
Wholesale funding	8,625	7,897	10,973	9%	-21%
Deposits and other borrowings	76,094	69,239	65,381	10%	16%
Other external liabilities	50,543	43,773	46,195	15%	9%
External liabilities	126,637	113,012	111,576	12%	13%
Risk Weighted Assets	108,438	105,279	104,395	3%	4%
Average net loans & advances including acceptances	73,710	71,445	67,894	3%	9%
Average deposits and other borrowings	73,769	69,156	64,867	7%	14%

**Ratios**

Net interest margin	1.76%	1.88%	1.87%		
Return on assets	1.17%	1.10%	1.19%		
Return on risk weighted assets	1.41%	1.31%	1.34%		
Operating expenses to operating income	38.9%	39.7%	38.3%		
Operating expenses to average assets	1.06%	1.04%	1.11%		
Individual provision (charge)/credit	8	7	(56)	14%	large
Individual provision (charge)/credit as a % of average net advances	0.02%	0.02%	(0.17%)		
Collective provision (charge)/credit	(2)	(15)	6	-87%	large
Collective provision (charge)/credit as a % of average net advances	(0.01%)	(0.04%)	0.02%		
Net non-performing loans	229	266	279	-14%	-18%
Net non-performing loans as a % of net advances	0.31%	0.37%	0.40%		
Total employees	5,686	5,395	5,127	5%	11%

<sup>1.</sup> Working Capital consists of the Debt Product Group and Trade & Transaction Services

<sup>2.</sup> Markets includes interest rate mismatch component of Treasury result. NPAT for March 2007 was \$9 million (Sep 2006 half: \$3 million; Mar 2006 half: \$8 million)

<sup>3.</sup> Relationships and Infrastructure includes Personal & Private Banking Asia, Institutional Banking, Financial Institutions and Corporate Banking. The latter three relationship businesses hold management costs associated with Institutional customers, with associated revenue booked in the product businesses

**March 2007 half year compared to March 2006 half year**

Profit after tax grew by 11% on the strong performance in the March 2006 half. Working Capital increased by 18% driven by a 31% increase in Debt Product Group, with the continued benign credit environment and large recoveries positively impacting the first half of 2007, whilst Trade & Transaction Services grew 11%, after adjusting for the March 2006 release of revenue relating to prior years. Corporate & Structured Financing increased by 5%, with higher fees partly offset by increased provisions in the first half of 2007. Markets profit after tax increased by 5%, from the first half of 2006 that was positively impacted by unusually strong trading income in New Zealand. Business Banking had 6% income growth, offset by 6% expense growth reflecting increasing costs of people and distribution points. The investment in Relationship increased as the Division further developed its Financial Institution business and Personal & Private Banking in Asia. This was offset by a net decrease in infrastructure costs, the majority of which are on-charged to the businesses.

- Margin decline continues to impact growth in net interest income, with declines of 32 basis points in Business Banking and 7 basis points in Debt Product Group. Lending assets grew 6%, with growth of 4% in Debt Product Group reflecting a run off of low margin assets and 12% in Business Banking. Deposits grew a pleasing 16%, with very strong growth in cash management and transaction services and the benefits of new sites in International Payments.
- The 10% growth in other operating income was mainly driven by non-lending fees and profit and loss on trading securities. The growth in non-lending fees reflects strong performances within our advisory, private equity and structured finance portfolios. Markets had strong growth in sales in Australia and Asia with the 2006 investment in frontline staff bringing increased deal volumes.
- Operating expense growth in Markets reflects investment required in both frontline revenue generating staff, and modernising technology platforms. Corporate & Structured Financing continues to invest in the alternative assets funds management business, Asia and debt capital markets. The Division continues to maintain a low cost to income ratio, notwithstanding significant pressure on personnel costs in the investment banking market. Other discretionary costs were reduced.
- Provisions for credit impairment decreased \$56 million. Individual provisions decreased with two large provisions in the March 2006 half and two large credits in the March 2007 half. Collective provisions reduced \$8 million with an improvement in credit quality offsetting volume growth.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased by \$49 million (7%) with solid revenue growth of 5% on the seasonally stronger September half, and reduced provision for credit impairment with two large credits during the half. The balance sheet is being actively managed, with risk weighted assets growing by only 3% in the half.

Markets' profit increased by 14%, with solid growth in Sales revenue and favourable trading conditions in the Australian market. Working Capital profit increased by 12% with a significant volume of debt recoveries during the half, strong deposit growth and increased activity in Asia partly offset by the impact of the drought in Australia and margin decline in the Debt Product Group. Business Banking profit decreased by 8% with lending and deposit growth offset by competitor driven margin contraction, investment in front-line staff and an increase in provision for credit losses in the half. Profit in Corporate & Structure Financing, which traditionally has a weaker first half, reduced 10% with declining net interest income and increased individual provisions associated with two project finance loans in Australia.

Net interest income reduced by 4% principally due to the funding of trading positions in Markets, competition and changes in business mix. Corporate & Structured Financing reduced 4% driven largely by the impact of non-accrual status of two project finance loans and margin contraction within our capital solutions portfolio. Markets net interest income reduced \$34 million, with an increase in the funding cost of trading positions due to an increase in net unrealised gains and collateral deposits. This reduction is more than offset in other operating income.

Other operating income increased 21%, with an \$87 million increase in Markets (partly offset in net interest) resulting from increased revenue in the trading business, notably in Australia following rate increases, the credit business benefiting from tightening credit spreads and a number of large structured credit transactions. Working Capital increased 15% with volume driven fee growth in Trade & Transaction Services, and increased foreign exchange revenue from new sites including Sydney Airport and CBD, and growth in Asia. Corporate & Structured Financing increased 7% from the strong September half. Business Banking grew 7% due to higher volumes.

Our expense growth was constrained to 3%, and our cost to income ratio continues at a low 38.9%.

Provision for credit impairment decreased by \$14 million. This was driven by both a lower collective provision charge and higher new individual provisions and top ups were offset by two large writebacks and recoveries. Net non-performing loans decreased, largely due to one corporate account.

**Institutional (Continuing)**  
Steve Targett

**Institutional division by business unit**

	Comparison to March 2006									
	March 2007					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
Working Capital										
- Debt Product Group	383	15	368	(68)	306	-1%	67%	-3%	large	31%
- Trade & Transaction Services	367	165	202	7	136	0%	2%	-2%	17%	-3%
Markets	397	156	241	17	156	13%	12%	13%	large	5%
Business Banking	332	131	201	28	121	6%	6%	6%	large	-5%
Corporate & Structured Financing	229	82	147	10	100	13%	15%	12%	large	5%
Relationships & Infrastructure <sup>3</sup>	33	128	(95)	-	(69)	0%	-2%	-2%	n/a	1%
<b>Institutional</b>	<b>1,741</b>	<b>677</b>	<b>1,064</b>	<b>(6)</b>	<b>750</b>	<b>5%</b>	<b>7%</b>	<b>4%</b>	<b>large</b>	<b>11%</b>

	Comparison to September 2006									
	March 2007					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
Working Capital										
- Debt Product Group	383	15	368	(68)	306	3%	15%	2%	large	24%
- Trade & Transaction Services	367	165	202	7	136	3%	6%	2%	large	-8%
Markets	397	156	241	17	156	15%	4%	24%	n/a	14%
Business Banking	332	131	201	28	121	2%	5%	0%	large	-8%
Corporate & Structured Financing	229	82	147	10	100	1%	8%	-3%	large	-10%
Relationships & Infrastructure <sup>3</sup>	33	128	(95)	-	(69)	-6%	-8%	-9%	n/a	-4%
<b>Institutional</b>	<b>1,741</b>	<b>677</b>	<b>1,064</b>	<b>(6)</b>	<b>750</b>	<b>5%</b>	<b>3%</b>	<b>6%</b>	<b>large</b>	<b>7%</b>

<sup>1.</sup> PBP (profit before provision) is profit before credit impairment and income tax

<sup>2.</sup> Credit impairment expense

<sup>3.</sup> Relationships & Infrastructure includes Personal & Private Banking Asia, Institutional Banking, Financial Institutions and Corporate Banking

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## BUSINESS PERFORMANCE REVIEW (continued)

### New Zealand Businesses<sup>1</sup> Graham Hodges

Table reflects NZD results for New Zealand Businesses  
AUD results shown on page 45

	Half year Mar 07 NZD M	Half year Sep 06 NZD M	Half year Mar 06 NZD M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	915	885	839	3%	9%
Other external operating income	286	281	268	2%	7%
Operating income	1,201	1,166	1,107	3%	8%
External operating expenses	(573)	(566)	(557)	1%	3%
Net inter business unit expenses	(5)	(4)	(1)	25%	large
Operating expenses	(578)	(570)	(558)	1%	4%
Profit before credit impairment and income tax	623	596	549	5%	13%
Provision for credit impairment	(37)	(2)	(4)	large	large
Profit before income tax	586	594	545	-1%	8%
Income tax expense and minority interest	(188)	(191)	(176)	-2%	7%
<b>Profit (NZD)</b>	<b>398</b>	<b>403</b>	<b>369</b>	<b>-1%</b>	<b>8%</b>

#### Consisting of:

The National Bank Retail	138	134	124	3%	11%
ANZ Retail	93	97	87	-4%	7%
Corporate & Commercial Banking	84	92	78	-9%	8%
Rural Banking	48	47	43	2%	12%
Private Banking & Retail Specialist Units <sup>2</sup>	21	20	22	5%	-5%
UDC	13	12	12	8%	8%
Central Support <sup>3</sup>	1	1	3	0%	-67%
<b>New Zealand Businesses</b>	<b>398</b>	<b>403</b>	<b>369</b>	<b>-1%</b>	<b>8%</b>

#### Balance Sheet

Net loans & advances including acceptances	75,419	70,949	66,614	6%	13%
Other external assets	1,867	2,331	1,712	-20%	9%
External assets	77,286	73,280	68,326	5%	13%
Customer funding	42,469	41,202	39,039	3%	9%
Wholesale funding	5,570	6,894	7,919	-19%	-30%
Deposits and other borrowings	48,039	48,096	46,958	0%	2%
Other external liabilities	13,961	12,468	10,561	12%	32%
External liabilities	62,000	60,564	57,519	2%	8%
Risk Weighted Assets	61,737	57,215	53,029	8%	16%
Average net loans & advances including acceptances	73,046	68,723	64,333	6%	14%
Average deposits and other borrowings	48,442	47,149	46,123	3%	5%

#### Ratios

Net interest margin	2.48%	2.55%	2.58%		
Return on assets	1.06%	1.14%	1.12%		
Return on risk weighted assets	1.36%	1.45%	1.45%		
Operating expenses to operating income	48.1%	48.9%	50.4%		
Operating expenses to average assets	1.55%	1.61%	1.70%		
Individual provision (charge)/credit	(26)	(10)	(11)	large	large
Individual provision (charge)/credit as a % of average net advances	(0.07%)	(0.03%)	(0.03%)		
Collective provision (charge)/credit	(11)	8	7	large	large
Collective provision (charge)/credit as a % of average net advances	(0.03%)	0.02%	0.02%		
Net non-performing loans	62	60	91	3%	-32%
Net non-performing loans as a % of net advances	0.08%	0.08%	0.14%		
Total employees	8,990	8,785	8,667	2%	4%

<sup>1.</sup> For a reconciliation of New Zealand Businesses results to the New Zealand Geographic results refer [page xx](#)

<sup>2.</sup> Private Banking & Retail Specialist Units include ING New Zealand joint venture

<sup>3.</sup> Central support includes Treasury funding and shared services



**March 2007 half year compared to March 2006 half year**

Profit after tax increased 8% over the March 2006 half, with the result including a NZD22 million after tax increase in credit impairment expense. Profit before credit impairment and income tax increased 13% with good contributions across all businesses. This is a strong result in a highly competitive market. Market share has been successfully defended in all sectors and we have further invested in the business. Each business unit has placed additional focus on strengthening its customer proposition to enhance customer retention and attract new customers. This is being recognised by our customers, with ANZ Retail Banking's customer satisfaction at the highest level for many years, and The National Bank maintaining its already strong customer satisfaction levels.

Growth in profit before credit impairment expense and income tax was led by Corporate & Commercial (15%) and Rural (14%) from continued buoyant lending growth. National Bank Retail growth was 16% and ANZ Retail growth was 13%, with the former having a stronger increase in other operating income and lower cost growth due to initiatives implemented in the second half of 2006. ANZ Retail's performance was impacted by a realignment of product and fee structures and higher costs from investment in initiatives in the March 2007 half. UDC increased 11%, showing a good turn-around from last year's disappointing result.

Key factors driving the result are as follows:

- Net interest income increased 9%, driven by robust balance sheet growth, with lending volumes increasing 13% and customer deposits increasing 10%. Lending growth was strongest in Corporate & Commercial (17%) and ANZ Retail (15%), with good growth also in Rural (13%) and National Bank Retail (11%), while UDC (1%) was impacted by repayments. The growth in net interest income was moderated by a 10 basis point contraction in net interest margin, with all businesses apart from UDC impacted. The main drivers of the lower margin were continued competitive pressure and unfavorable product mix, partially aided by customer prepayment behaviour.
- Other external operating income grew 7% and included NZD10 million revenue on sale of MasterCard shares for the Retail businesses. National Bank Retail increased 8%, with growth across lending, cards and transactional fees. Fee growth in the remaining businesses was constrained by the competitive conditions.
- Operating expenses increased 3%, with the March 2006 half including costs of NZD10 million in relation to the Commerce Commission's action on disclosure of optional issuer fees. Operating costs were higher due to annual increases in salaries, increased front line staff and investment in business initiatives, partly offset by control of discretionary expenditure. The cost to income ratio reduced 2.3 points to 48.1%.
- Provision for credit impairment increased NZD33 million from negligible levels in 2006. The individual provision charge increased NZD15 million, mainly reflecting an exceptionally low charge on the business banking portfolio last year due to the timing of writebacks. The collective provision charge increased NZD18 million, largely due to a credit following the reassessment of the retail portfolio risk profile in the December 2005 period. The collective provision charge for March 2007 half was largely driven by lending growth, with minimal impact from changes to the risk profile across the portfolio. Credit conditions remain benign, with net non-performing loans reducing 32%.

**March 2007 half year compared to September 2006 half year**

Profit after tax decreased 1% (NZD5 million) relative to the September 2006 half, impacted by a NZD23 million after tax increase in credit impairment expense. Profit before credit impairment expense and income tax increased 5%, with sound contributions from most businesses. The ANZ Retail result was somewhat lower due to the impact of the timing of initiatives to reposition the business in the first half. The Rural result for the first half reflects the impact of seasonality on the balance sheet. The current half includes revenue from the MasterCard shares sale (NZD10 million) while the September 2006 half included the NZD5 million from the redemption of MasterCard shares.

Key influences on the result include the following:

- Net interest income increased 3%, driven by robust balance sheet growth, with lending volumes increasing 6%. Customer deposit volumes increased 4%, with growth particularly strong in ANZ Retail, reflecting the continued success of the Online Call account. Net interest margin reduced 7 basis points driven by intense competition, the impact of increases in wholesale rates on lending spreads and unfavorable product mix. This was partially offset by a favorable impact on deposit spreads from increases to wholesale rates and the impact of customer prepayment behaviour.
- Other external operating income was flat after adjusting for the MasterCard income in the respective halves, with fee growth across the businesses constrained due to competitive conditions.
- Operating expenses increased 1% with growth from annual salary rate rises and increased front line staff being partly offset by reduced discretionary spend.
- Provision for credit impairment increased NZD35 million. The individual provision charge remains at low levels despite increasing NZD16 million, reflecting the exceptionally low result in the September 2006 half, which benefited from a number of Corporate & Commercial and Business Banking recoveries. The collective provision charge increased NZD19 million largely from a reduced benefit from scenario modeling in the March 2007 half. Net non-performing loans increased NZD2 million to NZD62 million.

**New Zealand Businesses**  
Graham Hodges

**New Zealand Businesses by business unit**

	Comparison to March 2006									
	March 2007 (NZD M)					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
The National Bank Retail	439	226	213	9	138	8%	2%	16%	large	11%
ANZ Retail	368	215	153	16	93	7%	3%	13%	large	7%
Corporate & Commercial Banking	199	64	135	9	84	12%	7%	15%	n/a	8%
Rural Banking	113	40	73	2	48	10%	3%	14%	n/a	12%
Private Banking & Retail Specialist Units	45	18	27	-	21	10%	20%	4%	n/a	-5%
UDC	36	16	20	1	13	0%	-11%	11%	0%	8%
Central Support	1	(1)	2	-	1	-50%	-67%	-60%	n/a	-67%
<b>New Zealand Businesses</b>	<b>1,201</b>	<b>578</b>	<b>623</b>	<b>37</b>	<b>398</b>	<b>8%</b>	<b>4%</b>	<b>13%</b>	<b>large</b>	<b>8%</b>

	Comparison to September 2006									
	March 2007 (NZD M)					Growth Rate				
	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT	Revenue	Expenses	PBP <sup>1</sup>	Credit <sup>2</sup>	NPAT
The National Bank Retail	439	226	213	9	138	3%	1%	5%	large	3%
ANZ Retail	368	215	153	16	93	3%	4%	2%	large	-4%
Corporate & Commercial Banking	199	64	135	9	84	5%	5%	5%	large	-9%
Rural Banking	113	40	73	2	48	1%	-2%	3%	n/a	2%
Private Banking & Retail Specialist Units	45	18	27	-	21	2%	0%	4%	-100%	5%
UDC	36	16	20	1	13	3%	-6%	11%	n/a	8%
Central Support	1	(1)	2	-	1	-75%	large	n/a	n/a	0%
<b>New Zealand Businesses</b>	<b>1,201</b>	<b>578</b>	<b>623</b>	<b>37</b>	<b>398</b>	<b>3%</b>	<b>1%</b>	<b>5%</b>	<b>large</b>	<b>-1%</b>

<sup>1.</sup> PBP (profit before provision) is profit before credit impairment and income tax

<sup>2.</sup> Credit impairment expense

**ING New Zealand joint venture**

In September 2005 ANZ National Bank Limited entered into a joint venture with ING Insurance International Limited (INGII). The joint venture, ING (NZ) Holdings Ltd (INGNZ), is 49% owned by ANZ National Bank Limited and 51% owned by INGII.

For the March 2007 half, INGNZ contributed NZD10 million in equity accounted earnings, which was flat against the September 2006 half (NZ\$10 million).

