

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD

Form 6-K

May 01, 2007

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### FORM 6-K

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13A-16 OR 15D-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

26 April 2007

## Australia and New Zealand Banking Group Limited

ACN 005 357 522

(Translation of registrant's name into English)

**Level 6, 100 Queen Street Melbourne Victoria 3000 Australia**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F            Form 40-F     

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

This Form 6-K may contain certain forward-looking statements, including statements regarding (i) economic and financial forecasts, (ii) anticipated implementation of certain control systems and programs, (iii) the expected outcomes of legal proceedings and (iv) strategic priorities. Such forward- looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and which may cause actual results to differ materially from those expressed in the forward-looking statement contained in these forward- looking statements. For example, these forward-looking statements may be affected by movements in exchange rates and interest rates, general economic conditions, our ability to acquire or develop necessary technology, our ability to attract and retain qualified personnel, government regulation, the competitive environment and political and regulatory policies. There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in the Form 6-K.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Australia and New Zealand

Banking Group Limited  
(Registrant)

By: /s/ John Priestley  
Company Secretary  
(Signature)\*

Date 26 April 2007

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\* Print the name and title of the signing officer under his signature.

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**ASX Announcement**

**Investor Relations**

100 Queen Street  
Melbourne Vic 3000  
  
[www.anz.com](http://www.anz.com)

For Release: 23 April 2007

**ANZ 2007 Interim Result Excel template**

ANZ will announce its 2007 Interim Result on Thursday, 26 April 2007.

To assist market participants in analysing the results, ANZ will provide an Excel version of key tables with the Interim Results announcement. This will be available on ANZ's website at [www.anz.com/australia/aboutanz/investorcentre/ReportsandResults/results.asp](http://www.anz.com/australia/aboutanz/investorcentre/ReportsandResults/results.asp) shortly after the Result has been lodged with the ASX.

A version of this file containing prior period numbers is now available at the above link. These prior period numbers are based on ANZ's current structure, with the key changes detailed on the following page.

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



**Changes to reporting structure since September 2006**

ANZ 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 & Transaction 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 Businesses:** 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. In September 2006, results for New Zealand were based on New Zealand *Banking*, which includes New Zealand Institutional. Following market feedback, and to simplify analysis of the result, we have reverted to New Zealand *Businesses*, with New Zealand Institutional now only reported in the Institutional division.

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.

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**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**

This document contains the information required by Appendix 4D of the Australian Securities Exchange Listing Rules, should be read in conjunction with ANZ's 2006 Concise Annual and Financial Reports, and is lodged with the Australian Securities Exchange under listing rule 4.2A

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**RESULTS FOR ANNOUNCEMENT TO THE MARKET****APPENDIX 4D**

**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        |
|--|-------|----|--------------------|
| <b>Group operating revenue</b>   | ñ13%^ | to | <b>5,613</b>       |
| <b>Profit after tax attributable to shareholders</b>   | ñ16%^ | to | <b>2,102</b>       |
| <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 <b>\$2,102</b> million                         | up | <b>16.1%</b> |
| Cash* profit <b>\$1,936</b> million                   | up | <b>11.8%</b> |
| Cash* profit before provisions <b>\$2,995</b> million | up | <b>12.1%</b> |
| <b>Earnings per share</b>                             |    |              |
| EPS <b>113.2</b> cents                                | up | <b>15.0%</b> |
| Cash* EPS <b>104.2</b> cents                          | up | <b>10.9%</b> |
| <b>Shareholder return</b>                             |    |              |

|                                  |    |              |
|----------------------------------|----|--------------|
| Interim dividend <b>62 cents</b> | up | <b>10.7%</b> |
| Total Shareholder Return         |    | <b>17.1%</b> |
| Cash* Return on equity           |    | <b>19.7%</b> |

**Business highlights\***

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:

**Revenue growth 9.1%** (10.4% FX adjusted)

**Cost-Income ratio 44.3%** (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%

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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)

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*AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED*

*ABN 11 005 357 522*

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

Half year ended 31 March 2007

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## Edgar Filing: AUSTRALIA & NEW ZEALAND BANKING GROUP LTD - Form 6-K

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 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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**HIGHLIGHTS**