**New Zealand Businesses<sup>1</sup>**  
 Graham Hodges

Table reflects AUD results for New Zealand Businesses  
 NZD results shown on page 42

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	805	740	768	9%	5%
Other external operating income	252	235	245	7%	3%
Operating income	1,057	975	1,013	8%	4%
External operating expenses	(504)	(471)	(510)	7%	-1%
Net inter business unit expenses	(5)	(4)	(1)	25%	large
Operating expenses	(509)	(475)	(511)	7%	-0%
Profit before credit impairment and income tax	548	500	502	10%	9%
Provision for credit impairment	(33)	(1)	(3)	large	large
Profit before income tax	515	499	499	3%	3%
Income tax expense and minority interest	(164)	(160)	(162)	3%	1%
<b>Profit</b>	<b>351</b>	<b>339</b>	<b>337</b>	<b>4%</b>	<b>4%</b>

**Consisting of:**

The National Bank Retail	122	112	114	9%	7%
ANZ Retail	82	81	80	1%	3%
Corporate & Commercial Banking	74	78	72	-5%	3%
Rural Banking	42	40	39	5%	8%
Private Banking & Retail Specialist Units <sup>2</sup>	19	17	18	12%	6%
UDC	11	10	11	10%	0%
Central Support <sup>3</sup>	1	1	3	0%	-67%
<b>New Zealand Businesses</b>	<b>351</b>	<b>339</b>	<b>337</b>	<b>4%</b>	<b>4%</b>

**Balance Sheet**

Net loans & advances including acceptances	66,672	61,937	56,935	8%	17%
Other external assets	1,650	2,035	1,463	-19%	13%
External assets	68,322	63,972	58,398	7%	17%
Customer funding	37,543	35,969	33,367	4%	13%
Wholesale funding	4,924	6,018	6,768	-18%	-27%
Deposits and other borrowings	42,467	41,987	40,135	1%	6%
Other external liabilities	12,342	10,884	9,027	13%	37%
External liabilities	54,809	52,871	49,162	4%	11%
Risk Weighted Assets	54,577	49,947	45,324	9%	20%
Average net loans & advances including acceptances	64,307	57,486	58,907	12%	9%
Average deposits and other borrowings	42,646	39,359	42,233	8%	1%

**Ratios**

Net interest margin	2.48%	2.54%	2.58%		
Return on assets	1.07%	1.14%	1.12%		
Return on risk weighted assets	1.36%	1.46%	1.45%		
Operating expenses to operating income	48.2%	48.7%	50.4%		
Operating expenses to average assets	1.55%	1.60%	1.70%		
Individual provision (charge)/credit	(23)	(8)	(10)	large	large
Individual provision (charge)/credit as a % of average net advances	(0.07%)	(0.03%)	(0.03%)		
Collective provision (charge)/credit	(10)	7	7	large	large
Collective provision (charge)/credit as a % of average net advances	(0.03%)	0.02%	0.02%		
Net non-performing loans	55	53	78	4%	-29%
Net non-performing loans as a % of net advances	0.08%	0.09%	0.14%		
Total employees	8,990	8,785	8,667	2%	4%

<sup>1.</sup> For a reconciliation of New Zealand Businesses results to the New Zealand Geographic results refer page xx

<sup>2.</sup> Private Banking & Retail Specialist Units include ING New Zealand joint venture

<sup>3.</sup> Central support includes Treasury funding and shared services

**Partnerships & Private Bank**  
 Bob Edgar

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	46	39	34	18%	35%
Other external operating income	121	103	87	17%	39%
Operating income	167	142	121	18%	38%
External operating expenses	(52)	(44)	(42)	18%	24%
Net inter business unit expenses	10	13	11	-23%	-9%
Operating expenses	(42)	(31)	(31)	35%	35%
Profit before credit impairment and income tax	125	111	90	13%	39%
Provision for credit impairment	(19)	(15)	(9)	27%	large
Profit before income tax	106	96	81	10%	31%
Income tax expense and minority interest	(3)	(5)	(2)	-40%	50%
<b>Profit</b>	<b>103</b>	<b>91</b>	<b>79</b>	<b>13%</b>	<b>30%</b>

**Consisting of:**

INGA	75	64	58	17%	29%
International Partnerships <sup>1</sup>	22	18	14	22%	57%
Other <sup>2</sup>	6	9	7	-33%	-14%
	103	91	79	13%	30%
<b>Total employees</b>	<b>764</b>	<b>635</b>	<b>533</b>	<b>20%</b>	<b>43%</b>

<sup>1.</sup> INGA, PT Panin, Metrobank Card Corporation and Bank of Tianjin are equity accounted. Indonesia Cards and ANZ Royal are controlled entities

<sup>2.</sup> Other comprises ANZ Private Bank and Support Units

**March 2007 half year compared to March 2006 half year**

Profit after tax increased 30%. INGA earnings were up 29% (\$17 million) supported by double-digit funds management and risk income growth from higher funds under management, strong investment markets and growth in premium income.

Earnings from the new partnership investments of Bank of Tianjin (formerly Tianjin City Commercial Bank) and Sacombank together with higher revenue from ANZ Royal and continued solid results from Metrobank Card Corporation (MCC) and Panin were the other key drivers of the strong result. These uplifts were partly offset by the impact of increased provisioning in the Indonesia Cards business. Significant influences on the result were:

- Net interest income increased 35% primarily due to volume growth and lower funding costs in Indonesia Cards and both asset and deposit growth in Cambodia. ANZ Private Bank net interest income increased 22% driven by an increase of 19% in funds under management.
- Other operating income increased 39% due to increased INGA equity accounted income reflecting both higher core operating profit (25%) and capital investment earnings (50%) benefiting from underlying market strength, earnings from existing (MCC and Panin) and new partnerships (Bank of Tianjin and Sacombank), increased fee income in Indonesia Cards due to volume growth and strong fee revenue growth in Cambodia. ANZ Private Bank other income increased 53% due to improved alternative investment and advisory products distribution.
- Operating expenses increased \$11 million largely as a result of ongoing investment across the International Partnerships and ANZ Private Bank businesses.
- Provision for credit impairment increased \$10 million due to the impact of regulatory changes and business volume growth in Indonesia Cards.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased 13%. Stronger performances in INGA and Panin, a full half year result from the Bank of Tianjin investment and the annual dividend received from the Sacombank investment were partly offset by the impact of increased provisioning in Indonesia Cards and continued investment in the partnerships business.

Net interest income increased 18%, driven by strong volume growth and lower funding costs in Indonesia Cards and both asset and deposit growth in ANZ Royal. Other operating income increased 17% reflecting stronger Panin earnings and increased INGA equity accounted income of \$12 million with a 12% increase in core operating profit and a 45% increase in capital investment earnings. ANZ Private Bank other income increased 18% from an increase in the distribution of alternative investment and advisory products. Equity accounted income from Bank of Tianjin increased due to the first full half result and Sacombank income increased due to the annual dividend received from the investment.

Operating expenses increased 35% from increased investment across the businesses. Provision for credit impairment increased by 27% primarily due to Indonesia Cards business volume growth and regulatory changes in Indonesia.

ING Australia performance

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Funds management income	243	237	208	3%	17%
Life Risk Income					
- planned margin	117	96	89	22%	31%
- experience variation <sup>1</sup>	13	16	18	-19%	-28%
- assumption changes <sup>1</sup>	8	-	15	n/a	-47%
	<b>138</b>	<b>112</b>	<b>122</b>	<b>23%</b>	<b>13%</b>
<b>Total Income</b>	<b>381</b>	<b>349</b>	<b>330</b>	<b>9%</b>	<b>15%</b>
Funds management expenses	(148)	(139)	(133)	6%	11%
Life risk expenses	(67)	(63)	(63)	6%	6%
Remediation expenses <sup>2</sup>	(12)	(15)	(24)	-20%	-50%
Capitalised software write-offs	(29)	-	(4)	n/a	large
Gross tax on operating profit	(15)	(34)	(18)	-56%	-17%
<b>Operating profit after tax, before capital investment earnings</b>	<b>110</b>	<b>98</b>	<b>88</b>	<b>12%</b>	<b>25%</b>
Capital investment earnings after tax	42	29	28	45%	50%
<b>Profit after tax before minorities</b>	<b>152</b>	<b>127</b>	<b>116</b>	<b>20%</b>	<b>31%</b>
Minority interest	(1)	-	-	n/a	n/a
<b>Profit after tax</b>	<b>151</b>	<b>127</b>	<b>116</b>	<b>19%</b>	<b>30%</b>

ANZ share of INGA earnings @ 49%

JV operating profit	54	48	43	13%	26%
JV capital investment earnings	20	14	14	43%	43%
	<b>74</b>	<b>62</b>	<b>57</b>	<b>19%</b>	<b>30%</b>
Net funding	1	2	1	-50%	0%
Net return to ANZ	75	64	58	17%	29%
Carrying value of investment <sup>3</sup>	1,507	1,461	1,407	3%	7%
Annualised return on ANZ investment	9.8%	8.5%	8.1%		

Performance measures @ 100%

Value of new business <sup>4</sup>	63	47	34	34%	85%
Cost to income <sup>5</sup>	56%	58%	60%		

Funds Management

Retail & mezzanine funds under management	43,797	38,849	33,731	13%	30%
Net retail & mezzanine flows	1,202	842	415	43%	large

Life Risk

Total in-force	624	596	536	5%	16%
New premiums <sup>6</sup>	95	103	65	-8%	46%

	Mar 07 \$M	In- flows	Out- flows	Other flows	Sep 06 \$M
<b>Funds management growth (Retail &amp; mezzanine)<sup>7</sup></b>					
OneAnswer	17,082	2,072	(1,237)	2,170	14,076
Other Personal Investment	8,453	245	(666)	(84)	8,959
Mezzanine	2,888	481	(459)	236	2,630
Employer Super	10,529	777	(555)	955	9,352
Oasis	4,845	789	(245)	469	3,832
<b>Total</b>	<b>43,797</b>	<b>4,364</b>	<b>(3,162)</b>	<b>3,746</b>	<b>38,849</b>

<sup>1.</sup> Experience variations are gains or losses arising from actual experience differing from plan, primarily death and sickness. Assumption changes are gains or losses arising from a change in valuation methods and best estimate assumptions

<sup>2.</sup> Remediation expenses represent costs incurred in rectifying historical unit pricing errors and fully compensating customers

<sup>3.</sup> ANZ adopts the equity method of accounting for its 49% interest in INGA. The carrying value of the investment in INGA has been tested for impairment by comparing the carrying value with the recoverable amount of INGA. The Group engaged Ernst & Young ABC Pty Limited to provide an independent valuation of INGA for 31 March 2007 assessment purposes (the recoverable amount), and there has been no evidence of subsequent impairment. The independent economic valuation was based on a discounted cash flow approach, with allowance for the cost of capital. Based on the results of this valuation, no change is required to the carrying value of the investment in INGA

<sup>4.</sup> Value of new business represents the present value of future profits arising from the new business written over the periods less the present value of the cost of capital applying to that new business

<sup>5.</sup> Cost to Income ratio is management expenses (excluding Remediation Expenses & Capitalised Software Write-offs) / Total Income

<sup>6.</sup> The spike in new premiums in the September 2006 half year is in respect of a significant mastertrust new business win

<sup>7.</sup> Other Flows includes investment income net of taxes, fees and charges

**Partnerships & Private Bank**

Bob Edgar

**ING Australia performance, cont'd**

**March 2007 half year compared to March 2006 half year**

Highlights of the half included improved performance in both core funds management and risk businesses, the completion of remediation work, and improved customer service.

Life Risk sales reflected the ongoing success of INGA's retail risk product 'OneCare', which is now the market leading individual risk product for retail new business. The funds management business enjoyed increased inflows and improved retention, while strength in underlying investment markets ensured steady growth in funds under management (FUM), generating higher gross fee income. Margins came under continued pressure however, reflecting increasing levels of market competition as well as the effect of higher FUM balances on tiered fee bases, and a shift towards externally-managed investment options on INGA's platforms which attract lower net fee rates.

INGA continues to hold strong market shares in its chosen segments. Funds management market share (retail and mezzanine) for INGA grew from 7.6% at 30 September 2005 to 8.2% at 30 September 2006. The Personal Investments business further upgraded its flagship "OneAnswer" platform during the March 2007 half. The Employer Super business maintained its market share (13%), and the ING Corporate Super product is currently ranked #1 amongst employer super providers by Heron Partnership. The success of OneCare has translated into increased market share in individual life risk new annual premiums, up from 9.6% in the year to 30 September 2005 to 14.4% in the year to 30 September 2006. INGA enjoyed the highest growth in new annual premium among the major institutions in the industry, and is now ranked #3 for total in-force premiums. (Source of market statistics: Plan For Life - September 2006)

Oasis Asset Management, INGA's badged platform subsidiary acquired in May 2006, is outperforming valuation assumptions.

A core component of INGA's strategy continues to be growing the number of aligned advisers. The total number of INGA aligned advisers grew to 1,182 by March 2007, a year-on-year increase of 69 planners, of which 29 were ANZ financial planners. INGA ranks 4th in the industry for adviser numbers.

Profit after tax was 30% higher than the March 2006 half, with both operating profit (+25%) and capital investment earnings (+50%) making strong contributions towards the result. Significant contributors to profit growth were:

- Funds management income increased 17% due to higher average funds under management underpinned by strong investment markets, improved net flows in both personal investments and employer super businesses and the acquisition of Oasis. The increase was achieved in an environment of increasing pressure on margins.
- Risk income was 13% higher than the equivalent period to March 2006, driven by strong growth in premium income in both term life and consumer credit, together with continued favourable mortality and morbidity experience. The uplift was achieved despite assumption changes having a lesser favourable impact in the March 2007 half compared to the previous year.
- Underlying funds management expenses increased by 11% due largely to the acquisition of Oasis Asset Management. Risk expenses increased 6% due to the increased cost base associated with supporting the strong growth in retail risk business. Remediation expenses were lower following completion of the unit pricing remediation project. Two capitalised software assets were written off as part of INGA's normal impairment testing of carrying values.
- Tax on operating profit was lower despite the 18% increase in pre-tax operating profit over the March 2006 half, due to the booking of \$25 million of prior period tax adjustments.
- Capital investment earnings after tax were significantly higher than the March 2006 half due to:
  - improved average yields across various asset classes in which shareholder capital is invested; and
  - the one-off realisation of previously unrealised capital gains (\$12 million) following a capital restructure in February 2007.

**Sales by Channel**

(12 mths )	Retail Funds Management <sup>1</sup>		Life Insurance <sup>2</sup>	
	Mar 07	Sep 06	Mar 07	Sep 06 <sup>3</sup>
ANZ Bank	40%	45%	12%	12%
IFAs aligned to ING	19%	18%	10%	9%
Direct	7%	6%	32%	19%
Open Market	34%	31%	46%	60%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<sup>1</sup> Includes mezzanine funds management business

<sup>2</sup> Includes directly marketed life insurance and consumer credit life insurance

<sup>3</sup> Open Market channel in September 2006 includes a substantial mastertrust client win

**ING Australia performance, cont'd**

**March 2007 half year compared to September 2006 half year**

Profit after tax was 19% higher than the half year to 30 September 2006, with both operating profit (+12%) and capital investment earnings (+45%) making strong contributions towards the result. Significant contributors to profit growth were:

- Growth in funds management income based on higher average funds under management during the half-year, as a result of improved net flows and buoyant investment markets. There was further pressure on margins during the period.
- Higher risk income from in-force premium growth, further assisted by a pre-tax profit release of \$8 million from the annual review of risk assumptions conducted in the fourth quarter of 2006.
- Funds management expenses rose 6% due to the acquisition of Oasis Asset Management, while the 6% increase in life risk expenses arose from organic business growth. Spending on remediation was reduced in the March half as the project was completed. Two capitalised software assets related to systems conversion were written off, as part of INGA's normal impairment testing of carrying values.
- Tax on operating profit was lower due to the booking of \$25 million of prior period tax adjustments in the March half.

Capital investment earnings were significantly higher due to both continued strong underlying investment markets throughout the March 2007 half, and a one-off realisation of previously unrealised capital gains (\$12 million) following a restructure of INGA's shareholder capital in February 2007.

**Non-continuing businesses<sup>1</sup>**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	2	19	27	-89%	-93%
Other external operating income	2	10	25	-80%	-92%
Operating income	4	29	52	-86%	-92%
External operating expenses	(4)	(18)	(16)	-78%	-75%
Net inter business unit expenses	-	2	1	-100%	-100%
Operating expenses	(4)	(16)	(15)	-75%	-73%
Profit before credit impairment and income tax	-	13	37	-100%	-100%
Provision for credit impairment	-	14	1	-100%	-100%
Profit before income tax	-	27	38	-100%	-100%
Income tax expense and minority interest	-	(5)	(7)	-100%	-100%
<b>Profit</b>	-	22	31	-100%	-100%

<sup>1</sup> Non-continuing businesses comprises the London headquartered project finance business, the run-off of New Zealand conduit transactions and certain structured finance transactions that ANZ has exited as part of its de-risking strategy and Esanda Fleetpartners which was sold in October 2006

**March 2007 half year compared to March 2006 half year**

Profit after tax reduced from \$31 million at the March 2006 half to nil at the March 2007 half year. The sale of Esanda Fleetpartners contributed to \$2 million of this reduction with the remaining \$29 million from the continued run-off of legacy project finance assets in Institutional. Since March 2006, the volume of structured loans in the discontinued book has reduced to nil.

**March 2007 half year compared to September 2006 half year**

Profit after tax reduced from \$22 million at the September 2006 half year to nil at the March 2007 half year. The sale of Esanda Fleetpartners contributed to \$13 million of this reduction with the remaining \$9 million from the continued run-off of legacy project finance assets in Institutional.



**Group Centre<sup>1</sup>**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	133	158	93	-16%	43%
Other external operating income	6	4	10	50%	-40%
Operating income	139	162	103	-14%	35%
External operating expenses	(385)	(367)	(355)	5%	8%
Net inter business unit expenses	299	286	281	5%	6%
Operating expenses	(86)	(81)	(74)	6%	16%
Profit before credit impairment and income tax	53	81	29	-35%	83%
Provision for credit impairment	(2)	-	-	n/a	n/a
Profit before income tax	51	81	29	-37%	76%
Income tax expense and minority interest	(28)	(32)	(6)	-13%	large
<b>Profit</b>	<b>23</b>	<b>49</b>	<b>23</b>	<b>-53%</b>	<b>0%</b>
Total employees	4,354	4,239	4,014	3%	8%

<sup>1</sup> Group Centre comprises Group People Capital, Group Risk Management, Treasury (includes the funding component of Treasury results with the mismatch component being included in the Markets business of Institutional), Group Strategic Development, Group Financial Management, Shareholder Functions and Operations, Technology & Shared Services

**March 2007 half year compared to March 2006 half year**

The half-year profit of \$23 million was in line with the March 2006 half.

- Revenue increased by \$36 million primarily from increased interest earned on surplus capital (\$21 million) together with the investment of funds raised via the Euro Hybrid at higher interest rates and improved interest income from the investment of central tax balances pertaining to tax timing differences. These favourable impacts were partly offset by reduced interest received on tax refunds.
- Operating expenses increased by \$12 million due largely to offshoring and IT project costs in Operations, Technology & Shared Services. The increase in employee numbers was also driven largely by the transitional impact of offshoring technology and back office work to India, together with an increase in IT project work.
- The higher effective tax rate resulted primarily from withholding tax payable on future remittances of present profits from offshore operations and the ongoing appraisal of global tax provisioning requirements.

**March 2007 half year compared to September 2006 half year**

Profit of \$23 million was \$26 million lower than for the previous half year. Operating income reduced by \$23 million, primarily due to a \$50 million reduction in income on contracts put in place to hedge NZD earnings and a reduction in interest received on tax refunds compared with the prior half. These factors were partially offset by additional interest on surplus capital, an improvement in interest income from the investment of central tax balances pertaining to tax timing differences, and an improvement in Treasury income. Operating expenses increased by \$5 million due mainly to offshoring and IT project costs in Operations, Technology & Shared Services, partly offset by lower non-lending losses. The increase in employee numbers was driven largely by an increase in IT project work. The higher effective tax rate resulted from the ongoing appraisal of tax global provisioning requirements.



## GEOGRAPHIC SEGMENT PERFORMANCE

### Geographic performance

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Profit</b>					
Australia	1,417	1,292	1,196	10%	18%
New Zealand	502	408	422	23%	19%
Asia	74	70	55	6%	35%
Pacific	59	58	55	2%	7%
Other	50	49	83	2%	-40%
	2,102	1,877	1,811	12%	16%

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Cash<sup>1</sup> profit</b>					
Australia	1,323	1,269	1,108	4%	19%
New Zealand	426	408	434	4%	-2%
Asia	77	70	55	10%	40%
Pacific	59	58	55	2%	7%
Other	51	51	79	0%	-35%
	1,936	1,856	1,731	4%	12%

	Half Year March 2007					Growth Rate (on March 2006 half)				
	Revenue	Expenses	PBP <sup>2</sup>	Credit <sup>3</sup>	NPAT	Revenue	Expenses	PBP <sup>2</sup>	Credit <sup>3</sup>	NPAT
Australia	3,659	1,604	2,055	194	1,323	13%	8%	16%	-11%	19%
New Zealand	1,248	576	672	26	426	0%	-2%	2%	86%	-2%
Asia	191	82	109	17	77	29%	11%	47%	large	40%
Pacific	151	67	84	2	59	8%	6%	9%	large	7%
Other	132	57	75	1	51	-15%	6%	-26%	large	-35%
	5,381	2,386	2,995	240	1,936	9%	6%	12%	7%	12%
New Zealand (NZD)	1,418	654	764	30	484	4%	2%	7%	large	2%

	Half Year March 2007					Growth Rate (on September 2006 half)				
	Revenue	Expenses	PBP <sup>2</sup>	Credit <sup>3</sup>	NPAT	Revenue	Expenses	PBP <sup>2</sup>	Credit <sup>3</sup>	NPAT
Australia	3,659	1,604	2,055	194	1,323	3%	0%	5%	0%	4%
New Zealand	1,248	576	672	26	426	7%	7%	8%	large	4%
Asia	191	82	109	17	77	9%	6%	11%	31%	10%
Pacific	151	67	84	2	59	3%	3%	4%	100%	2%
Other	132	57	75	1	51	17%	-14%	60%	large	0%
	5,381	2,386	2,995	240	1,936	4%	2%	7%	31%	4%
New Zealand (NZD)	1,418	654	764	30	484	2%	2%	2%	large	-1%

<sup>1.</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$195 million (\$141 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx). The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$28 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to economic hedging as a non-core item (tax impact \$13 million (Sep 2006 half: \$10 million; Mar 2006 half: \$5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact \$1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page xx). In the March 2006 half ANZ incurred \$26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was \$13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration.

<sup>2.</sup> PBP (profit before provision) is profit before credit impairment and income tax

<sup>3.</sup> Credit impairment expense

**GEOGRAPHIC SEGMENT PERFORMANCE (continued)**
**Australia**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	2,475	2,470	2,291	0%	8%
Other external operating income	1,184	1,093	952	8%	24%
Operating income	3,659	3,563	3,243	3%	13%
Operating expenses	(1,604)	(1,600)	(1,479)	0%	8%
Profit before credit impairment and income tax	2,055	1,963	1,764	5%	16%
Provision for credit impairment	(194)	(194)	(218)	0%	-11%
Profit before income tax	1,861	1,769	1,546	5%	20%
Income tax expense	(537)	(499)	(438)	8%	23%
Minority interest	(1)	(1)	-	0%	n/a
<b>Cash<sup>1</sup> profit</b>	<b>1,323</b>	<b>1,269</b>	<b>1,108</b>	<b>4%</b>	<b>19%</b>
Non-core items <sup>1</sup>	94	23	88	large	7%
<b>Profit</b>	<b>1,417</b>	<b>1,292</b>	<b>1,196</b>	<b>10%</b>	<b>18%</b>
Net interest average margin	2.23%	2.33%	2.31%		
Return on risk weighted assets	1.74%	1.64%	1.59%		
Operating expenses <sup>1</sup> to operating income	42.0%	44.5%	42.0%		
Operating expenses <sup>1</sup> to average assets	1.34%	1.39%	1.29%		
Net interest average margin (cash <sup>1</sup> )	2.23%	2.33%	2.31%		
Return on risk weighted assets (cash <sup>1</sup> )	1.62%	1.61%	1.47%		
Operating expenses to operating income (cash <sup>1</sup> )	43.8%	44.9%	45.6%		
Operating expenses to average assets (cash <sup>1</sup> )	1.34%	1.39%	1.40%		
Individual provision (charge)/credit	(153)	(141)	(169)	9%	-9%
Individual provision (charge)/credit as a % of average net advances	(0.16%)	(0.15%)	(0.19%)		
Collective provision (charge)/credit	(41)	(53)	(49)	-23%	-16%
Collective provision (charge)/credit as a % of risk weighted assets	(0.04%)	(0.06%)	(0.06%)		
Net non-performing loans	291	295	305	-1%	-5%
Net non-performing loans as a % of net advances	0.15%	0.15%	0.18%		
Total employees	19,198	18,723	18,221	3%	5%
Lending growth	4.6%	4.5%	5.1%		
External assets	242,014	229,978	220,141	5%	10%
Risk weighted assets	167,705	160,719	154,115	4%	9%

<sup>1</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$128 million (\$74 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter as a significant item. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx). The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$20 million after tax (Sep 2006 half: \$23 million; Mar 2006 half: \$9 million) relating to economic hedging as a non-core item (tax on hedge gains \$9 million (Sep 2006 half: \$11 million; Mar 2006 half: \$3 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives in the 2006 year not designated in accounting hedge relationships but that are considered to be economic hedges. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance.

**Australia, cont'd****March 2007 half year compared to March 2006 half year**

Profit after tax increased 18%. After adjusting for the impact of non-core items (refer pages xx to xx), cash profit increased 19%.

Significant influences on cash profit were:

- Net interest income increased 8% as average net advances increased 10% and average deposits and other borrowings increased 12% while the net interest margin decreased 8 basis points. Net interest income also increased due to higher earnings on higher levels of capital.
- Other income increased 24%. Institutional increased 27%, due to solid deal flow in Corporate & Structured Financing and higher Markets revenue from increased deal volumes, while Personal increased 24% including an \$18 million gain from the sale of MasterCard shares. Excluding this gain other income increased 22% due to strong volume and fee growth across all businesses as the investment in growth initiatives delivered higher transaction volumes and fee initiatives benefited several businesses. INGA increased \$17 million following improved operating performance, the completion of remediation work on legacy issues and the strong equity markets during the half.
- Operating expenses increased 8% reflecting a 5% increase in staff numbers and annual salary increases effective 1 October 2006, higher premises and computer charges due to the ongoing investment in the branch network in Personal and continued investment in frontline staff, and staff and systems investment in Institutional.
- Provision for credit impairment decreased 11% as the individual provision charge decreased \$16 million, due to a significant debt recovery in the March 2007 half, partly offset by higher provisions in Personal due to increased volumes and slightly higher risk mix in the portfolio.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased by 10%. After adjusting for the impact of non-core items (refer pages xx to xx), cash profit increased 4% and cash profit before credit impairment and income tax increased 5%. Adjusting for the change in accounting for the NZD revenue hedges which bolstered September half earnings by \$34 million after tax, cash profit increased by 5% and cash profit before provisions increased 7%.

Significant influences on cash profit were:

- Net interest income was flat: excluding NZD revenue hedge income of \$49 million in September 2006 half, net interest income increased by 2%. Average net advances increased 4%. Average deposit and other borrowing volumes increased 3%. Net interest margin decreased 10 basis points. Excluding the NZD revenue hedge income in September 2006 half, the margin decreased 5 basis points with a change in the asset mix and competitive pressures in the lending books of Mortgages, Consumer Finance, Debt Product Group and Business Banking, partly offset by an increased margin on deposit products.
- Other operating income increased by 8%. Institutional increased 13% due to higher deal fees in Corporate & Structured Financing, higher Markets earnings with increased deal volumes and gains on credit default swaps in Working Capital. Personal other income increased 3% with higher income in Mortgages due to volume growth and higher transaction volumes in Banking Products. INGA increased \$11 million following improved operating performance and the strong equity markets during the half.
- Operating expenses were flat reflecting an increased investment in frontline staff with a 2% increase in personnel numbers and annual salary increases, effective 1 October 2006, offset by lower computer expenses due to lower software amortisation and lower other expenses as discretionary expenditure was contained and lower restructuring costs were incurred. Debit interchange reform reduced other expenses by \$9 million and lower card processing expenses were incurred.
- Provision for credit impairment was unchanged. This was driven by a combination of increased lending volumes and a slight risk mix change in Personal offset by a decrease in Institutional, due to a significant recovery in the March 2007 half. The March 2007 half also included a lower collective provision charge with an improvement in credit quality offsetting volume growth.

**GEOGRAPHIC SEGMENT PERFORMANCE (continued)**
**New Zealand**

	Half year Mar 07 NZD M	Half year Sep 06 NZD M	Half year Mar 06 NZD M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	1,014	1,028	943	-1%	8%
Other external operating income	404	364	417	11%	-3%
Operating income	1,418	1,392	1,360	2%	4%
Operating expenses	(654)	(644)	(644)	2%	2%
Profit before credit impairment and income tax	764	748	716	2%	7%
Provision for credit impairment	(30)	(5)	(14)	large	large
Profit before income tax	734	743	702	-1%	5%
Income tax expense	(250)	(253)	(227)	-1%	10%
Minority interest	-	-	(1)	n/a	-100%
<b>Cash<sup>1</sup> profit</b>	484	490	474	-1%	2%
Non-core items <sup>1</sup>	86	-	(13)	n/a	large
<b>Profit (NZD)</b>	570	490	461	16%	24%
<b>Profit (AUD)</b>	502	408	422	23%	19%
Net interest average margin	2.23%	2.33%	2.32%		
Return on risk weighted assets	1.66%	1.41%	1.49%		
Operating expenses <sup>1</sup> to operating income	43.3%	46.2%	49.9%		
Operating expenses <sup>1</sup> to average assets	1.34%	1.34%	1.54%		
Net interest average margin (cash <sup>1</sup> )	2.23%	2.33%	2.32%		
Return on risk weighted assets (cash <sup>1</sup> )	1.41%	1.41%	1.54%		
Operating expenses to operating income (cash <sup>1</sup> )	46.1%	46.3%	47.4%		
Operating expenses to average assets (cash <sup>1</sup> )	1.34%	1.34%	1.45%		
Individual provision (charge)/credit	(22)	(7)	(23)	large	-4%
Individual provision (charge)/credit as a % of average net advances	(0.06%)	(0.02%)	(0.06%)		
Collective provision (charge)/credit	(8)	2	9	large	large
Collective provision (charge)/credit as a % of average net advances	(0.02%)	0.01%	0.03%		
Net non-performing loans	72	93	119	-23%	-39%
Net non-performing loans as a % of net advances	0.09%	0.12%	0.16%		
Total employees	9,489	9,392	9,304	1%	2%
Lending growth	4.8%	5.5%	6.1%		
External assets	99,054	94,911	93,232	4%	6%
Risk weighted assets	71,975	68,496	65,216	5%	10%

<sup>1.</sup> In March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of NZD76 million (tax impact: \$nil) as a significant item. In the March 2006 half ANZ classified the NZD\$16 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as a significant item. ANZ also incurred NZD29 million after tax ANZ National Bank incremental integration costs (tax impact: NZD14 million). ANZ National Bank incremental integration costs are excluded to better reflect the core cost base following completion of the integration.

The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified NZD10 million after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to economic hedging as a non-core item. Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives in the 2006 year not designated in accounting hedge relationships but that are considered to be economic hedges. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance.

## GEOGRAPHIC SEGMENT PERFORMANCE (continued)

### New Zealand, cont'd

#### Reconciliation of Geographic profit

	Half year Mar 07 NZD M	Half year Sep 06 NZD M	Half year Mar 06 NZD M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
New Zealand Businesses	398	403	369	-1%	8%
NZ Institutional (Continuing)	112	106	119	6%	-6%
New Zealand Banking	510	509	488	0%	5%
Non-continuing businesses	-	4	5	-100%	-100%
NZ shareholder functions	(26)	(23)	(19)	13%	37%
New Zealand geography adjusted for non-core items <sup>1</sup>	484	490	474	-1%	2%
Non-core items	86	-	(13)	n/a	large
<b>Total New Zealand geography</b>	<b>570</b>	<b>490</b>	<b>461</b>	<b>16%</b>	<b>24%</b>

<sup>1</sup> Refer footnote 1 on page xx

#### March 2007 half year compared to March 2006 half year

Profit after tax increased 24%. After adjusting for non-core items (refer page xx), cash profit increased by 2%, with the result impacted by a NZD11 million after tax increase in credit impairment expense and lower markets income. Profit before provisions increased 7%, with strong contributions from NZ Businesses (13%) and the NZ Institutional Working Capital and Structured Finance businesses, being partially offset by the strong Markets result in the March 2006 half not matched in the current period.

- Net interest income increased 8%, with lending volumes growing 11% and customer deposits (excluding Treasury) growing 10%. Lending growth was strong in the NZ Businesses (13%), whilst repayments in the Debt Product Group impacted lending growth in NZ Institutional Businesses (-8%). Net interest margin declined 9 basis points, impacted by continued competitive pressure and unfavourable product mix, partially aided by customer prepayment behaviour.
- Other external operating income reduced 3%. This mainly reflects the exceptional Markets performance in the March 2006 half not matched in the current March 2007 half period. The Retail businesses benefited from the sale of MasterCard shares in the March 2007 half (NZD10 million). Other income in National Bank Retail increased 8%, with growth across lending, cards and transactional fees. Fee income in other businesses was constrained by competitive market conditions.
- Operating expenses increased 2% with the March 2006 half impacted by NZD10 million in relation to the Commerce Commission's action on disclosure of optional issuer fees. In addition, operating costs were higher due to annual increases in salaries, increased front line staff and investment in business initiatives, partly offset by control of discretionary expenditure. The cost to income ratio reduced 1.3 points to 46.1%.
- Provision for credit impairment increased NZD16 million from negligible levels in 2006. The individual provision charge is in line with March 2006 half, with similar levels of new provisions and writebacks/recoveries. The collective provision charge increased NZD17 million, largely due to a credit following the reassessment of the retail portfolio risk profile in the December 2005 period. The collective provision charge for March 2007 half was largely driven by lending growth, with minimal impact from changes to the risk profile across the portfolio. Credit conditions remain benign, with net non-performing loans reducing 39%.

#### March 2007 half year compared to September 2006 half year

Profit after tax decreased 1% (NZD6 million) relative to the September 2006 half after adjusting for non-core items (refer page xx), with the result impacted by a NZD17 million after tax increase in credit impairment expense. Growth in profit before provisions was 2% (NZD14 million), with a good contribution from NZ Businesses (5%) offset by a reduced contribution from NZ Institutional (-4%).

- Net interest income reduced 1%, with the result adversely impacted by lower net interest income on Markets derivatives (offset by an increase in trading income). Adjusting for this item, net interest income growth was 2%. Lending volumes increased 5%, with robust growth across the NZ Businesses (6%) being moderated by repayments in NZ Institutional. Net interest margin reduced 10 basis points (3 basis points excluding the above derivatives switch) driven by intense competition and unfavourable product mix, partially offset by the favourable net impact on deposit spreads from increased wholesale rates and the impact of customer prepayment behaviour.
- Other external operating income was flat after allowing for the derivatives variance offset in net interest income, and the MasterCard income received in the respective halves. This reflects constrained fee growth across the businesses, and lower Markets revenues.
- Operating expense growth was held to 2%, with growth in personnel costs from increased front line staff and the annual salary rate rise being partly offset by reduced discretionary spend.
- Provision for credit impairment increased NZD25 million. The individual charge remains at low levels despite increasing NZD15 million, reflecting the exceptionally low result in the September 2006 half, which benefited from a number of Corporate & Commercial, Business Banking and Institutional recoveries. The collective charge increased NZD10 million largely from a reduced benefit from scenario modelling and repayments in NZ Institutional in the March 2007 half. Net non-performing loans reduced NZD21 million (23%) to NZD72 million.

**GEOGRAPHIC SEGMENT PERFORMANCE (continued)**
**Asia**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	100	92	77	9%	30%
Other external operating income	91	83	71	10%	28%
Operating income	191	175	148	9%	29%
Operating expenses	(82)	(77)	(74)	6%	11%
Profit before credit impairment and income tax	109	98	74	11%	47%
Provision for credit impairment	(17)	(13)	(8)	31%	large
Profit before income tax	92	85	66	8%	39%
Income tax expense	(14)	(14)	(11)	0%	27%
Minority interest	(1)	(1)	-	0%	n/a
<b>Cash profit<sup>1</sup></b>	<b>77</b>	<b>70</b>	<b>55</b>	<b>10%</b>	<b>40%</b>
Non-core items <sup>1</sup>	(3)	-	-	n/a	n/a
<b>Profit</b>	<b>74</b>	<b>70</b>	<b>55</b>	<b>6%</b>	<b>35%</b>
Operating expenses to operating income	43.9%	44.0%	50.0%		
Operating expenses to operating income (cash <sup>1</sup> )	42.9%	44.0%	50.0%		
Individual provision (charge)/credit	(14)	(14)	(4)	0%	large
Collective provision (charge)/credit	(3)	1	(4)	large	-25%
Net non-performing loans	-	-	-	n/a	n/a
Total employees	1,098	913	843	20%	30%

<sup>1</sup> The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to economic hedging as a non-core item. Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance

**March 2007 half year compared to March 2006 half year**

Profit after tax increased 35% (42% excluding exchange rate impacts). After adjusting for non-core items (refer pages xx to xx), profit after tax increased by 40%. The region embarked on the opening of new branches in Vietnam and Indonesia to tap their newly affluent market, while the Partnerships business continued to grow, with new and existing joint ventures contributing to the financial results of Asia.

- Net interest income increased 30% with net interest margin improving by 24 basis points. A programme of exiting low-yielding Corporate & Institutional assets to ensure benchmark returns from client portfolios was introduced this year. Volume growth and lower funding costs in Indonesia Cards and asset and deposit growth in Cambodia were contributors to the strong result.
- Other external operating income increased 28% due largely to a first-time result from equity-accounted Bank of Tianjin, annual dividend from Sacombank, increased fee income in Indonesia Cards due to volume growth and strong fee revenue growth in Cambodia. The building of resources in the Markets business has led to the boosting of revenue in this area.
- Operating expenses increased 11% largely as a result of ongoing investment across the International Partnerships business and increased investment in personnel as we grew the franchise. Personnel numbers grew by 255, largely in frontline positions. A number of staff initiatives have been launched, including product training and talent management in view of the strong economic growth and increased demand for talent across the region.
- Provision for credit impairment increased by \$9 million primarily due to the impact of regulatory changes and business volume growth in Indonesia Cards, partially offset by a net writeback in Institutional due to the reduction in Corporate & Institutional lending assets as we exited low-yielding exposures.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased 6% (15% excluding exchange rate impacts), mainly driven by full half results from the Bank of Tianjin, the annual dividend from Sacombank and a strong Panin result. This was partly offset by the impact of increased provisioning in Indonesia Cards and continued investment in the partnerships business. In addition, merger and acquisition deals in the Asia-Pacific region and increased tradeflows contributed to the improved performance in the Institutional business.



**GEOGRAPHIC SEGMENT PERFORMANCE (continued)**
**Pacific**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	73	72	66	1%	11%
Other external operating income	78	74	74	5%	5%
Operating income	151	146	140	3%	8%
Operating expenses	(67)	(65)	(63)	3%	6%
Profit before credit impairment and income tax	84	81	77	4%	9%
Provision for credit impairment	(2)	(1)	1	100%	large
Profit before income tax	82	80	78	3%	5%
Income tax expense	(23)	(22)	(22)	5%	5%
Minority interest	-	-	(1)	n/a	-100%
<b>Cash profit</b>	59	58	55	2%	7%
<b>Profit</b>	59	58	55	2%	7%
Operating expenses to operating income	44.4%	44.5%	45.0%		
Individual provision (charge)/credit	(1)	4	3	large	large
Collective provision (charge)/credit	(1)	(5)	(2)	-80%	-50%
Net non-performing loans	8	5	8	60%	0%
Total employees	1,693	1,662	1,613	2%	5%

**March 2007 half year compared to March 2006 half year**

Profit after tax increased 7%. The appreciation of the AUD decreased profit growth by 2% (\$1 million).

- Net interest income increased 11% reflecting growth in lending volumes in Fiji, PNG, Cook and Solomon Islands.
- Operating expenses increased 6% predominantly due to investment in our Operational Excellence agenda and expansion of footprint.
- Provision for credit impairment increased by \$3 million due to one significant writeback in Fiji in the March 2006 half.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased 2%. Operating income increased 3% reflecting growth in lending volumes. Operating expenses increased by 3%. Individual provision charge increased due to one significant recovery in Fiji in the September 2006 half. Collective provision charge is reflective of balance sheet growth. The impact of exchange rate movements was immaterial.