For Release: 26 April 2007

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

|   |           |              |
|---|-----------|--------------|
| <b>Profit after tax</b>                               |           |              |
| <b>Profit \$2,102 million</b>                         | <b>up</b> | <b>16.1%</b> |
| <b>Cash* profit \$1,936 million</b>                   | <b>up</b> | <b>11.8%</b> |
| <b>Cash* profit before provisions \$2,995 million</b> | <b>up</b> | <b>12.1%</b> |
| <b>Earnings per share</b>                             |           |              |
| <b>EPS 113.2 cents</b>                                | <b>up</b> | <b>15.0%</b> |
| <b>Cash* EPS 104.2 cents</b>                          | <b>up</b> | <b>10.9%</b> |
| <b>Shareholder return</b>                             |           |              |
| <b>Interim dividend 62 cents</b>                      | <b>up</b> | <b>10.7%</b> |
| <b>Total Shareholder Return</b>                       |           | <b>17.1%</b> |
| <b>Cash* Return on equity</b>                         |           | <b>19.7%</b> |

**Business highlights\***

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:

**Revenue growth 9.1%** (10.4% FX adjusted)

**Cost-Income ratio 44.3%** (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%

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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)

All figures compared to March 2006 half year unless otherwise indicated



## Edgar Filing: AUSTRALIA & NEW ZEALAND BANKING GROUP LTD - Form 6-K

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 non-core items, 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 large recoveries 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 past year, we added a further 2,120 people, and opened 26 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 large recoveries late in the half. We continue to expect a substantial 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**

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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 Institutional has taken action to improve revenue and expense performance in the second half. 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. While the credit environment is benign, we expect provisions to be significantly higher in the second half, with the first half unusually low due to recoveries.

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)

All figures compared to March 2006 half year unless otherwise indicated

## 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 interest earning 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 large recoveries 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** profit after tax 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 profit after tax 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 profit after tax grew 57% assisted by a full six month return from Bank of Tianjin. Growth in Partnership earnings should accelerate in the second half, with the expected inclusion of earnings from AMMB Holdings Berhad (AMMB).

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| Key Business Drivers(1)               |     | Group                 |           |                       |  |         | New Zealand<br>Businesses<br>(NZD)<br>Change(2) |
|---------------------------------------|-----|-----------------------|-----------|-----------------------|--|---------|---|
|                                       |     | Half year<br>Mar 2007 | Change(2) | Personal<br>Change(2) | Institutional<br>Continuing<br>Change(2) |         |   |
| 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(3)           | \$m | 2,995                 | 12%       | 21%                   | 4%                                       | 13%     |   |
| Individual provision charge           | \$m | 188                   | 0%        | 45%                   | (114)%                                   | 136%    |   |
| Collective provision charge           | \$m | 52                    | 44%       | (38)%                 | (133)%                                   | large   |   |
| Total provision for credit impairment | \$m | 240                   | 7%        | 18%                   | (112)%                                   | large   |   |
| Cash profit                           | \$m | 1,936                 | 12%       | 22%                   | 11%                                      | 8%      |   |
| EVA                                   | \$m | 1,119                 | 10%       | 24%                   | -1%                                      | 22%     |   |

| Other Measures(1)   |   |      | Actual   | Actual | Actual |        |
|---|---|------|----------|--------|--------|--------|
| Individual provision (charge)/credit as a % of average net advances | % | 0.14 | (1bps)   | (0.23) | 0.02   | (0.07) |
| Return on average assets  | % | 1.11 | 1bps     | 1.01   | 1.17   | 1.06   |
| Return on average RWAs  | % | 1.59 | 6bps     | 1.72   | 1.41   | 1.36   |
| Cost to income ratio  | % | 44.3 | (150bps) | 47.0   | 38.9   | 48.1   |
| Cost to average assets  | % | 1.37 | (7bps)   | 1.53   | 1.06   | 1.55   |

- 
- (1) All numbers adjusted for non-core items
- (2) Compared to half year ended 31 March 2006
- (3) Profit before credit impairment and income tax

**FINANCIAL HIGHLIGHTS****Profit**

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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>                               |                               |                               |                               |                                  |                                  |
| <u>Significant items(1)</u>                               |                               |                               |                               |                                  |                                  |
| 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(2)              | 28                            | 21                            | 13                            | 33%                              | large                            |
| NZD revenue hedge mark to market volatility(2)            | (3)                           |                               |                               | n/a                              | n/a                              |
| ANZ National Bank incremental integration costs(3)        |                               |                               | (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>                       |