**GEOGRAPHIC SEGMENT PERFORMANCE (continued)**
**Other:** United Kingdom, Europe, United States and South Asia [including Bangalore]

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	71	82	69	-13%	3%
Other external operating income	61	31	86	97%	-29%
Operating income	132	113	155	17%	-15%
Operating expenses	(57)	(66)	(54)	-14%	6%
Profit before credit impairment and income tax	75	47	101	60%	-26%
Provision for credit impairment	(1)	27	15	large	large
Profit before income tax	74	74	116	0%	-36%
Income tax expense	(23)	(23)	(37)	0%	-38%
<b>Cash profit<sup>1</sup></b>	51	51	79	0%	-35%
Non-core items	(1)	(2)	4	-50%	large
<b>Profit</b>	50	49	83	2%	-40%
Operating expenses to operating income	44.6%	60.0%	34.0%		
Operating expenses to operating income (cash <sup>1</sup> )	43.2%	58.0%	35.0%		
Individual provision (charge)/credit	(1)	5	4	large	large
Collective provision (charge)/credit	-	22	11	-100%	-100%
Net non-performing loans	3	3	6	0%	-50%
Total employees	1,705	1,567	1,082	9%	58%

<sup>1</sup> The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$1 million loss after tax (Sep 2006 half: \$2 million loss; Mar 2006 half: \$4 million profit) relating to economic hedging as a non-core item. Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance

**March 2007 half year compared to March 2006 half year**

Profit after tax decreased 40%. After adjusting for non-core items (refer page xx), cash profit decreased 35%. The overall impact of exchange rates was immaterial. The decline was principally due to the run down in non-continuing businesses following the refocus of our operations.

- Net interest income increased 3% as the lower cost of funding derivatives was offset largely by other influences including the run-off of discontinued business, lower volumes in Institutional, reflecting a focus on core business, and a repatriation of capital in the September 2006 half.
- Other operating income was adversely impacted by the profit on the sale of a power asset in the United States and the settlement of sale warranties occurring in the March 2006 half year, mark to market losses on credit derivatives and trading losses on derivatives offset in net interest income.
- Operating expenses increased 6% due mainly to higher premises costs in London and adverse exchange movements. The rise in staff numbers is attributable to increases in operations and technology staff in India, however these costs were charged to other businesses.
- The increase in the collective provision charge reflects the more stable portfolio following the reduction in volumes of risk assets, which underpinned provision releases in the prior periods. The portfolio is broadly similar to September 2006 in terms of asset volumes and credit quality. One individual provision of \$3 million was raised in Institutional, but was offset by a number of small recoveries.
- Net non-performing loans reduced due to the realisation of a power exposure in the United States in the September half and the increase in individual provisions.

**March 2007 half year compared to September 2006 half year**

Profit after tax increased 2%. Cash profit was flat. Net interest income decreased 13% due mainly to the increased cost of funding derivative positions in Markets, which is offset by gains in other income. Other operating income increased 97% due largely to increased trading income in Markets from the derivatives positions referred to above, as well as higher revenue particularly relating to structured credit and rates trading in Markets. Operating expenses decreased 14%, from reduced expenditure in respect of discontinued businesses and the closure of Paris branch and increased internal revenue in India. The provision for credit impairment charge increased reflecting a more stable portfolio following the reduction in volumes of risk assets throughout 2006 which underpinned provision releases. The individual provision charge is the result of one exposure in Institutional, offset by a number of small recoveries.

**FOUR YEAR SUMMARY BY HALF YEAR**

	Mar 07 \$M	Sep 06 \$M	Mar 06 \$M	Sep 05 \$M	Mar 05 \$M	Previous AGAAP		
						Sep 04 \$M	Mar 04 \$M	Sep 03 \$M
<b>Income Statement</b>								
Net interest income	3,611	3,575	3,368	3,231	3,140	2,745	2,507	2,171
Other operating income	1,770	1,583	1,563	1,528	1,407	1,694	1,573	1,456
Operating expense	(2,386)	(2,346)	(2,259)	(2,213)	(2,127)	(2,103)	(1,902)	(1,626)
Provision for credit impairment	(240)	(183)	(224)	(325)	(240)	(319)	(313)	(311)
Profit before income tax	2,755	2,629	2,448	2,221	2,180	2,017	1,865	1,690
Income tax expense	(817)	(770)	(716)	(636)	(611)	(597)	(550)	(482)
Minority interest	(2)	(3)	(1)	(2)	(1)	(1)	(3)	(1)
Cash profit <sup>1</sup>	1,936	1,856	1,731	1,583	1,568	1,419	1,312	1,207
Non-core items <sup>1</sup>	166	21	80	37	(13)	-	84	-
<b>Profit attributable to shareholders of the Company</b>	<b>2,102</b>	<b>1,877</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>1,419</b>	<b>1,396</b>	<b>1,207</b>
<b>Balance Sheet</b>								
Assets	351,724	334,640	322,181	300,885	282,775	259,345	247,288	195,591
Net assets	20,910	19,906	18,796	19,538	18,927	17,925	16,748	13,787
<b>Ratios</b>								
Return on average ordinary equity <sup>2</sup>	21.3%	20.4%	20.9%	18.3%	18.3%	17.3%	19.1%	20.9%
Return on average assets	1.2%	1.1%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%
Tier 1 capital ratio	6.7%	6.8%	6.8%	6.9%	7.0%	6.9%	7.0%	7.7%
Total capital ratio	10.3%	10.6%	10.4%	10.5%	10.3%	10.4%	10.2%	11.1%
Adjusted Common Equity	4.4%	4.7%	5.0%	5.1%	5.1%	5.1%	5.2%	5.7%
Operating expenses <sup>3</sup> to operating income	42.5%	45.2%	44.0%	47.1%	47.0%	45.8%	43.9%	44.6%
Operating expenses to average assets (cash)	44.3%	45.5%	45.8%	46.5%	46.8%	45.5%	45.1%	44.6%
<b>Shareholder value - ordinary shares</b>								
Total return to shareholders (share price movement plus dividends)	13.2%	3.4%	13.2%	19.2%	11.3%	3.0%	13.6%	2.5%
Market capitalisation	54,788	49,331	48,461	43,834	37,584	34,586	34,284	27,314
Dividend	62 cents	69 cents	56 cents	59 cents	51 cents	54 cents	47 cents	51 cents
Franked portion	100%	100%	100%	100%	100%	100%	100%	100%
Share price <sup>4</sup>								
- high	\$30.24	\$28.66	\$26.70	\$24.45	\$22.02	\$19.44	\$19.40	\$18.45
- low	\$26.75	\$24.45	\$22.70	\$20.53	\$19.02	\$17.45	\$15.94	\$16.66
- closing	\$29.70	\$26.86	\$26.50	\$24.00	\$20.62	\$19.02	\$18.96	\$17.17
<b>Share information (per fully paid)</b>								
Earnings per share - basic <sup>4</sup>	113.2	101.6	98.4	86.3	83.2	76.4c	76.8c	73.3c
Dividend payout ratio	54.9%	68.0%	56.9%	68.4%	61.3%	71.0%	63.8%	67.0%
Net tangible assets	\$9.01	\$8.53	\$7.99	\$7.77	\$7.38	\$7.51	\$6.94	\$7.49
<b>Number of fully paid ordinary shares</b>	<b>1,844.7</b>	<b>1,836.6</b>	<b>1,828.7</b>	<b>1,826.4</b>	<b>1,822.7</b>	<b>1,818.4</b>	<b>1,808.2</b>	<b>1,521.7</b>
<b>Other information</b>								
Permanent employees (FTE)	31,818	30,644	29,617	29,471	28,388	27,383	26,585	21,586
Temporary employees (FTE)	1,365	1,612	1,446	1,505	1,444	1,372	1,386	1,551
Total employees	33,183	32,256	31,063	30,976	29,832	28,755	27,971	23,137
Number of shareholders <sup>5</sup>	300,987	291,262	273,503	263,467	255,655	252,072	245,173	223,545

<sup>1.</sup> In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of \$195 million (\$141 million after tax) as a significant item. In the March 2006 half ANZ classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: \$nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page xx). The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified \$28 million after tax (Sep 2006 half: \$21 million; Mar 2006 half: \$13 million) relating to economic hedging as a non-core item (tax impact \$13 million (Sep 2006 half: \$10 million; Mar 2006 half: \$5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a \$3 million loss after tax (Sep 2006 half: \$nil; Mar 2006 half: \$nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact \$1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page xx).

In the March 2006 half ANZ incurred \$26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was \$13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration.

<sup>2.</sup> Average ordinary shareholders' equity excludes minority interest

<sup>3.</sup> Operating expenses excludes goodwill amortisation of \$nil (Sep 2006: \$nil; Mar 2006: \$nil; Sep 2005: \$nil; Mar 2005: \$nil; Sep 2004: \$83 million; Mar 2004: \$63 million; Sep 2003: \$9 million). Under AIFRS goodwill is not amortised and therefore was not recognised from 2005 onwards

<sup>4.</sup> September 2003 adjusted for the bonus element of the rights issue

<sup>5.</sup> Excludes employees whose only ANZ shares are held in trust under ANZ employee share schemes

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**Australia and New Zealand Banking Group Limited**

***CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER DISCLOSURES***

**Half year ended  
31 March 2007**

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The directors present their report on the consolidated financial report for the half year ended 31 March 2007.

**Directors**

The names of the directors of the Company who held office during and since the end of the half year are:

Mr CB Goode, AC - Chairman	Director since 24 July 1991, Chairman since 24 August 1995
Mr J McFarlane - Chief Executive Officer	CEO and director since 1 October 1997
Dr GJ Clark	Director since 1 February 2004
Mr JK Ellis	Director since 1 October 1995
Mr DM Gonski, AO	Director since 7 February 2002
Ms MA Jackson, AC	Director since 22 March 1994
Mr IJ Macfarlane, AC	Director since 16 February 2007
Mr DE Meiklejohn	Director since 1 October 2004
Mr JP Morschel	Director since 1 October 2004

**Result**

The consolidated profit attributable to shareholders of the Company was \$2,102 million. Further details are contained in the Chief Financial Officer's Review and Business Performance Review on [pages xx to xx](#) and in the financial report.

**Review of operations**

A review of the operations of the consolidated entity during the half year and the results of those operations are contained in the Chief Financial Officer's Review and Business Performance Review on [pages xx to xx](#).

**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 xx](#) and forms part of the Directors' Report for the half year ended 31 March 2007.

**Rounding of amounts**

The Company is a company of the kind referred to in the Australian Securities and Investments Commission class order 98/100 dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001 (as amended). Consequently, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars except where otherwise indicated.

Signed in accordance with a resolution of the directors.

*Insert signature*

**Charles Goode**  
*Chairman*

*Insert signature*

**John McFarlane**  
*Director*

26 April 2007

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Note	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Total income	2	14,520	13,138	12,372	11%	17%
Interest income		12,518	11,524	10,777	9%	16%
Interest expense		(8,907)	(7,949)	(7,409)	12%	20%
Net interest income	2	3,611	3,575	3,368	1%	7%
Other operating income	2	2,002	1,614	1,595	24%	26%
Operating income		5,613	5,189	4,963	8%	13%
Operating expenses	3	(2,386)	(2,346)	(2,185)	2%	9%
Profit before credit impairment and income tax		3,227	2,843	2,778	14%	16%
Provision for credit impairment	9	(240)	(183)	(224)	31%	7%
Profit before income tax		2,987	2,660	2,554	12%	17%
Income tax expense	4	(883)	(780)	(742)	13%	19%
Profit for the period		2,104	1,880	1,812	12%	16%
Comprising:						
Profit attributable to minority interest		2	3	1	-33%	100%
<b>Profit attributable to shareholders of the Company</b>		2,102	1,877	1,811	12%	16%
<b>Earnings per ordinary share (cents)</b>						
Basic	6	113.2	101.6	98.4	11%	15%
Diluted	6	110.0	98.5	95.5	12%	15%
<b>Dividend per ordinary share (cents)</b>	5	62	69	56	-10%	11%

The notes appearing on pages xx to xx form an integral part of these financial statements



**CONDENSED CONSOLIDATED BALANCE SHEET**

	Note	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Assets</b>						
Liquid assets		15,433	15,019	13,870	3%	11%
Due from other financial institutions		6,439	9,665	8,336	-33%	-23%
Trading securities <sup>1</sup>		14,265	9,179	8,721	55%	64%
Derivative financial instruments		12,268	9,164	11,456	34%	7%
Available for sale assets		9,835	10,653	13,287	-8%	-26%
Net loans and advances	7	267,809	255,949	242,053	5%	11%
Customers' liability for acceptances		14,013	13,435	13,692	4%	2%
Regulatory deposits		219	205	214	7%	2%
Shares in associates and joint venture entities		2,281	2,200	1,912	4%	19%
Deferred tax assets		205	253	307	-19%	-33%
Goodwill and other intangible assets <sup>2</sup>		3,394	3,337	3,272	2%	4%
Other assets <sup>3</sup>		4,154	4,472	4,000	-7%	4%
Premises and equipment		1,409	1,109	1,061	27%	33%
<b>Total assets</b>		<b>351,724</b>	<b>334,640</b>	<b>322,181</b>	<b>5%</b>	<b>9%</b>
<b>Liabilities</b>						
Due to other financial institutions		14,872	14,118	13,345	5%	11%
Deposits and other borrowings	10	210,585	204,794	196,850	3%	7%
Derivative financial instruments		13,607	8,753	10,105	55%	35%
Liability for acceptances		14,013	13,435	13,692	4%	2%
Current tax liabilities		403	569	399	-29%	1%
Deferred tax liabilities		190	253	345	-25%	-45%
Payables and other liabilities		10,221	10,679	9,697	-4%	5%
Provisions		919	957	908	-4%	1%
Bonds and notes		54,188	50,050	46,923	8%	15%
Loan capital <sup>4</sup>	11	11,816	11,126	11,121	6%	6%
<b>Total liabilities</b>		<b>330,814</b>	<b>314,734</b>	<b>303,385</b>	<b>5%</b>	<b>9%</b>
<b>Net assets</b>		<b>20,910</b>	<b>19,906</b>	<b>18,796</b>	<b>5%</b>	<b>11%</b>
<b>Shareholders' equity</b>						
Ordinary share capital	12,13	8,409	8,271	8,068	2%	4%
Preference share capital	12,13	871	871	871	0%	0%
Reserves	13	(519)	(354)	(156)	47%	large
Retained earnings	13	12,117	11,084	9,979	9%	21%
Share capital and reserves attributable to shareholders of the Company		20,878	19,872	18,762	5%	11%
Minority interest		32	34	34	-6%	-6%
<b>Total equity</b>		<b>20,910</b>	<b>19,906</b>	<b>18,796</b>	<b>5%</b>	<b>11%</b>

Contingent liabilities and contingent assets 15

<sup>1.</sup> Includes bills held in portfolio \$1,540 million (Sep 2006: \$1,569 million; Mar 2006: \$1,167 million)

<sup>2.</sup> Excludes notional goodwill in equity accounted entities

<sup>3.</sup> Includes interest revenue receivable \$x,xxx million (Sep 2006: \$1,569 million; Mar 2006: \$1,468 million)

<sup>4.</sup> Includes \$x,xxx million (Sep 2006: \$2,471 million Mar 2006: \$2,536 million) hybrid loan capital that qualifies for Tier 1 capital as defined by the Australian Prudential Regulation Authority

The notes appearing on pages xx to xx form an integral part of these financial statements

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Items recognised directly in equity<sup>1</sup></b>					
Currency translation adjustments					
Exchange differences taken to equity	(89)	102	(305)	large	-71%
Available-for-sale assets					
Valuation gain taken to equity	19	2	18	large	6%
Cumulative (gain) transferred to the income statement on sale	(20)	(8)	-	large	n/a
Cash flow hedges					
Valuation gain taken to equity	60	93	28	-35%	large
Transferred to income statement for the period	(6)	(42)	(14)	-86%	-57%
Actuarial gain (loss) on defined benefit plans	55	(80)	25	large	large
Profit/(loss) recognised directly in equity	19	67	(248)	-71%	large
Profit for the period	2,104	1,880	1,812	12%	16%
Total recognised income and expense for the period	2,123	1,947	1,564	9%	36%
Comprising:					
Total recognised income and expense attributable to minority interest	2	3	1	-33%	100%
<b>Total recognised income and expense attributable to shareholders of the company</b>	<b>2,121</b>	<b>1,944</b>	<b>1,563</b>	<b>9%</b>	<b>36%</b>
<b>Effect of adoption of AASB 139</b>					
Available for sale reserve	-	-	(10)	n/a	-100%
Hedging reserve	-	-	162	n/a	-100%
Retained earnings	-	-	431	n/a	-100%
	-	-	583	n/a	-100%

<sup>1</sup> These items are disclosed net of tax

The notes appearing on pages xx to xx form an integral part of these financial statements

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Half year Mar 07 Inflows (Outflows) \$M	Half year Sep 06 Inflows (Outflows) \$M	Half year Mar 06 Inflows (Outflows) \$M
<b>Cash flows from operating activities</b>			
Interest received	12,863	11,835	11,179
Dividends received	31	4	49
Fee income received	1,106	1,066	1,016
Other income received	571	476	581
Interest paid	(8,876)	(7,377)	(7,299)
Personnel expenses paid	(1,466)	(1,354)	(1,383)
Premises expenses paid	(204)	(191)	(188)
Other operating expenses paid	(1,312)	(1,172)	(1,244)
Recovery from NHB litigation	-	27	87
Income taxes paid			
Australia	(902)	(249)	(539)
Overseas	(190)	(355)	(82)
Goods and Services Tax paid	(4)	(13)	(5)
(Increase)/decrease in operating assets:			
Liquid assets - greater than three months	905	498	(1,798)
Due from other financial institutions	(357)	512	806
Trading Securities	(4,624)	(1,666)	(15)
Regulatory deposits	(25)	5	(47)
Loans and advances	(11,676)	(12,879)	(13,969)
Increase/ (decrease) in operating liabilities			
Deposits and other borrowings	6,550	7,400	8,729
Due to other financial institutions	993	700	1,159
Payables and other liabilities	(728)	(474)	1,015
<b>Net cash (used in) operating activities</b>	<b>16</b>	<b>(7,345)</b>	<b>(1,948)</b>
<b>Cash flows from investing activities</b>			
Net decrease/(increase)			
Available for sale assets			
Purchases	(8,276)	(5,290)	(10,190)
Proceeds from sale or maturity	8,976	8,022	8,217
Controlled entities and associates			
Purchased (net of cash acquired)	(53)	(227)	(62)
Proceeds from sale (net of cash disposed)	391	14	-
Premises and equipment			
Purchases	(223)	(97)	(153)
Proceeds from sale	16	17	2
Other	119	1,611	86
<b>Net cash provided by/ (used in) investing activities</b>	<b>950</b>	<b>4,050</b>	<b>(2,100)</b>
<b>Cash flows from financing activities</b>			
Net (decrease)increase			
Bonds and notes			
Issue proceeds	7,907	7,582	9,924
Redemptions	(3,769)	(4,810)	(4,139)
Loan capital			
Issue proceeds	855	639	609
Redemptions	(500)	(656)	-
Change in outside equity interests	(2)	(2)	2
Dividends paid	(1,163)	(941)	(989)
Share capital issues	63	72	75
Share capital buyback	-	-	(146)
<b>Net cash provided by financing activities</b>	<b>3,391</b>	<b>1,884</b>	<b>5,336</b>
Net cash (used in) operating activities	(7,345)	(3,207)	(1,948)
Net cash provided by/(used in) investing activities	950	4,050	(2,100)
Net cash provided by financing activities	3,391	1,884	5,336
Net increase/(decrease) in cash and cash equivalents	(3,004)	2,727	1,288
Cash and cash equivalents at beginning of period	20,344	16,845	13,702
Foreign currency translation	914	772	1,855
<b>Cash and cash equivalents at end of period</b>	<b>16</b>	<b>18,254</b>	<b>20,344</b>

The notes appearing on pages xx to xx form an integral part of these financial statements

1. Significant Accounting Policies

**(i) Basis of preparation**

These consolidated financial statements comprise a general purpose financial report and:

- should be read in conjunction with the ANZ Financial Report and the ANZ Concise Annual Report for the year ended 30 September 2006 and any public announcements made by the Parent entity and its controlled entities (the Group) for the half year ended 31 March 2007 in accordance with the continuous disclosure obligations under the Corporations Act 2001 (as amended) and the ASX Listing Rules;
- are presented in Australian dollars unless otherwise stated;
- comply with the accounts provisions of the Banking Act 1959;
- have been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001;
- are condensed financial statements as defined in AASB 134: 'Interim Financial Reporting'. This report does not include all notes of the type normally included in the annual financial report; and
- have been prepared in accordance with the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments including the fair value of any applicable underlying exposure, assets treated as available-for-sale, financial instruments held for trading, term funding instruments including specific bonds and notes, and defined benefit plans assets and liabilities.

These condensed consolidated interim financial statements were approved by the Board of Directors on 26 April 2007.

The preparation of the financial report requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. Such estimates may require review in future periods.

All amounts in the financial report have been rounded to the nearest million dollars in accordance with class order 98/100, dated 10 July 1998 (as amended).

The accounting policies and methods of computation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those adopted and disclosed in the Group's 2006 annual financial report for the year ended 30 September 2006.

The Group's key accounting policies that have been applied in preparing these condensed consolidated interim financial statements follow.

**(ii) Consolidation**

The financial statements consolidate the financial statements of Australia and New Zealand Banking Group Limited (the Company) and all its controlled entities where it is determined that there is a capacity to control. Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities.

In relation to special purpose entities, such control is deemed to exist where:

- in substance, the majority of the residual risks and rewards from their activities accrue to the Group; or
- in substance, the Group controls their decision making powers so as to obtain the majority of the risks and rewards from their activities.

**(iii) Interest income and interest expense**

Interest income and interest expense are recognised in the income statement as they accrue using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial instrument. Income and expense on the financial instruments are recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

Loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the interest yield on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are deferred in other assets and recognised in interest income as part of the effective interest rate.

1. Significant Accounting Policies, cont'd

**(iv) Fee and commission income**

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the determination of the effective interest rate.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

**(v) Offsetting of income and expenses**

Income and expenses are not offset unless required or permitted by an accounting standard. At the Group level, this generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as being effective;
- where gains and losses from a group of similar transactions are reported on a net basis, such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Group is acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Group is reimbursed.

**(vi) Derivative financial instruments**

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variables. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into by the Group for trading purposes (including customer-related reasons), or for hedging purposes (where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Where the derivative is designated effective as a hedging instrument, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

▪ Fair value hedge

Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement.

Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged items, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

▪ Cash flow hedge

The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve which forms part of shareholders' equity. Any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place.

When the hedge expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.

1. Significant Accounting Policies, cont'd

**(vi) Derivative financial instruments, cont'd**

▪ Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss from remeasuring the fair value of the hedging instrument relating to the effective portion of the hedge is deferred in equity and the ineffective portion is recognised immediately in the income statement.

▪ Adoption of AASB 2005-1: 'Amendments to Australian Accounting Standards'

In May 2005, AASB 2005-1 (an amendment to AASB 139: 'Financial Instruments: Recognition and Measurement') was issued which stipulated circumstances in which a hedge of a forecast intragroup transaction qualified for hedge accounting. As a result of this amendment, certain cash flow hedge relationships of the Group no longer qualified for hedge accounting. The amendment is applicable for annual reporting periods beginning on or after 1 January 2006, giving rise to an adjustment for the Group as at 1 October 2006.

All gains and losses from changes in the fair value of derivatives, that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of funding instruments, are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and unrealised interest, is included in net interest income. The remainder of the fair value movement is included in other income.

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value via the profit and loss. The embedded derivative is measured at fair value with changes in fair value immediately recognised in the income statement.

**(vii) Trading Securities and other financial assets at fair value through profit or loss**

Trading securities and other financial instruments acquired principally for the purpose of selling in the short-term or which are part of a portfolio which is managed for short-term profit-taking are initially recognised at fair value and subsequently measured in the balance sheet at their fair value.

In addition, certain financial assets and liabilities are measured at fair value through profit or loss where either of the following applies:

- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising the gains or losses on them, on different bases
- a group of financial assets, financial liabilities or both is managed and its performance evaluated on a fair value basis.

Changes in the fair value (gains or losses) of financial instruments are recognised in the income statement in the period in which they occur.

**(viii) Available-for-sale assets**

Available-for-sale assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances and fixed term securities. They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity, the 'available-for-sale revaluation reserve'. When an available-for-sale asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

Where there is objective evidence of impairment of an available-for-sale asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement.

Premiums and discounts are included within the calculation of the fair value of the security. Interest income is accrued on an effective yield basis and dividend income is recognised when the right to receive payment is established.

1. Significant Accounting Policies, cont'd

**(ix) Impairment of loans and advances**

Loans and advances are reviewed at least each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event or events has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed individually for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The estimated impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement. When a loan is uncollectible, it is written-off against the related provision for loan impairment. Subsequent recoveries of amounts previously written-off are credited back to the income statement.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairments are reversed in the income statement.

A provision is also raised for off balance sheet items such as commitments and guarantees that are considered to be onerous.

**(x) Goodwill and other intangible assets**

▪ Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is recognised as an asset and not amortised, but assessed for impairment annually and whenever there is an indication that the goodwill may be impaired. This involves, where required, using the discounted cash flow (DCF) or the capitalisation of earnings methodology (CEM) to determine the expected future benefits of the cash-generating unit. Where the assessment results in the goodwill balance exceeding the value of expected future benefits the difference is charged to the income statement.

Any impairment of goodwill is not subsequently reversed.

▪ Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems ("software").

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years except for branch front-end applications where 7 years is used.

At each reporting date, software assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

1. Significant Accounting Policies, cont'd

**(xi) Premises and equipment impairment assessment**

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

**(xii) Employee benefits**

▪ Defined benefit superannuation schemes

The Group operates a number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries. A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in a benefit to the Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each subsequent reporting period, ongoing movements in the defined benefit liability or asset carrying value is treated as follows:

- the net movement relating to the current period's service cost, interest cost, expected return on scheme assets, past service costs and other costs (such as the effects of any curtailments and settlements) is recognised as an employee expense in the income statement
- movements relating to actuarial gains and losses are recognised directly in retained earnings
- contributions incurred are recognised directly against the net defined benefit position.

▪ Share-based compensation

The Group has various equity settled share-based compensation plans. These are described in Note 47 of the 2006 Annual Financial Report and comprise largely the Employee Share Acquisition Plan and the ANZ Share Option Plan.

*ANZ ordinary shares*

The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan are measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed immediately when shares vest immediately or on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in equity.

*Share options*

The fair value of share options is measured at grant date, using an option pricing model. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in the share options reserve. The option pricing model takes into account the exercise price of the option, the risk free interest rate, the expected volatility of ANZ ordinary share price and other factors. Market vesting conditions are taken into account in estimating the fair value.

*Performance rights*

A Performance Right is a right to acquire a share at nil cost to the employee, subject to satisfactorily meeting time and performance hurdles. Upon exercise, each Performance Right entitles the holder to one ordinary share in ANZ. The fair value of Performance Rights is determined at grant date using an option pricing model, taking into account market conditions. The fair value is expensed over the relevant vesting period. This is recognised as an employee expense with a corresponding increase in the share options reserve.

*Other adjustments*

The amount recognised as an expense is adjusted for vesting conditions other than market conditions so that, ultimately, the amount recognised as an expense is based on the number of equity instruments that eventually vest.

*Treasury shares*

Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share-based awards) and deducted from share capital.



1. Significant Accounting Policies, cont'd

**(xiii) Offsetting of assets and liabilities**

Assets and liabilities are offset and the net amount reported in the balance sheet only where:

- there is a current enforceable legal right to offset the asset and liability, and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(xiv) Income tax**

▪ Income tax expense

Income tax on earnings for the period comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

▪ Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date, including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

▪ Deferred tax

Deferred tax is accounted for using the tax balance sheet liability method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those in relation to taxable temporary differences arising from the initial recognition of goodwill. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

▪ Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

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2. Income

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Interest income	12,518	11,524	10,777	9%	16%
Interest expense	(8,907)	(7,949)	(7,409)	12%	20%
<b>Net interest income</b>	<b>3,611</b>	<b>3,575</b>	<b>3,368</b>	<b>1%</b>	<b>7%</b>
<b>i) Fee and commission income</b>					
Lending fees	232	215	215	8%	8%
Non-lending fees and commissions	1,033	1,017	939	2%	10%
Total fee and commission income	1,265	1,232	1,154	3%	10%
Fee and commission expense <sup>1</sup>	(122)	(116)	(125)	5%	-2%
<b>Net fee and commission income</b>	<b>1,143</b>	<b>1,116</b>	<b>1,029</b>	<b>2%</b>	<b>11%</b>
<b>ii) Other income</b>					
Foreign exchange earnings <sup>2</sup>	233	220	227	6%	3%
Net gains/(losses) from trading securities	(25)	(24)	17	4%	large
Net gains from trading derivatives	198	89	127	large	56%
Movement on financial instruments measured at fair value through profit & loss <sup>3</sup>	41	31	18	32%	large
Settlement of ANZ National Bank warranty claims	-	-	14	n/a	-100%
Gain from the sale of Fleet Business	195	-	-	n/a	n/a
Share of joint venture profit from ING Australia	74	62	57	19%	30%
Share of joint venture profit from ING (NZ)	9	8	11	13%	-18%
Share of associates profit - International Partnerships	25	19	15	32%	67%
Share of associates profit - other	5	4	3	25%	67%
Private equity and infrastructure earnings <sup>4</sup>	16	12	10	33%	60%
Other	88	77	67	14%	31%
<b>Total other income</b>	<b>859</b>	<b>498</b>	<b>566</b>	<b>72%</b>	<b>52%</b>
<b>Total other operating income</b>	<b>2,002</b>	<b>1,614</b>	<b>1,595</b>	<b>24%</b>	<b>26%</b>
<b>Total income</b>	<b>14,520</b>	<b>13,138</b>	<b>12,372</b>	<b>11%</b>	<b>17%</b>
<b>Profit before income tax as a % of total income</b>	<b>20.57%</b>	<b>20.25%</b>	<b>20.64%</b>		

<sup>1</sup> Comprises interchange fees paid

<sup>2</sup> March 2007 half includes core foreign exchange earnings \$237 million less \$4 million non-core NZD revenue hedge volatility

<sup>3</sup> Includes any fair value movements on derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, not designated as accounting hedges, ineffective portions of cash flow hedges and fair value movement in bonds and notes designated at fair value

<sup>4</sup> Includes earnings from private equity and infrastructure portfolios. Includes share of associates' profit \$8 million (Sep 2006 half: \$11 million; Mar 2006 half: \$4 million)

3. Operating expenses

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Personnel</b>					
Employee entitlements and taxes	109	101	106	8%	3%
Salaries and wages	942	874	872	8%	8%
Superannuation costs - defined benefit plans	6	7	4	-14%	50%
Superannuation costs - defined contribution plans	87	80	80	9%	9%
Equity-settled share-based payments	36	38	38	-5%	-5%
Temporary staff	64	57	64	12%	0%
Other	207	233	228	-11%	-9%
<b>Total personnel expenses</b>	<b>1,451</b>	<b>1,390</b>	<b>1,392</b>	<b>4%</b>	<b>4%</b>
<b>Premises</b>					
Depreciation and amortisation	19	17	16	12%	19%
Rent	124	115	113	8%	10%
Utilities and other outgoings	65	64	64	2%	2%
Other	15	11	12	36%	25%
<b>Total premises expenses</b>	<b>223</b>	<b>207</b>	<b>205</b>	<b>8%</b>	<b>9%</b>
<b>Computer</b>					
Computer contractors	26	23	24	13%	8%
Data communications	31	29	28	7%	11%
Depreciation and amortisation	102	104	104	-2%	-2%
Rentals and repairs	37	33	35	12%	6%
Software purchased	60	64	53	-6%	13%
Other	22	31	20	-29%	10%
<b>Total computer expenses</b>	<b>278</b>	<b>284</b>	<b>264</b>	<b>-2%</b>	<b>5%</b>
<b>Other</b>					
Advertising and public relations	71	95	80	-25%	-11%
Audit fees	4	6	3	-33%	33%
Depreciation of furniture and equipment	26	25	23	4%	13%
Freight and cartage	27	24	23	13%	17%
Non-lending losses, frauds and forgeries	16	19	36	-16%	-56%
Settlement of NHB insurance claim	-	-	(113)	n/a	-100%
Postage and stationery	57	59	57	-3%	0%
Professional fees	65	66	61	-2%	7%
Telephone	28	28	28	0%	0%
Travel	74	71	65	4%	14%
Other	66	72	61	-8%	8%
<b>Total other expenses</b>	<b>434</b>	<b>465</b>	<b>324</b>	<b>-7%</b>	<b>34%</b>
<b>Operating expenses<sup>1</sup></b>	<b>2,386</b>	<b>2,346</b>	<b>2,185</b>	<b>2%</b>	<b>9%</b>

<sup>1</sup> Includes ANZ National Bank incremental integration costs \$nil (Sep 2006 half: \$nil; Mar 2006 half: \$39 million)

4. Income tax expense

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement</b>					
Profit before income tax	2,987	2,660	2,554	12%	17%
Prima facie income tax expense at 30%	896	798	766	12%	17%
Tax effect of permanent differences:					
Overseas tax rate differential	13	9	16	44%	-19%
Rebateable and non-assessable dividends	(6)	(3)	(3)	100%	100%
Other non-assessable income	(3)	(4)	(5)	-25%	-40%
Profit from associates and joint venture entities	(36)	(31)	(26)	16%	38%
Other	19	15	(6)	27%	large
	883	784	742	13%	19%
Income tax (over) provided in previous years	-	(4)	-	-100%	n/a
Total income tax expense charged in the income statement	883	780	742	13%	19%
Australia	600	510	474	18%	27%
Overseas	283	270	268	5%	6%
	883	780	742	13%	19%
Effective Tax Rate - Group	29.6%	29.3%	29.1%		
Tax expense comprises:					
Current tax expense	906	901	846	1%	7%
Deferred tax expense	(23)	(121)	(104)	-81%	-78%
	883	780	742	13%	19%

5. Dividends

Ordinary Shares

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Dividend per ordinary share (cents)</b>					
Interim (fully franked)	62	n/a	56	n/a	11%
Final (fully franked)	n/a	69	n/a	n/a	n/a
<b>Ordinary share dividend<sup>1</sup></b>					
Interim dividend paid	-	1,024	-	n/a	n/a
Final dividend paid	1,267	-	1,078	n/a	18%
Bonus option plan adjustment	(19)	(16)	(18)	19%	6%
<b>Total</b>	<b>1,248</b>	<b>1,008</b>	<b>1,060</b>	<b>24%</b>	<b>18%</b>
<b>Ordinary share dividend payout ratio<sup>2</sup> (%)</b>	<b>54.9%</b>	<b>68.0%</b>	<b>56.9%</b>		

<sup>1</sup> Dividends recorded when paid

<sup>2</sup> Dividend payout ratio calculated using proposed interim dividend of \$1,144 million not included in the above table. Dividend payout ratio for the September 2006 half year calculated using \$1,267 million (Mar 2006: \$1,024 million) dividends paid in March 2007 half

Preference Shares

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Preference share dividend</b>					
Euro Hybrid	17	15	12	13%	42%
<b>Dividend per preference share</b>					
Euro Hybrid (EUR)	€ 20.89	€ 17.84	€ 14.86	17%	41%

6. Earnings per share

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Number of fully paid ordinary shares on issue (M)	1,844.7	1,836.6	1,828.7	0%	1%
<b>Basic</b>					
Profit attributable to shareholders of the Company (\$M)	2,102	1,877	1,811	12%	16%
Less Preference share dividends (\$M)	(17)	(15)	(12)	13%	42%
Profit excluding preference share dividends (\$M)	2,085	1,862	1,799	12%	16%
Weighted average number of ordinary shares (M)	1,841.6	1,832.2	1,828.4	1%	1%
<b>Basic earnings per share (cents)</b>	<b>113.2</b>	<b>101.6</b>	<b>98.4</b>	<b>11%</b>	<b>15%</b>
<b>Diluted</b>					
Profit excluding preference share dividends (\$M)	2,085	1,862	1,799	12%	16%
Interest on US Trust securities <sup>1</sup> (\$M)	22	24	29	-8%	-24%
Interest on ANZ StEPS <sup>2</sup> (\$M)	24	23	22	4%	9%
Profit attributable to shareholders of the Company excluding interest on US Trust securities and ANZ StEPS (\$M)	2,131	1,909	1,850	12%	15%
Adjusted weighted average number of shares on issue (M)	1,841.6	1,832.2	1,828.4	1%	1%
Weighted average number of convertible options (M)	14.4	13.0	11.9	11%	21%
Weighted average number of convertible US Trust securities at current market price <sup>1</sup> (M)	45.9	54.8	58.0	-16%	-21%
Weighted average number of convertible ANZ StEPS securities <sup>2</sup> (M)	34.5	38.2	38.7	-10%	-11%
Adjusted weighted average number of shares - diluted (M)	1,936.4	1,938.2	1,937.0	0%	0%
<b>Diluted earnings per share (cents)</b>	<b>110.0</b>	<b>98.5</b>	<b>95.5</b>	<b>12%</b>	<b>15%</b>

<sup>1.</sup> The US Stapled Trust securities issued on 27 November 2003 mandatorily convert to ordinary shares in 2053 unless redeemed or bought back prior to that date. The US Stapled Trust Security issue can be de-stapled and the investor left with coupon paying preference shares at ANZ's discretion at any time, or at the investor's discretion under certain circumstances. AASB 133 requires that potential ordinary shares for which conversion to ordinary share capital is mandatory must be included in the calculation of diluted EPS. The inclusion of this issue in EPS increased the diluted number of shares by 45.9 million

<sup>2.</sup> ANZ StEPS (issued on 23 September 2003) convert to either \$100 for each ANZ StEPS share or a number of ordinary shares calculated at the market price of ANZ ordinary shares less 2.5%. The inclusion of this issue in EPS increased the diluted number of shares by 34.5 million

7. Net loans and advances

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Australia</b>					
Overdrafts	6,456	6,237	5,780	4%	12%
Credit card outstandings	6,506	6,190	5,904	5%	10%
Term loans - housing	106,953	101,945	96,846	5%	10%
Term loans - non-housing	57,217	53,905	50,873	6%	12%
Lease finance	2,074	2,580	2,774	-20%	-25%
Other	9,799	9,650	9,795	2%	0%
	189,005	180,507	171,972	5%	10%
<b>New Zealand</b>					
Overdrafts	1,822	1,666	1,677	9%	9%
Credit card outstandings	1,152	1,081	1,033	7%	12%
Term loans - housing	40,841	37,845	34,961	8%	17%
Term loans - non-housing	28,145	26,979	25,103	4%	12%
Lease finance	239	421	361	-43%	-34%
Other	901	937	901	-4%	0%
	73,100	68,929	64,036	6%	14%
<b>Overseas markets</b>					
Overdrafts	513	518	434	-1%	18%
Credit card outstandings	200	198	184	1%	9%
Term loans - housing	847	766	693	11%	22%
Term loans - non-housing	7,567	8,347	8,051	-9%	-6%
Lease finance	183	179	217	2%	-16%
Other	239	194	156	23%	53%
	9,549	10,202	9,735	-6%	-2%
<b>Total gross loans and advances</b>	<b>271,654</b>	<b>259,638</b>	<b>245,743</b>	<b>5%</b>	<b>11%</b>
Less provisions for credit impairment (refer note 9)	(2,283)	(2,226)	(2,219)	3%	3%
Less income yet to mature <sup>1</sup>	(2,110)	(2,002)	(1,978)	5%	7%
Add capitalised brokerage\mortgage origination fees	548	539	507	2%	8%
	(3,845)	(3,689)	(3,690)	4%	4%
<b>Total net loans and advances</b>	<b>267,809</b>	<b>255,949</b>	<b>242,053</b>	<b>5%</b>	<b>11%</b>

<sup>1</sup> Includes fees capitalised and amortised using the effective interest method of \$314 million (Sep 2006 half: \$343 Mar 2006 half: \$364 million)

The following table shows gross loans and advances for New Zealand in NZD terms.