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(1) 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 13)

(2) 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 14)

(3) 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

Analysis of Cash(1) profit by key line item:

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1) profit</b>                          | <b>1,936</b>                  | <b>1,856</b>                  | <b>1,731</b>                  | <b>4%</b>                        | <b>12%</b>                       |

**Earnings per share**

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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(1) (basic adjusted for non-core items) | 104.2                         | 100.5                         | 94.0                          | 4%                               | 11%                              |

**Balance Sheet**

|  | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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>                       |



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(1) Refer footnotes 1 to 3 on page 5

## Financial ratios

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M |
|---|-------------------------------|-------------------------------|-------------------------------|
| <b>Profit attributable to shareholders of the Company</b>       | 2,102                         | 1,877                         | 1,811                         |
| <b>Cash(1) profit</b>   | 1,936                         | 1,856                         | 1,731                         |
| <b>EVA<sup>TM</sup> (2)</b>                                     | 1,119                         | 1,069                         | 1,013                         |
| <b>Profitability ratios</b>                                     |                               |                               |                               |
| Return on:  |                               |                               |                               |
| Average ordinary shareholders' equity(3)                        | 21.3%                         | 20.4%                         | 20.9%                         |
| Average ordinary shareholders' equity(3) (cash(1) profit basis) | 19.7%                         | 20.2%                         | 20.0%                         |
| Average assets  | 1.21%                         | 1.13%                         | 1.15%                         |
| Average assets (cash(1) profit basis)                           | 1.11%                         | 1.11%                         | 1.10%                         |
| Average risk weighted assets                                    | 1.73%                         | 1.59%                         | 1.60%                         |
| Average risk weighted assets (cash(1) 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                        |
| <b>Efficiency ratios</b>  |                               |                               |                               |
| 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(1))                | 44.3%                         | 45.5%                         | 45.8%                         |
| Operating expenses to average assets (cash(1))                  | 1.37%                         | 1.41%                         | 1.44%                         |
| <b>Credit impairment provisioning</b>                           |                               |                               |                               |
| 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%                         |
| <b>Ordinary share dividends (cents)</b>                         |                               |                               |                               |
| 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(4)                         | 54.9%                         | 68.0%                         | 56.9%                         |
| Cash(1) ordinary share dividend payout ratio(4)                 | 59.6%                         | 68.8%                         | 59.6%                         |
| <b>Preference share dividend (cents)</b>                        |                               |                               |                               |
| Dividend paid(5)  | 17                            | 15                            | 12                            |

(1) Refer footnotes 1 to 3 on page 5

(2) EVA<sup>TM</sup> refers to Economic Value Added, a measure of shareholder value. See page 25 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

(3) Average ordinary shareholders' equity excludes minority interest and preference share dividend

(4) Dividend payout ratio is calculated using the proposed interim dividend as at 31 March 2007, the 30 September 2006 and 31 March 2006 dividends

(5) Represents dividends paid on Euro Hybrid issued on 13 December 2004

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|  | As at<br>Mar 07 | As at<br>Sep 06 | As at<br>Mar 06 | Movt<br>Mar 07<br>v. Mar 06<br>% | Movt<br>Mar 07<br>v. Sep 06<br>% |
|--|-----------------|-----------------|-----------------|----------------------------------|----------------------------------|
| <b>Net Assets</b>  |                 |                 |                 |                                  |                                  |
| Net tangible assets(1) per ordinary share (\$)                     | 9.01            | 8.53            | 7.99            | 6%                               | 13%                              |
| Net tangible assets(1) 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(2)                                    | 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(3) (\$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(4)          | 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%                              |

(1) Equals shareholders equity less preference share capital, minority interest and unamortised goodwill and other intangibles

(2) 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 98 for a reconciliation to Tier 1 capital

(3) Excludes individual provision on unproductive facilities

(4) Includes minority interest

**Business unit analysis**

|                                   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Profit after income tax(1)</b> |                               |                               |                               |                                  |                                  |
| Personal                          | 709                           | 654                           | 583                           | 8%                               | 22%                              |
| Institutional                     | 750                           | 701                           | 678                           | 7%                               | 11%                              |
| New Zealand Businesses(2)         | 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(3)                 | 166                           | 21                            | 80                            | large                            | large                            |
| <b>Profit</b>                     | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 33 for an explanation of the changes