	Half year Mar 07 NZD M	Half year Sep 06 NZD M	Half year Mar 06 NZD M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>New Zealand</b>					
Overdrafts	2,061	1,908	1,962	8%	5%
Credit card outstandings	1,303	1,238	1,209	5%	8%
Term loans - housing	46,199	43,351	40,904	7%	13%
Term loans - non-housing	31,838	30,904	29,371	3%	8%
Lease finance	270	482	422	-44%	-36%
Other	1,020	1,075	1,054	-5%	-3%
	82,691	78,958	74,922	5%	10%

8. Impaired financial assets

	As at Mar 07	As at Sep 06	As at Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>Summary of impaired financial assets</b>					
Non-performing loans	640	661	726	-3%	-12%
Restructured loans	-	-	-	n/a	n/a
Unproductive facilities	109	37	76	large	43%
<b>Gross impaired financial assets</b>	<b>749</b>	<b>698</b>	<b>802</b>	<b>7%</b>	<b>-7%</b>
Less individual provisions:					
Non-performing loans	(275)	(279)	(305)	-1%	-10%
Unproductive facilities	(27)	(7)	(11)	large	large
<b>Net impaired financial assets</b>	<b>447</b>	<b>412</b>	<b>486</b>	<b>8%</b>	<b>-8%</b>

**Non-performing loans**

Australia	507	507	516	0%	-2%
New Zealand	105	132	177	-20%	-41%
Overseas markets	28	22	33	27%	-15%
<b>Gross non-performing loans</b>	<b>640</b>	<b>661</b>	<b>726</b>	<b>-3%</b>	<b>-12%</b>
Less individual provisions:					
Australia	216	212	212	2%	2%
New Zealand	42	52	75	-19%	-44%
Overseas markets	17	15	18	13%	-6%
<b>Individual provisions</b>	<b>275</b>	<b>279</b>	<b>305</b>	<b>-1%</b>	<b>-10%</b>
<b>Net non-performing loans</b>	<b>365</b>	<b>382</b>	<b>421</b>	<b>-4%</b>	<b>-13%</b>

	As at Mar 07	As at Sep 06	As at Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>Unproductive facilities</b>					
Australia	105	29	63	large	67%
New Zealand	4	7	6	-43%	-33%
Overseas markets	-	1	7	-100%	-100%
<b>Gross unproductive facilities</b>	<b>109</b>	<b>37</b>	<b>76</b>	<b>large</b>	<b>43%</b>
Less individual provisions:					
Australia	27	6	9	large	large
New Zealand	-	-	-	n/a	n/a
Overseas markets	-	1	2	-100%	-100%
<b>Individual provisions</b>	<b>27</b>	<b>7</b>	<b>11</b>	<b>large</b>	<b>large</b>
<b>Net unproductive facilities</b>	<b>82</b>	<b>30</b>	<b>65</b>	<b>large</b>	<b>26%</b>

	Half year Mar 07	Half year Sep 06	Half year Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>New and increased non-performing loans</b>					
Australia	430	370	513	16%	-16%
New Zealand	74	65	102	14%	-27%
Overseas markets	27	19	15	42%	80%
<b>Total new non-performing loans<sup>1</sup></b>	<b>531</b>	<b>454</b>	<b>630</b>	<b>17%</b>	<b>-16%</b>

<sup>1</sup> Includes \$141 million relating to Consumer Finance (Sep 2006 half: \$138 million; Mar 2006 half: \$100 million)



8. Impaired financial assets, cont'd

The following amounts are not classified as individually impaired financial assets and therefore are not included within the summary on page xx.

	As at Mar 07	As at Sep 06	As at Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>Accruing loans past due 90 days or more<sup>1</sup></b>					
Australia	460	406	339	13%	36%
New Zealand	106	75	74	41%	43%
Overseas markets	19	18	15	6%	27%
	585	499	428	17%	37%

<sup>1</sup> Includes unsecured credit card and personal loans 90 day past due accounts which are allowed by APRA to be retained on an accrual basis for up to 180 days past due amounting to \$xx million (Sep 2006 half: \$64 million; Mar 2006 half: \$64 million). The remainder of 90 day past due accounts are predominantly held on an accrual basis having been assessed as 'well secured', for example no loss of principal or interest is expected

In the event of customer default, any loan security is held as mortgagee in possession and therefore the Group does not hold any other real estate owned assets.

9. Provision for credit impairment

	Half year Mar 07	Half year Sep 06	Half year Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>Collective provision</b>					
Balance at start of period	1,940	1,903	2,167	2%	-10%
Adjustment due to adoption of accounting standard AASB 139	-	-	(288)	n/a	-100%
Restated balance at start of period	1,940	1,903	1,879	2%	3%
Provisions raised (disposed)	(4)	-	-	n/a	n/a
Adjustment for exchange rate fluctuations	(7)	4	(12)	large	-42%
Charge to income statement	52	33	36	58%	44%
Total collective provision <sup>1</sup>	1,981	1,940	1,903	2%	4%
<b>Individual provision</b>					
Balance at start of period	286	316	273	-9%	5%
Adjustment due to adoption of accounting standard AASB 139	-	-	(1)	n/a	-100%
Restated balance at start of period	286	316	272	-9%	5%
Charge to income statement	188	150	188	25%	0%
Adjustment for exchange rate fluctuations	(6)	(1)	(3)	large	100%
Discount unwind	(10)	(13)	(13)	-23%	-23%
Bad debts written off	(253)	(239)	(182)	6%	39%
Recoveries of amounts previously written off	97	73	54	33%	80%
Total individual provision	302	286	316	6%	-4%
Total provision for credit impairment	2,283	2,226	2,219	3%	3%

<sup>1</sup> The Collective Provision includes amounts for off balance sheet credit exposures, \$256 million at 31 March 2007 (Sep 2006: \$260 million). The charge to the income statement for the period ended 31 March 2007 was -\$3 million (Sep 2006: \$5 million).

	Half year Mar 07	Half year Sep 06	Half year Mar 06	Movt Mar 07 v. Sep 06	Movt Mar 07 v. Mar 06
	\$M	\$M	\$M	%	%
<b>Provision movement analysis</b>					
New and increased provisions					
Australia	285	253	255	13%	12%
New Zealand	38	41	40	-7%	-5%
Overseas markets	22	17	12	29%	83%
	345	311	307	11%	12%
Provision releases	(60)	(88)	(65)	-32%	-8%
	285	223	242	28%	18%
Recoveries of amounts previously written off	(97)	(73)	(54)	33%	80%
<b>Individual provision charge</b>	188	150	188	25%	0%
Net credit to collective provision	52	33	36	58%	44%
<b>Charge to Income Statement</b>	240	183	224	31%	7%

9. Provision for credit impairment, cont'd

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Individual provision balance</b>					
Australia	243	218	221	11%	10%
New Zealand	42	52	75	-19%	-44%
Domestic markets	285	270	296	6%	-4%
Overseas markets	17	16	20	6%	-15%
<b>Total individual provision</b>	<b>302</b>	<b>286</b>	<b>316</b>	<b>6%</b>	<b>-4%</b>

10. Total deposits and other borrowings

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Certificates of deposits	23,004	23,248	23,238	-1%	-1%
Term Deposits	63,672	59,676	55,002	7%	16%
Other deposits bearing interest	87,657	80,118	71,643	9%	22%
Deposits not bearing interest	9,234	9,352	9,334	-1%	-1%
Commercial paper	15,497	20,750	25,669	-25%	-40%
Borrowing corporations' debt	10,660	10,656	10,919	0%	-2%
Other borrowings	861	994	1,045	-13%	-18%
<b>Total deposits and other borrowings</b>	<b>210,585</b>	<b>204,794</b>	<b>196,850</b>	<b>3%</b>	<b>7%</b>

11. Loan capital

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Hybrid loan capital					
US stapled trust security issue <sup>1</sup>	1,362	1,471	1,536	-7%	-11%
ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) <sup>2</sup>	1,000	1,000	1,000	0%	0%
Perpetual subordinated notes	721	401	419	80%	72%
<b>Subordinated notes</b>	<b>8,733</b>	<b>8,254</b>	<b>8,166</b>	<b>6%</b>	<b>7%</b>
<b>Total Loan Capital</b>	<b>11,816</b>	<b>11,126</b>	<b>11,121</b>	<b>6%</b>	<b>6%</b>

<sup>1</sup> Loan capital of USD1.1 billion is subordinated in right of payment to the claims of depositors and all other creditors of the parent entity and its controlled entities which have issued the notes. Hybrid loan capital constitutes Tier 1 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes

<sup>2</sup> ANZ StEPS securities are classified as loan capital instead of share capital under AIFRS financial reporting

12. Share Capital

Issued and quoted securities

	Number quoted	Issue price per share	Amount paid up per share
<b>Ordinary shares</b>			
As at 31 March 2007	1,844,698,259		
Issued during the half year	8,126,144		
Bought back during half year	-		
<b>Preference shares</b>			
As at 31 March 2007			
Euro Hybrid <sup>1</sup>	500,000	€ 1,000	€ 1,000

<sup>1</sup> On 13 December 2004 the Group issued €500 million hybrid capital into the European market. The instruments consist of a coupon paying note issued by ANZ Jackson Funding PLC stapled to a fully paid up €1,000 preference share issued by Australia and New Zealand Banking Group Limited

	Half year Mar 07	Half year Sep 06	Half year Mar 06
Profit as a % of shareholders' equity including preference shares at end of period	20.2%	18.9%	19.3%

13. Shareholders' Equity

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Share capital</b>					
Balance at start of period	9,142	8,939	9,911	2%	-8%
Adjustment due to adoption of AIFRS	-	-	(987)	n/a	-100%
Restated balance at beginning of period	9,142	8,939	8,924	2%	2%
Ordinary share capital					
Dividend reinvestment plan	102	80	85	28%	20%
Group employee share acquisition scheme <sup>1</sup>	(27)	53	37	large	large
Group share option scheme	63	70	39	-11%	62%
Group Share Buyback	-	-	(146)	n/a	-100%
<b>Total share capital</b>	<b>9,280</b>	<b>9,142</b>	<b>8,939</b>	<b>2%</b>	<b>4%</b>
<b>Foreign currency translation reserve</b>					
Balance at start of period	(646)	(748)	(443)	-14%	46%
Currency translation adjustments net of hedges after tax	(89)	102	(305)	large	-71%
<b>Total foreign currency translation reserve</b>	<b>(735)</b>	<b>(646)</b>	<b>(748)</b>	<b>14%</b>	<b>-2%</b>
<b>Share option reserve<sup>2</sup></b>					
Balance at start of period	63	78	67	-19%	-6%
Share-based payments	12	(14)	11	large	9%
Transfer (to) retained earnings	-	(1)	-	-100%	n/a
<b>Total share option reserve</b>	<b>75</b>	<b>63</b>	<b>78</b>	<b>19%</b>	<b>-4%</b>
<b>Available-for-sale revaluation reserve<sup>3</sup></b>					
Balance at start of period	2	8	n/a	-75%	n/a
Adjustments on adoption of accounting policies specified by AASB 132 & AASB 139	-	-	(10)	n/a	-100%
Restated balance at beginning of period	2	8	(10)	-75%	large
Valuation gain recognised after tax	19	2	18	large	6%
Cumulative (gain) transferred to the income statement on sale of financial assets	(20)	(8)	-	large	n/a
<b>Total available-for-sale revaluation reserve</b>	<b>1</b>	<b>2</b>	<b>8</b>	<b>-46%</b>	<b>-87%</b>

<sup>1</sup> Includes \$56 million of treasury shares relating to share-based payments at March 2007 (Sep 2006: \$nil; Mar 2006: \$nil)

<sup>2</sup> The share option reserve arises on the grant of share options to selected employees under the ANZ share option plan. Amounts are transferred out of the reserve and into share capital when the options are exercised

<sup>3</sup> The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, that portion of the reserve which relates to that financial asset, is realised and recognised in the profit or loss. Where a revalued financial asset is impaired, that portion of the reserve which relates to that financial asset is recognised in the profit or loss

13. Shareholders' Equity, cont'd

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Hedging reserve<sup>4</sup></b>					
Balance at start of period	227	176	n/a	29%	n/a
Adjustments on adoption of accounting policies specified by AASB 132 & AASB 139	-	-	162	n/a	-100%
Restated balance at beginning of period	227	176	162	29%	40%
Gain recognised after tax	60	93	28	-35%	large
Transferred to income statement	(6)	(42)	(14)	-86%	-57%
Transitional adjustment on adoption of AASB 2005-1 <sup>5</sup>	(141)	-	-	n/a	n/a
<b>Total hedging reserve</b>	<b>140</b>	<b>227</b>	<b>176</b>	<b>-38%</b>	<b>-20%</b>
<b>General reserve</b>					
Balance at the start of the period	-	181	181	-100%	-100%
Transfer (to) retained earnings <sup>6</sup>	-	(181)	-	-100%	n/a
<b>Total general reserve</b>	<b>-</b>	<b>-</b>	<b>181</b>	<b>n/a</b>	<b>-100%</b>
<b>Capital reserve</b>					
Balance at the start of the period	-	149	149	-100%	-100%
Transfer (to) retained earnings <sup>6</sup>	-	(149)	-	-100%	n/a
<b>Total capital reserve</b>	<b>-</b>	<b>-</b>	<b>149</b>	<b>n/a</b>	<b>-100%</b>
<b>Total reserves</b>	<b>(519)</b>	<b>(354)</b>	<b>(156)</b>	<b>47%</b>	<b>large</b>
<b>Retained earnings</b>					
Balance at start of period	11,084	9,979	9,646	11%	15%
Adjustment on adoption of AIFRS <sup>7</sup>	-	-	(431)	n/a	-100%
Restated balance at beginning of period	11,084	9,979	9,215	11%	20%
Profit attributable to shareholders of the Company	2,102	1,877	1,811	12%	16%
Total available for appropriation	13,186	11,856	11,026	11%	20%
Transitional adjustment on adoption of AASB 2005-1 <sup>5</sup>	141	-	-	n/a	n/a
Transfers from reserves	-	331	-	-100%	n/a
Actuarial gain (loss) on defined benefit plans after tax <sup>8</sup>	55	(80)	25	large	large
Ordinary share dividends paid	(1,248)	(1,008)	(1,060)	24%	18%
Preference share dividends paid	(17)	(15)	(12)	13%	42%
<b>Retained earnings at end of period</b>	<b>12,117</b>	<b>11,084</b>	<b>9,979</b>	<b>9%</b>	<b>21%</b>
<b>Share capital and reserves attributable to shareholders' of the Company</b>					
Minority interest	20,878	19,872	18,762	5%	11%
<b>Total equity</b>	<b>20,910</b>	<b>19,906</b>	<b>18,796</b>	<b>5%</b>	<b>11%</b>

<sup>4</sup> The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit or loss when the hedged transaction impacts profit or loss, consistent with the applicable accounting policy

<sup>5</sup> Under the transitional provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges effective 1 October 2006 (refer Note 1(vi))

<sup>6</sup> The transfer of balances from the general and capital reserves to retained earnings represent items of a distributable nature

<sup>7</sup> Comprises

- Remeasurement of the carrying value of the Group's investment in INGA as at 1 October 2005
- Adjustment in respect of hedging derivative financial instruments as at 1 October 2005
- Recognition of the fair value of derivatives relating to securitisation and structured finance transactions as at 1 October 2005
- Deferral of previously recognised fees now treated as an adjustment to yield on 1 October 2005
- Restatement of credit loss provisions to an AIFRS basis

<sup>8</sup> ANZ has taken the option available under AASB 119 to recognise actuarial gains/losses on defined benefit superannuation plans directly in retained earnings

14. Average balance sheet and related interest

Averages used in the following tables are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Impaired loans are included under the interest earning asset category, "loans, advances and bills discounted". Intra-group interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

	Half year Mar 07			Half year Sep 06			Half year Mar 06		
	Ave bal	Int	Rate	Ave bal	Int	Rate	Ave bal	Int	Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Interest earning assets</b>									
Due from other financial institutions									
Australia	2,199	63	5.7%	1,563	39	5.0%	1,320	32	4.9%
New Zealand	1,770	59	6.7%	2,340	77	6.6%	2,131	69	6.5%
Overseas markets	4,735	125	5.3%	3,539	91	5.1%	4,586	99	4.3%
Trading and available for sale and other assets									
Australia	16,367	512	6.3%	16,655	513	6.1%	15,255	433	5.7%
New Zealand	2,639	101	7.7%	2,625	99	7.5%	2,292	83	7.3%
Overseas markets	3,406	94	5.5%	3,078	77	5.0%	2,687	57	4.3%
Loans and advances									
Australia	183,506	7,103	7.8%	175,106	6,491	7.4%	165,103	5,987	7.3%
New Zealand	70,881	3,072	8.7%	64,406	2,804	8.7%	65,866	2,849	8.7%
Overseas markets	10,138	377	7.5%	9,902	363	7.3%	9,172	308	6.7%
Acceptances									
Australia	13,777	512	7.5%	13,847	494	7.1%	13,725	464	6.8%
Overseas markets	251	7	5.6%	262	7	5.3%	170	4	4.7%
Other assets									
Australia	5,192	174	6.7%	4,326	189	8.7%	3,337	128	7.7%
New Zealand	4,948	189	7.7%	4,305	150	6.9%	4,417	133	6.0%
Overseas markets	3,701	128	6.9%	4,008	130	6.5%	4,303	131	6.1%
Intragroup assets									
Australia	1,766	75	8.5%	-	-	-	-	-	-
Overseas markets	4,883	141	5.8%	10,959	287	5.2%	12,046	272	4.5%
	330,159	12,732		316,921	11,811		306,410	11,049	
Intragroup elimination	(6,649)	(216)		(10,959)	(287)		(12,046)	(272)	
	323,510	12,516	7.8%	305,962	11,524	7.5%	294,364	10,777	7.3%
<b>Non-interest earning assets</b>									
Derivatives									
Australia	10,526			12,476			6,708		
New Zealand	2,010			3,004			2,180		
Overseas markets	(216)			(594)			(564)		
Premises and equipment	1,176			1,070			1,078		
Other assets	14,382			12,656			13,794		
Provisions for credit impairment									
Australia	(1,650)			(1,635)			(1,499)		
New Zealand	(414)			(406)			(432)		
Overseas markets	(169)			(197)			(185)		
	25,645			26,374			21,080		
<b>Total average assets</b>	<b>349,155</b>			<b>332,336</b>			<b>315,444</b>		

14. Average balance sheet and related interest, cont'd

	Half year Mar 07			Half year Sep 06			Half year Mar 06		
	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %
<b>Interest bearing liabilities</b>									
Time deposits									
Australia	46,548	1,430	6.2%	44,482	1,294	5.8%	41,323	1,151	5.6%
New Zealand	27,579	994	7.2%	25,861	912	7.0%	26,868	927	6.9%
Overseas markets	14,477	379	5.3%	14,591	363	5.0%	12,802	283	4.4%
Savings deposits									
Australia	16,171	285	3.5%	15,407	252	3.3%	14,765	228	3.1%
New Zealand	7,512	179	4.8%	6,662	154	4.6%	7,021	151	4.3%
Overseas markets	492	2	0.8%	630	7	2.2%	502	3	1.2%
Other demand deposits									
Australia	44,898	1,132	5.1%	40,478	939	4.6%	37,384	812	4.4%
New Zealand	10,411	317	6.1%	8,612	260	6.0%	8,375	242	5.8%
Overseas markets	1,217	16	2.6%	1,038	13	2.5%	968	9	1.9%
Due to other financial institutions									
Australia	6,735	202	6.0%	5,284	145	5.5%	3,012	78	5.2%
New Zealand	1,638	43	5.3%	1,795	49	5.4%	2,128	58	5.5%
Overseas markets	5,521	150	5.4%	5,331	142	5.3%	6,602	164	5.0%
Commercial paper									
Australia	10,492	330	6.3%	12,104	362	6.0%	9,605	275	5.7%
New Zealand	5,933	228	7.7%	5,754	217	7.5%	6,879	253	7.4%
Overseas markets	1,858	49	5.3%	6,127	153	5.0%	8,626	180	4.2%
Borrowing corporations' debt									
Australia	8,910	271	5.8%	9,110	265	5.8%	9,124	257	5.6%
New Zealand	1,777	64	7.2%	1,765	63	7.1%	1,962	67	6.8%
Acceptances									
Australia	13,777	436	6.3%	13,847	415	6.0%	13,725	384	5.6%
Overseas markets	251	6	4.8%	262	6	4.6%	170	4	4.7%
Loan capital, bonds and notes									
Australia	52,932	1,715	6.5%	46,886	1,425	6.1%	43,593	1,252	5.8%
New Zealand	11,715	452	7.7%	9,693	372	7.7%	8,891	331	7.5%
Overseas markets	131	4	6.1%	133	4	6.0%	137	3	4.4%
Other liabilities <sup>1</sup>									
Australia	5,022	162	n/a	5,395	71	n/a	4,847	233	n/a
New Zealand	155	37	n/a	64	44	n/a	234	50	n/a
Overseas markets	505	22	n/a	551	22	n/a	469	14	n/a
Intragroup liabilities									
Australia	-	-	-	4,571	87	3.8%	5,724	82	2.9%
New Zealand	6,649	216	6.5%	6,388	200	6.2%	6,322	190	6.0%
	303,306	9,121		292,821	8,236		282,058	7,681	
Intragroup elimination	(6,649)	(216)		(10,959)	(287)		(12,046)	(272)	
	296,657	8,905	6.0%	281,862	7,949	5.6%	270,012	7,409	5.5%
<b>Non-interest bearing liabilities</b>									
Deposits									
Australia				4,437			4,387		
New Zealand				3,507			3,858		
Overseas markets				1,142			1,104		
Derivatives									
Australia				10,453			6,821		
New Zealand				3,184			2,139		
Overseas markets				(297)			(975)		
Other liabilities				8,952			9,964		
	31,990			31,378			27,298		
<b>Total average liabilities</b>	<b>328,647</b>			<b>313,240</b>			<b>297,310</b>		

<sup>1</sup> Includes foreign exchange swap costs

14. Average balance sheet and related interest, cont'd

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M
<b>Total average assets</b>			
Australia	240,451	229,872	211,498
New Zealand	86,380	80,412	81,736
Overseas markets	28,973	33,011	34,256
less intragroup elimination	(6,649)	(10,959)	(12,046)
	<u>349,155</u>	<u>332,336</u>	<u>315,444</u>
% of total average assets attributable to overseas activities	31.6%	30.8%	33.0%
<b>Average interest earning assets</b>			
Australia	222,807	211,497	198,740
New Zealand	80,238	73,676	74,706
Overseas markets	27,114	31,748	32,964
less intragroup elimination	(6,649)	(10,959)	(12,046)
	<u>323,510</u>	<u>305,962</u>	<u>294,364</u>
<b>Total average liabilities</b>			
Australia	228,407	218,938	201,742
New Zealand	80,582	74,827	75,838
Overseas markets	26,307	30,434	31,776
less intragroup elimination	(6,649)	(10,959)	(12,046)
	<u>328,647</u>	<u>313,240</u>	<u>297,310</u>
<b>Total average shareholders' equity</b>			
Ordinary share capital	19,637	18,225	17,263
Preference share capital	871	871	871
	<u>20,508</u>	<u>19,096</u>	<u>18,134</u>
<b>Total average liabilities and shareholders' equity</b>	<u>349,155</u>	<u>332,336</u>	<u>315,444</u>
% of total average liabilities attributable to overseas activities	32.4%	31.6%	34.1%

14. Average balance sheet and related interest, cont'd

	Half year Mar 07 %	Half year Sep 06 %	Half year Mar 06 %
<b>Gross earnings rate<sup>1</sup></b>			
Australia	7.60	7.29	7.11
New Zealand	8.55	8.47	8.41
Overseas markets	6.45	6.00	5.30
<b>Total Group</b>	<b>7.76</b>	<b>7.51</b>	<b>7.34</b>

Interest spread and net interest average margin may be analysed as follows:

**Australia**

Gross interest spread	1.79	1.99	1.91
Interest not recognised on impaired assets	(0.01)	(0.01)	-
Net interest spread	1.78	1.98	1.91
Interest attributable to net non-interest bearing items	0.45	0.35	0.40
Net interest margin - Australia	2.23	2.33	2.31

**New Zealand**

Gross interest spread	1.65	1.68	1.80
Interest not recognised on impaired assets	(0.01)	0.00	(0.02)
Net interest spread	1.64	1.68	1.78
Interest attributable to net non-interest bearing items	0.59	0.65	0.54
Net interest margin - New Zealand	2.23	2.33	2.32

**Overseas markets**

Gross interest spread	1.33	1.08	0.95
Interest not recognised on impaired assets	(0.03)	(0.02)	(0.02)
Net interest spread	1.30	1.06	0.93
Interest attributable to net non-interest bearing items	0.50	0.48	0.36
Net interest margin - Overseas markets	1.80	1.54	1.29

**Group**

Gross interest spread	1.75	1.90	1.85
Interest not recognised on impaired assets	(0.01)	(0.01)	(0.01)
Net interest spread	1.74	1.89	1.84
Interest attributable to net non-interest bearing items	0.50	0.44	0.45
Net interest margin	2.24	2.33	2.29

<sup>1</sup> Average interest rate received on interest earning assets



## 15. Contingent liabilities, contingent assets and property commitments

### Contingent liabilities

#### ▪ General

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. In some instances we have not disclosed the estimated financial impact as this may prejudice the interests of the Group.

#### ▪ Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issues below have not impacted the reported results. All settlements and costs have been covered within the provisions established at the time. ANZ may be held liable in relation to the following:

##### - FERA

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities have served notices on Grindlays and certain of its officers in India that could lead to possible penalties. Criminal prosecutions have also been foreshadowed and, in the case of two former officers and the bank, commenced. Grindlays is contesting the validity of these prosecutions.

##### - Differential Cheques

In June 2003, Grindlays was successful in its appeal against orders to repay, with interest, two payments it received from a stockbroker in 1991 in connection with securities transactions. These orders had directed repayment of Indian Rupees 24 million (plus interest accruing at 24% since 1991). Since the appeal decision was handed down, no further action has been taken against Grindlays in relation to notices in respect of a further eleven payments received by it in 1991 in similar circumstances totalling Indian Rupees 225 million.

In addition, ANZ provided an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities were not provided for in the Grindlays accounts as at 31 July 2000. Claims have been made under this indemnity also with no material impact on the Group expected.

#### ▪ Contingent tax liability

The Group in Australia was subjected to client risk reviews during 2005 by the Australian Taxation Office (ATO) across a broad spectrum of matters, as part of normal ATO procedures. The reviews mainly covered years up to 2003. Some matters listed by the ATO for further investigation remain outstanding.

The ATO is also reviewing the taxation treatment of certain other transactions, including legacy structured finance transactions, undertaken by the Group in the course of normal business activities.

The Inland Revenue Department (IRD) in New Zealand is reviewing a number of conduit-relieved structured finance transactions as part of normal revenue authority audit procedures. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand. The IRD has issued Notices of Proposed Adjustment (the 'Notices') in respect of some of those structured finance transactions. The Notices are not tax assessments and do not establish a tax liability, but are the first step in a formal dispute process. In addition, the IRD has issued some tax assessments as a follow up to the Notices in some cases. Should the same position be adopted by the IRD on the remaining transactions of that kind as reflected in the Notices and in the tax assessments received, the maximum potential tax liability would be approximately NZD484 million (including interest tax effected) for the period to 31 March 2007. Of that maximum potential liability, approximately NZD137 million is subject to tax indemnities provided by Lloyds TSB Bank PLC under the agreement by which ANZ acquired the National Bank of New Zealand and which relate to transactions undertaken by the National Bank of New Zealand before December 2003. All of these conduit-relieved transactions have now been either matured or been terminated.

Additional issue-specific audits and other investigations are being undertaken by the New Zealand IRD, and by revenue authorities in the United States, the United Kingdom and in other jurisdictions as part of normal revenue authority activity in those countries.

The Company has assessed these and other taxation claims arising in Australia, New Zealand and elsewhere, including seeking independent advice where appropriate, and considers that it holds appropriate provisions.

**15. Contingent liabilities, contingent assets and property commitments, cont'd**

▪ **Interbank Deposit Agreement**

ANZ has entered into an Interbank Deposit Agreement with the major banks in the payments system. This agreement is a payment system support facility certified by the Australian Prudential Regulation Authority, where the terms are such that if any bank is experiencing liquidity problems, the other participants are required to deposit equal amounts of up to \$2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

▪ **Clearing and Settlement Obligations**

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited (APCA) Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution; and
- in the Austraclear System Regulations and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution.

For both the APCA, HVCS and Austraclear, the obligation arises only in limited circumstances.

▪ **New Zealand Commerce Commission**

In November 2006, the New Zealand Commerce Commission brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including ANZ National Bank Limited. The Commission alleges price fixing and substantially lessening competition in relation to the setting of credit card interchange fees and is seeking penalties and orders under the Commerce Act.

Subsequently, several major New Zealand retailers have issued proceedings against ANZ National Bank and the other abovementioned defendants seeking unquantified damages, based on allegations similar to those contained in the Commerce Commission proceedings. ANZ National Bank is defending the proceedings. At this stage, the risks and any potential liabilities cannot be assessed.

**Contingent asset**

▪ **National Housing Bank**

In 1992, Grindlays received a claim aggregating to approximately Indian Rupees 5.06 billion from the National Housing Bank (NHB) in India. The claim arose out of cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited to the account of a Grindlays customer.

Grindlays won an arbitration award in March 1997, under which NHB paid Grindlays an award of Indian Rupees 9.12 billion. NHB subsequently won an appeal to the Special Court of Mumbai, after which Grindlays filed an appeal with the Supreme Court of India. Grindlays paid the disputed money including interest into court. Ultimately, the parties settled the matter and agreed to share the monies paid into court which by then totalled Indian Rupees 16.45 billion (AUD 661 million at 19 January 2002 exchange rates), with Grindlays receiving Indian Rupees 6.20 billion (AUD 248 million at 19 January 2002 exchange rates) of the disputed monies. ANZ in turn received a payment of USD124 million (USD equivalent of the Indian Rupees received by Grindlays) from Standard Chartered Bank under the terms of an indemnity given in connection with the sale of Grindlays to Standard Chartered Bank.

ANZ recovered \$114 million in 2006 from its insurers in respect of the above.

In addition, ANZ is entitled to share with NHB in the proceeds of any recovery from the estate of the customer whose account was credited with the cheques drawn from NHB. However, the Indian Taxation Department is claiming a statutory priority to all of the funds available for distribution to creditors of that customer. Proceedings are currently on foot in the Special Court, Mumbai to determine these issues.

**Property commitments**

On 27 September 2006 ANZ announced it would develop a new office building in the Docklands area, Melbourne, Australia. This will provide 87,000 square meters of office accommodation sufficient for 5,500 staff. The building is anticipated to cost \$478 million and is due to be completed in the second half of 2009. This will be one of ANZ's core Melbourne properties.

16. Note to the Cash Flow Statement

(a) Reconciliation of profit after income tax to net cash provided by operating activities

	Half year Mar 07 Inflows (Outflows) \$M	Half year Sep 06 Inflows (Outflows) \$M	Half year Mar 06 Inflows (Outflows) \$M
<b>Reconciliation of profit after income tax to net cash provided by operating activities</b>			
Profit after income tax	2,102	1,877	1,811
Adjustments to reconcile to net cash provided by operating activities			
Provision for credit impairment	240	183	224
Depreciation and amortisation	147	144	145
Profit on sale of businesses	(141)	-	-
Provision for employee entitlements, restructuring and other provisions	122	172	78
Payments from provisions	(198)	(121)	(102)
(Profit) loss on sale of premises and equipment	(3)	1	3
Profit on sale of available for sale securities	(21)	(2)	-
<i>(Increase)/decrease in operating assets:</i>			
Share based payments reserve	(27)	31	-
Trading securities	(4,624)	(1,666)	(15)
Liquid assets - greater than three months	905	498	(1,798)
Due from other banks-more than 90 days	(357)	512	806
Loans and advances	(11,676)	(12,879)	(13,969)
Regulatory deposits	(25)	5	(47)
Interest receivable	(81)	(97)	(22)
Net tax assets	(209)	176	121
<i>Increase/(decrease) in operating liabilities:</i>			
Deposits and other borrowings	6,550	7,400	8,729
Due to other financial institutions	993	700	1,159
Payables and other liabilities	(728)	(474)	1,015
Interest payable	(15)	372	110
Other	(299)	(39)	(196)
<b>Net cash (used in) operating activities</b>	<b>(7,345)</b>	<b>(3,207)</b>	<b>(1,948)</b>

(b) Reconciliation of cash and cash equivalents

Reconciliation of cash and cash equivalents

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows

Liquid assets - less than 3 months	13,089	11,633	9,943
Due from other financial institutions - less than 3 months	5,165	8,711	6,902
	<b>18,254</b>	<b>20,344</b>	<b>16,845</b>
<b>Non-cash financing and investment activities</b>			
Share capital issues			
Dividend reinvestment plan	102	80	85

17. Segment analysis

The following analysis shows revenue, result and assets for each business segment.

Industry

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Segment revenue<sup>1</sup></b>					
Personal	2,273	2,190	1,987	4%	14%
Institutional	1,741	1,660	1,655	5%	5%
New Zealand Businesses	1,057	975	1,013	8%	4%
Other <sup>2</sup>	542	364	308	49%	76%
	5,613	5,189	4,963	8%	13%
<b>Segment result<sup>1</sup></b>					
Personal	1,013	933	830	9%	22%
Institutional	1,070	993	971	8%	10%
New Zealand Businesses	515	499	499	3%	3%
Other <sup>2</sup>	389	235	254	66%	53%
	2,987	2,660	2,554	12%	17%
<b>Segment assets<sup>1,3</sup></b>					
Personal	143,729	136,760	129,692	5%	11%
Institutional	132,230	119,554	124,087	11%	7%
New Zealand Businesses	68,211	63,869	58,298	7%	17%
Other <sup>2</sup>	7,349	14,204	9,797	-48%	-25%
	351,519	334,387	321,874	5%	9%

<sup>1.</sup> Refer definitions on pages xxx to xxx

<sup>2.</sup> Other includes Partnerships & Private Bank, Treasury, Operations, technology & shared Services, Corporate Centre, Risk Management and Group Financial Management. Other also includes significant items and non-continuing businesses

<sup>3.</sup> Segment assets excludes tax assets

## 18. Changes in composition of the Group

### Acquisition of controlled entities

There were no material controlled entities acquired during the half year to 31 March 2007 or the year to 30 September 2006.

### Disposal of controlled entities

On 31 October 2006, the controlled entities Fleet Partners Pty Limited and Truck Leasing Limited were sold. The profit before tax on disposal was \$195 million (\$141 million after tax). The after tax contribution prior to disposal was \$15 million in the September 2006 half (Mar 2006 half: \$4 million).

There were no other material controlled entities disposed of during the half year to 31 March 2007.

## 19. Associates, joint venture entities and investments

	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M
<b>Aggregate associates and joint venture entities</b>			
Operating profit	121	104	90
Profit after income tax	121	104	90

### Key contributions to profit<sup>1</sup>

	Contribution to Group pre-tax profit			Ownership interest held by Group		
	Half year Mar 07 \$M	Half year Sep 06 \$M	Half year Mar 06 \$M	As at Mar 07 %	As at Sep 06 %	As at Mar 06 %
<b>Associates</b>						
P.T. Bank Pan Indonesia	12	10	12	30	29	29
ETrade Australia Limited	5	4	3	34	34	34
Metrobank Card Corporation Inc	3	4	3	40	40	40
Bank of Tianjin (formerly Tianjin City Commercial Bank) <sup>2</sup>	10	5	n/a	20	20	n/a
<b>Joint ventures</b>						
ING Australia Limited	74	62	57	49	49	49
ING (NZ) Holdings Limited	9	8	11	49	49	49

<sup>1</sup> The results may differ from the published results of these entities due to the application of AIFRS and Group Policies

<sup>2</sup> An associate from 13 June 2006

## 20. Exchange rates

Major exchange rates used in translation of results of offshore controlled entities and branches into the Group accounts for each reporting period were as follows:

	Balance Sheet			Profit and Loss Average		
	As at Mar 07	As at Sep 06	As at Mar 06	Half year Mar 07	Half year Sep 06	Half year Mar 06
Euro	0.6054	0.5882	0.5890	0.5983	0.5941	0.6202
Great British pound	0.4113	0.3982	0.4104	0.4020	0.4063	0.4237
New Zealand dollar	1.1312	1.1455	1.1700	1.1359	1.1942	1.0921
United States dollar	0.8077	0.7476	0.7162	0.7780	0.7518	0.7418

## 21. Significant events since balance date

There have been no significant events from 31 March 2007 to the date of this report.

## ***DIRECTORS' DECLARATION***

---

The directors of Australia and New Zealand Banking Group Limited declare that:

1. in the directors' opinion the financial statements and notes of the consolidated entity set out on pages xx to xxx are in accordance with the Corporations Act 2001 (as amended), including:
  - (a) that they comply with the Australian Accounting Standard AASB: 134: 'Interim Financial Reporting', and the Corporations Regulations 2001, and
  - (b) that they give a true and fair view of the financial position of the consolidated entity as at 31 March 2007 and of its performance as represented by the results of its operations and cash flows for the half year ended on that date; and
2. in the directors' opinion 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.

*Insert signature*

**Charles Goode**  
*Chairman*

*Insert signature*

**John McFarlane**  
*Director*

26 April 2007

Independent auditors' review report to the members of Australia and New Zealand Banking Group Limited

**Report on the Financial Report**

We have reviewed the accompanying financial report of Australia and New Zealand Banking Group Limited ("the Company") for the half year ended 31 March 2007, which comprises the condensed consolidated balance sheet, income statement, statement of recognised income and expense and cash flow statement, a description of accounting policies, other explanatory notes xx to xx and the directors' declaration set out on pages xx to xx of the consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

*Directors' responsibility for the Financial Report*

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 March 2007 and its performance for the half-year ended on that date; and compliance 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 a half year financial report 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.