(2) New Zealand Businesses growth rates in NZD terms were (1%) and 8% compared to the September 2006 half year and March 2006 half year respectively

(3) Refer footnotes 1 to 3 on page 5

| Net loans and advances including<br>acceptances by business unit(1) | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| Personal  | 140,226                | 133,652                | 126,776                | 5%                               | 11%                              |
| Institutional   | 73,308                 | 71,436                 | 69,474                 | 3%                               | 6%                               |
| New Zealand Businesses(2)   | 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>                 | 281,822                | 269,384                | 255,745                | 5%                               | 10%                              |

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 33 for an explanation of the changes

(2) New Zealand Businesses growth rates in NZD terms were 6% and 13% compared to the September 2006 half year and March 2006 half year respectively

| Deposits and other borrowings by business unit(1) | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| Personal  | 67,748                 | 64,977                 | 61,818                 | 4%                               | 10%                              |

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|                                      |                |                |                |           |           |
|--------------------------------------|----------------|----------------|----------------|-----------|-----------|
| Institutional                        | 76,094         | 69,239         | 65,381         | 10%       | 16%       |
| New Zealand Businesses(2)            | 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> |

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 33 for an explanation of the changes

(2) New Zealand Businesses growth rates in NZD terms were 0% and 2% compared to the September 2006 half year and March 2006 half year respectively

| Deposits and other borrowings by funding type | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| Customer funding                              | 170,450                | 158,905                | 145,602                | 7%                               | 17%                              |
| Wholesale funding                             | 40,135                 | 45,889                 | 51,248                 | -13%                             | -22%                             |
| <b>Deposits and other borrowings</b>          | <b>210,585</b>         | <b>204,794</b>         | <b>196,850</b>         | <b>3%</b>                        | <b>7%</b>                        |

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**CHIEF FINANCIAL OFFICER'S REVIEW****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(1) referred to on pages 13 to 14, Cash(1) profit increased 12% to \$1,936 million and Cash EPS increased 11% to 104.2 cents.

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

**Cash(1) profit**

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1) profit</b>                          | <b>1,936</b>                  | 1,856                         | 1,731                         | 4%                               | 12%                              |

**Profit growth**

Cash profit increased 12% to \$1,936 million. Core(1) 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 increased 7% with growth in Personal and New Zealand offset by high recoveries in Institutional.



In Australia, cash profit 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 large recoveries 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 11% partly offset by a decline in net interest margin of 9 basis points and lower revenue in Markets following the strong performance in the March 2006 half. Operating expense growth was contained to 2%.

Within Overseas Markets, 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.

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(1) 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 13)

*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 14)*

*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*

**Impact of exchange rate movements(1)**

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(2) profit for the March 2007 half year, principally due to the translation of NZD earnings net of associated revenue hedges which are booked in Australia as foreign exchange earnings. 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<br>v. Half Year Sep 06 |                            |                  | Half Year Mar 07<br>v. Half Year Mar 06 |                            |                  |
|---|---|----------------------------|------------------|---|----------------------------|------------------|
|   | FX<br>unadjusted<br>% growth            | FX<br>adjusted<br>% growth | FX impact<br>\$M | FX<br>unadjusted<br>% growth            | FX<br>adjusted<br>% growth | FX impact<br>\$M |
| Net interest income(3)                            | 1%                                      | 1%                         | (9)              | 7%                                      | 8%                         | (38)             |
| Other operating income(4)                         | 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<br>impairment and income tax | 7%                                      | 7%                         | (19)             | 12%                                     | 13%                        | (33)             |
| Provision for credit<br>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(2)</b>                             | 4%                                      | 5%                         | (15)             | 12%                                     | 13%                        | (22)             |

(1) ANZ has removed the impact of exchange rate movements to provide a better indication of the Group's performance in local currency terms. Retranslation is net of revenue hedges taken to income in cash profit, refer page 26

(2) Refer footnote 1 on page 11

(3) 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

(4) 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(1) profit increased 12% over the March 2006 half year. For a discussion of the impact of non-core items refer pages 13 to 14. Key influences on profit are shown below. Explanations are on cash profit adjusted for

non-core items:

**Net interest  $\tilde{n}7\%$  - Adjusted for non-core items(1)  $\tilde{n}7\%$ :**

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 and other borrowings grew 6% (8% excluding exchange rates) following strong growth in Institutional (14%), Personal (11%) and New Zealand (1%, or 5% excluding exchange rates). Volume growth was offset by a 5 basis point decline in margin, primarily from competitive pressures.