*Conclusion*

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 financial report of Australia and New Zealand Banking Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 March 2007 and of its performance for the half year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Insert signature*

**KPMG**  
Melbourne

26 April 2007

*Insert signature*

**Michelle Hinchliffe**  
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 for the half year ended 31 March 2007 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

*Insert signature*

**KPMG**  
Melbourne

26 April 2007



*Insert signature*

**Michelle Hinchliffe**  
Partner

Capital Management

		As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Qualifying Capital</b>						
<b>Tier 1</b>						
Shareholders' equity and outside equity interests		20,910	19,906	18,796	5%	11%
Prudential adjustments to shareholders equity	Table 1	(2,120)	(2,333)	(1,888)	-9%	12%
Fundamental Tier 1 capital		18,790	17,573	16,908	7%	11%
Innovative Tier 1 capital instruments		3,233	3,342	3,407	-3%	-5%
Gross Tier 1 capital		22,023	20,915	20,315	5%	8%
Deductions	Table 2	(5,941)	(5,274)	(4,504)	13%	32%
Transitional Tier 1 capital relief		716	716	-	0%	n/a
<b>Tier 1 capital</b>		<b>16,798</b>	<b>16,357</b>	<b>15,811</b>	<b>3%</b>	<b>6%</b>
<b>Tier 2</b>						
Upper Tier 2 capital	Table 3	2,320	1,946	1,737	19%	34%
Subordinated notes	Table 4	8,399	8,177	7,416	3%	13%
<b>Tier 2 capital</b>		<b>10,719</b>	<b>10,123</b>	<b>9,153</b>	<b>6%</b>	<b>17%</b>
<b>Deductions</b>	Table 5	<b>(1,810)</b>	<b>(1,073)</b>	<b>(945)</b>	<b>69%</b>	<b>92%</b>
<b>Total qualifying capital</b>		<b>25,707</b>	<b>25,407</b>	<b>24,019</b>	<b>1%</b>	<b>7%</b>
<b>Adjusted Common Equity</b>						
Tier 1 capital		16,798	16,357	15,811	3%	6%
Less: Innovative Tier 1 capital instruments <sup>1</sup>	Table 6	(3,188)	(3,321)	(3,385)	-4%	-6%
Transitional Tier 1 capital relief		(716)	(716)	-	0%	n/a
Deductions		(1,810)	(1,073)	(945)	69%	92%
<b>Adjusted Common Equity (ACE)</b>		<b>11,084</b>	<b>11,247</b>	<b>11,481</b>	<b>-1%</b>	<b>-3%</b>
<b>Capital adequacy ratios</b>						
Tier 1		6.7%	6.8%	6.8%	-1%	-1%
Tier 2		4.3%	4.2%	4.0%	2%	7%
		11.0%	11.0%	10.8%	0%	2%
Deductions		-0.7%	-0.4%	-0.4%	75%	75%
<b>Total</b>		<b>10.3%</b>	<b>10.6%</b>	<b>10.4%</b>	<b>-3%</b>	<b>-1%</b>
<b>Adjusted Common Equity</b>		<b>4.4%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>-6%</b>	<b>-12%</b>
Risk Weighted Assets		250,485	240,219	230,653	4%	9%

<sup>1</sup> Converted at balance date spot rates



Capital Management, cont'd

	As at Mar 07 \$M	As at Sep 06 \$M	As at Mar 06 \$M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
<b>Table 1: Prudential adjustments to shareholders equity</b>					
Reclassification of preference share capital	(871)	(871)	(871)	0%	0%
Accumulated retained profits and reserves of insurance, funds management and securitisation entities and associates	(386)	(289)	(161)	34%	large
Deferred fee revenue and expenses including fees deferred under AIFRS forming part of loan yields	314	343	258	-8%	22%
Hedging reserve	(140)	(227)	(176)	-38%	-20%
Dividend not provided for	(1,144)	(1,267)	(1,024)	-10%	12%
Accrual for Dividend Reinvestment Plans	109	-	-	n/a	n/a
Other adjustments	(2)	(22)	86	-91%	large
<b>Total</b>	<b>(2,120)</b>	<b>(2,333)</b>	<b>(1,888)</b>	<b>-9%</b>	<b>12%</b>

**Table 2: Deductions from Tier 1 capital**

Unamortised goodwill & other intangibles	(4,039)	(3,996)	(3,943)	1%	2%
Capitalised software	(425)	(397)	-	7%	n/a
Capitalised expenses including loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings	(575)	(569)	(534)	1%	8%
Applicable deferred tax assets (excluding the component relating to the general reserve for impairment of financial assets)	(85)	(290)	-	-71%	n/a
Investment in ANZ Lenders Mortgage Insurance	(31)	(31)	(27)	0%	15%
Current estimate of goodwill component of purchase commitments	(790)	-	-	n/a	n/a
Other adjustments	4	9	-	-56%	n/a
<b>Total</b>	<b>(5,941)</b>	<b>(5,274)</b>	<b>(4,504)</b>	<b>13%</b>	<b>32%</b>

**Table 3: Upper Tier 2 capital**

Eligible component of post acquisition earnings and reserves in associates and joint ventures	210	184	-	14%	n/a
Perpetual subordinated notes	721	401	419	80%	72%
General reserve for impairment of financial assets net of attributable deferred tax asset	1,372	1,344	1,318	2%	4%
Transitional Upper Tier 2 capital relief	17	17	-	0%	n/a
<b>Total</b>	<b>2,320</b>	<b>1,946</b>	<b>1,737</b>	<b>19%</b>	<b>34%</b>

**Table 4: Subordinated notes**

For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity and are limited to 50% of Tier 1 capital

**Table 5: Deductions from Total capital**

Investment in Funds Management and Securitisation entities	(88)	(86)	(86)	2%	2%
Investment in joint ventures with ING in Australia and New Zealand	(526)	(526)	(525)	0%	0%
Investment in other Authorised Deposit Taking Institutions and overseas equivalents	(386)	(370)	(321)	4%	20%
Investment in other commercial operations	(88)	-	-	n/a	n/a
Current estimate of purchase commitments	(627)	-	-	n/a	n/a
Other	(95)	(91)	(13)	4%	large
<b>Total</b>	<b>(1,810)</b>	<b>(1,073)</b>	<b>(945)</b>	<b>69%</b>	<b>92%</b>

**Table 6**

Euro hybrid (converted at current rates)	(821)	(845)	(844)	-3%	-3%
US Stapled Trust Security	(1,362)	(1,471)	(1,536)	-7%	-11%
ANZ StEPS	(1,000)	(1,000)	(1,000)	0%	0%
Issue costs	(5)	(5)	(5)	0%	0%
<b>Total</b>	<b>(3,188)</b>	<b>(3,321)</b>	<b>(3,385)</b>	<b>-4%</b>	<b>-6%</b>

Capital Management, cont'd

	Assets		Risk Weighted Assets	
	Mar	Sep	Mar	Sep
	2007	2006	2007	2006
	\$M	\$M	\$M	\$M
<b>Balance Sheet</b>				
Zero risk weighted assets <sup>1</sup>	39,111	34,115	-	-
Claims on approved banks and local governments	16,093	19,584	3,219	3,917
Advances secured by mortgages eligible for 50% risk weighting	137,413	131,134	68,706	65,567
Other assets - credit risk	143,496	138,119	143,496	138,119
Total statement of financial position assets - credit risk	336,113	322,952	215,421	207,603
Trading assets - market risk	15,611	11,688	n/a	n/a
<b>Total balance sheet</b>	<b>351,724</b>	<b>334,640</b>	<b>215,421</b>	<b>207,603</b>

	Notional Amount		Credit Equivalent		Risk Weighted Assets	
	Mar	Sep	Mar	Sep	Mar	Sep
	2007	2006	2007	2006	2007	2006
	\$M	\$M	\$M	\$M	\$M	\$M
<b>Off-balance sheet exposures<sup>2</sup></b>						
Direct credit substitutes	7,302	7,588	7,302	7,588	5,533	5,432
Trade and performance related items	16,099	14,788	7,022	6,470	6,096	5,657
Commitments	104,128	98,554	17,450	17,030	15,054	14,611
Foreign exchange, interest rate and other market related transactions	1,490,157	1,169,553	20,662	18,010	6,191	5,240
<b>Total off balance sheet exposures - credit risk</b>	<b>1,617,686</b>	<b>1,290,483</b>	<b>52,436</b>	<b>49,098</b>	<b>32,874</b>	<b>30,940</b>
<b>Total risk weighted assets - credit risk</b>					<b>248,295</b>	<b>238,543</b>
<b>Risk weighted assets - market risk</b>					<b>2,190</b>	<b>1,676</b>
<b>Total risk weighted assets</b>					<b>250,485</b>	<b>240,219</b>

<sup>1.</sup> Includes \$2,114 million in assets excluded for risk weighting calculations for Australian Prudential Regulation Authority reporting purposes (Sep 2006: \$1,938 million)

<sup>2.</sup> Excludes off balance sheet exposures in subsidiaries consolidated on adoption of AIFRS from 1 October 2004 as required by Australian Prudential Regulation Authority

Derivative financial instruments

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate contracts, futures, options and combinations of these instruments. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities. Derivatives are also used to manage the Group's own exposure to fluctuations in exchange rates and interest rates as part of its asset and liability management activities. Derivatives are subject to the same types of credit and market risk as other financial instruments, and the Group manages these risks in a consistent manner.

The following table provides an overview of the Group's foreign exchange rate, interest rate, commodity and credit derivatives. It includes all contracts, both trading and hedging.

Notional principal amount is the value of the contract and represents the volume of outstanding transactions. Credit equivalent amount is calculated in accordance with the APRA capital adequacy guidelines and combines the aggregate value of all contracts in a positive market position plus an allowance for the potential increase in value over the remaining term of the transaction. Fair value is the net position of contracts with positive market values and negative market values.

As at 31 March 2007

	Notional Principal amount \$M	Fair Value					
		Trading		Hedging		Fair value	
		Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M
<b>Foreign exchange and commodities contracts</b>							
Spot and forward contracts	249,005	2,319	(3,495)	13	-	2,332	(3,495)
Swap agreements <sup>4</sup>	117,296	3,177	(3,764)	148	(148)	3,325	(3,912)
Futures contracts <sup>1</sup>	882	84	(45)	-	-	84	(45)
Options purchased	8,946	274	-	-	-	274	-
Options sold <sup>2</sup>	13,017	-	(195)	-	-	-	(195)
Other contracts	8,505	930	(846)	-	-	930	(846)
Collateral <sup>5</sup>	-	(930)	1,312	-	-	(930)	1,312
	397,651	5,854	(7,033)	161	(148)	6,015	(7,181)
<b>Interest rate contracts</b>							
Forward rate agreements	126,532	6	(7)	(2)	-	4	(7)
Swap agreements <sup>4</sup>	748,041	5,023	(5,357)	555	(403)	5,578	(5,760)
Futures contracts <sup>1</sup>	163,410	403	(410)	3	(3)	406	(413)
Options purchased	32,077	159	-	-	-	159	-
Options sold <sup>2</sup>	69,416	-	(151)	-	-	-	(151)
	1,139,476	5,591	(5,925)	556	(406)	6,147	(6,331)
<b>Credit Contracts</b>							
Credit default swaps <sup>3</sup>	37,076	108	(93)	-	-	108	(93)
<b>Total</b>	1,574,203	11,553	(13,051)	717	(554)	12,270	(13,605)

<sup>1.</sup> Credit equivalent amounts have not been included as there is minimal credit risk associated with exchange traded futures where the clearing house is the counterparty

<sup>2.</sup> Options sold have no credit exposures as they represent obligations rather than assets

<sup>3.</sup> Credit default swaps include structured transactions that expose the Group to the performance of certain assets. The total investment of the Group in these transactions at 31 March 2006 is USD xxx million (Sep 2006: USD 250 million)

<sup>4.</sup> The fair value of swap agreements includes internal allocations between Trading and Hedging

<sup>5.</sup> Collateral relates predominantly to Foreign Exchange contracts

<sup>6.</sup> Includes derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, not designated as accounting hedges

Derivative financial instruments, cont'd

As at 30 September 2006

	Notional Principal amount \$M	Fair Value					
		Trading		Hedging		Fair value	
		Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M
<b>Foreign exchange and commodities contracts</b>							
Spot and forward contracts	217,522	2,054	(2,195)	1	(34)	2,055	(2,229)
Swap agreements <sup>4</sup>	110,638	2,714	(2,248)	114	(63)	2,828	(2,311)
Futures contracts <sup>1</sup>	557	45	(29)	-	-	45	(29)
Options purchased	9,166	259	-	-	-	259	-
Options sold <sup>2</sup>	13,916	-	(202)	-	-	-	(202)
Other contracts	7,397	1,055	(916)	-	-	1,055	(916)
Collateral <sup>5</sup>		(1,279)	1,256	-	-	(1,279)	1,256
	359,196	4,848	(4,334)	115	(97)	4,963	(4,431)
<b>Interest rate contracts</b>							
Forward rate agreements	96,147	14	(10)	-	-	14	(10)
Swap agreements <sup>4</sup>	589,135	3,296	(3,566)	423	(324)	3,719	(3,890)
Futures contracts <sup>1</sup>	99,184	249	(242)	2	(2)	251	(244)
Options purchased	17,733	141	-	-	-	141	-
Options sold <sup>2</sup>	33,638	-	(100)	-	-	-	(100)
	835,837	3,700	(3,918)	425	(326)	4,125	(4,244)
<b>Credit Contracts</b>							
Credit default swaps <sup>3</sup>	23,965	76	(78)	-	-	76	(78)
<b>Total</b>	1,218,998	8,624	(8,330)	540	(423)	9,164	(8,753)

**Adjusted Common Equity (ACE)** is Tier 1 capital less preference shares and other Hybrid Capital at current exchange rates, regulatory deductions from total capital and transitional capital relief as approved by the Australian Prudential Regulation Authority.

**AIFRS** - Australian Equivalents to International Financial Reporting Standards.

### Business Unit description:

#### Personal

Personal is a division comprising of Regional, Rural and Small Business Banking, Banking Products, Mortgages, Consumer Finance, Investments & Insurance, Esanda, Pacific Banking and a number of other areas, including the branch network and marketing and support costs in Australia.

- **Regional & Rural Banking** provides a full range of banking services to personal customers across regional and rural Australia, and to small business and agribusiness customers in rural and regional Australia.
- **Small Business Banking** provides a full range of banking services for metropolitan-based small businesses in Australia with funds under management up to A\$50,000.
- **Banking Products** provides transaction banking and savings products, such as term deposits, V2+ and cash management accounts.
- **Mortgages** provides housing finance to consumers in Australia for both owner occupied and investment purposes.
- **Consumer Finance** provides consumer and commercial credit cards, ePayment products, personal loans, merchant payment facilities in Australia and ATM facilities.
- **Investments & Insurance** comprises ANZ Australia's Financial Planning, Margin Lending, insurance distribution, and Trustees businesses in addition to the equity accounted earnings from E\*Trade Australia, an online broking business.
- **Esanda** provides motor vehicle and equipment finance, operating leases and investment products.
- **Pacific** provides retail and corporate banking services to customers in the Pacific Region.

#### Institutional

Institutional is a division encompassing businesses that provide a full range of financial services principally to ANZ Australia and New Zealand corporate and institutional customers in all geographies. Institutional has a major presence in Australia and New Zealand and also operations in Europe, USA and Asia.

- **Business Banking** provides a full range of banking services to metropolitan based small to medium sized business clients with up to \$50 million turnover.
- **Working Capital** provides working capital solutions including lending and deposit products, cash transaction banking management, trade finance, international payments, clearing and custodian services principally to Institutional and corporate customers. It also manages the Institutional balance sheet with a particular focus on credit quality, diversification and maximising risk adjusted returns.
- **Markets** provides foreign exchange and commodity trading sales-related services to corporate and institutional clients globally. In addition, the business provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally. Markets also provides interest rate risk management services to New Zealand.
- **Markets** provides foreign exchange and commodity trading sales-related services to corporate and institutional clients globally. In addition, the business provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally. Markets also provides interest rate risk management services to New Zealand.
- **Relationships & Infrastructure** includes Institutional Banking, Financial Institutions, Corporate Banking and Personal & Private Banking Asia.

#### New Zealand Banking

New Zealand Businesses includes the following:

- **ANZ Retail**, operating under the ANZ brand in New Zealand provides a full range of banking services to personal and small business banking customers.
- **NBNZ Retail**, operating under the National Bank brand in New Zealand, provides a full range of banking services to personal and small business banking customers.
- **Corporate & Commercial Banking** in New Zealand incorporates the ANZ and National Bank brands and provides financial solutions through a relationship management model for medium-sized businesses with a turnover up to NZ\$100 million.
- **Rural Banking** in New Zealand provides a full range of banking services to rural and agribusiness customers.
- **Central support** includes Operations, Technology, Treasury, ANZ's 49% stake in ING New Zealand, Risk Management, People Capital, Financial Management and Property New Zealand.
- **UDC** provides motor vehicle and equipment finance, operating leases and investment products.

#### Partnerships & Private Bank

Partnerships & Private Bank is responsible for ANZ's partnerships with other institutions in Australia and Asia, along with our Private Bank business, and includes the following:

- **INGA** includes the equity accounted earnings from our 49% stake in ING Australia Ltd, a joint venture between ANZ and ING.
- **International Partnership** - ANZ continues to develop a portfolio of strategic retail partnerships in Asia. ANZ currently has partnerships in Indonesia with PT Panin Bank, in the Philippines with Metrobank, in Cambodia with the Royal Group, in China with Bank of Tianjin and in Vietnam with Sacombank. These partnerships are focused on leveraging ANZ Australia's capabilities into faster growing personal and small business banking markets via the established client bases of the local partners.
- **Other** includes Private Bank and support units within the division.

#### Group Centre

Group Centre division includes Operations, Technology and Shared Services, Treasury (funding component), Group People Capital, Group Strategic Development, Group Financial Management, Group Risk Management, Capital Funding and Group Items.

**Collective provision** is Provision for Credit Losses that are inherent in the portfolio but not able to be individually identified; presently unidentified impaired assets. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.

**Expected loss** is determined based on the expected average annual loss of principal over the economic cycle for the current risk profile of the lending portfolio.

**Equity standardisation** Economic Value Added (EVA<sup>TM</sup>) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

**Impaired assets** are those whose carrying value is greater than the amount expected to be recovered over their life. More specifically, in relation to loans or other credit facilities, impairment may arise where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where concessional terms have been provided because of the financial difficulties of the customer.

**Individual provision charge** is the amount of impairment on those loans and advances assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flow over the lives of those loans and advances.

**Liquid assets** are cash and cash equivalent assets. Cash equivalent assets are highly liquid investments with short periods to maturity, are readily convertible to cash at ANZ's option and are subject to an insignificant risk of changes in value.

**Net advances** includes **gross** loans and advances and acceptances, less income yet to mature and provisions.

**Net inter business unit expenses (also known as Service transfer prices)** consists of the charges made between business units for the provision of support services. Both payments and receipts by business units are shown as net inter business unit expenses.

**Net interest average margin** is net interest income as a percentage of average interest earning assets. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

**Net interest spread** is the average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

**Net non-interest bearing items** which are referred to in the analysis of interest spread and net interest average margin, includes shareholders' equity, impairment of loans and advances, deposits not bearing interest and other liabilities not bearing interest, offset by premises and equipment and other non-interest earning assets. Non-performing loans are included within interest bearing loans, advances and bills discounted.

**Net tangible assets** equals share capital and reserves attributable to shareholders of the Group less preference share capital and unamortised intangible assets (including software).

**Non-performing loans** comprise loans where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where the concessional terms have been provided because of the financial difficulties of the customer.

**Operating expenses** exclude the provision for impairment of loans and advances charge.

**Operating income** in business segments includes equity standardised net interest and other operating income.

**Overseas** includes the results of all operations outside Australia, except if New Zealand is separately shown.

**Overseas Markets** includes all operations outside of Australia and New Zealand. The Group's geographic segments are Australia, New Zealand and Overseas Markets.

**Return on asset** ratios include net intra group assets which are risk weighted at 0% for return on risk weighted assets calculations.

**Revenue** includes net interest income and other operating income.

**Segment assets** represents total external assets excluding tax assets.

**Segment result** represents equity standardised profit before income tax expense.

**Segment revenue** includes equity standardised net interest income and other operating income.

**Significant items** are items that typically have a material impact on profit after tax, or the earnings used in the earnings per share calculation. Significant items also do not arise in the normal course of business and are infrequent in nature. Divestments are typically defined as significant items.

**Total advances** include gross loans and advances and acceptances, less income yet to mature (for both as at and average volumes). Loans and advances classified as available-for-sale are excluded from total advances.

**Unproductive facilities** comprise off balance sheet facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, guarantees to third parties) and undrawn on balance sheet facilities where the customer is defined as impaired.

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