**Other income  $\tilde{n}26\%$  - Adjusted for non-core items(1)  $\tilde{n}13\%$ :**

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  $\tilde{n}9\%$  - Adjusted for non-core items(1)  $\tilde{n}6\%$ :**

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  $\tilde{n}7\%$  - Adjusted for non-core items(1)  $\tilde{n}7\%$ :**

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 different trends in risk levels in New Zealand's 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  $\tilde{n}19\%$  - Adjusted for non-core items(1)  $\tilde{n}14\%$ :**

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 finance transactions.

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(1) Refer footnote 1 on page 11



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### 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 provisions for credit impairment. Cash earnings per share (refer page 24) 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 6%, 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 partly 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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>93</b>                     | <b>n/a</b>                       | <b>52%</b>                       |
| Ineffective hedge fair value gains/losses       | 28                            | 21                            | 13                            | 33%                              | large                            |
| NZD revenue hedge mark to market 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.

### 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 non-core items (tax on hedges \$12 million (Sep half 2006: \$10 million; Mar 2006 half: \$5 million)).

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

On transition to AIFRS at 1 October 2005, the life to date impact of hedge ineffectiveness and economic hedges not designated in accounting hedge relationships was \$144 million (pre-tax). This amount was taken directly to retained earnings as a loss.

|   | \$m   |
|---|-------|
| <b>Net unrealised loss (balance sheet)</b>  |       |
| As at 1 October 2005, transition to AIFRS   | (144) |
| Net volatility recorded in income statement |       |
| half year ended 31 March 2006               | 18    |
| half year ended 30 September 2006           | 31    |
| half year ended 31 March 2007               | 37    |
| Net unrealised loss 31 March 2007           | (58)  |

The net volatility recorded in the income statement represents the progressive reversal of the \$144 million loss on transition to AIFRS together with volatility arising on existing and new ineffective hedge transactions.

**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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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 \$24.4 billion (10%). Growth in net advances in Australia was attributable to: Personal (\$13.7 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 \$5.0 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 \$4.7 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 Deposit 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 including an 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 (+1 basis point) and a small increase in the proportion 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 Markets (-2 basis points).

Competition (-7 basis points)

Competitive pressures reduced margins, mainly in Australian and New Zealand Mortgages (-2 basis points), Institutional lending (-2 basis points) and leasing businesses (-1 basis point). In addition, migration to high yielding customer deposits and lower rate credit cards reduced margins (-2 basis points).

Wholesale rates (+2 basis points)

Increased income on the investment of capital and rate insensitive deposits (+3 basis points) partially offset by a reduction in basis risk on variable rate mortgages and credit cards (-1 basis point).

Other items (+1 basis point) include:

Lower funding costs associated with unrealised trading gains (+2 basis points), however this is directly offset by an equivalent decrease in trading income.

Reduced effective yield fee income (-2 basis points).

Benefits from customer prepayment behaviour in New Zealand (+1 basis point).

### **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 (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 (+1 basis point) and a small increase in 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 Markets (-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 reduced given migration into high yielding customer deposits (-1 basis point).

Wholesale rates (+2 basis points)

Wholesale rate movements benefited margins through increases in earnings on the investment of capital and rate insensitive deposits (+2 basis points) partially offset by increased basis risk on variable rate mortgages and credit cards.

Other items (-6 basis points) include:

Foreign exchange revenue hedging no longer classified as interest income (-3 basis points or \$50 million).

Higher funding costs associated with unrealised trading gains (-2 basis points), however this is directly offset by an equivalent increase in trading income.

Interest received on tax refunds in the prior period (-2 basis points).

Benefits from customer prepayment behaviour in New Zealand (+1 basis point).

Other impacts include reduced effective yield fee income, increases in the proportion of retail broker payments, a decrease in the proportion of credit card balances earning interest and impacts from non-continuing businesses.



**Other Operating Income**

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                              |
| Core other operating income                  | 1,770                         | 1,583                         | 1,563                         | 12%                              | 13%                              |
| Ineffective hedge fair value gains/losses(1) | 41                            | 31                            | 18                            | 32%                              | large                            |
| NZD revenue hedge mark to market volatility  | (4)                           |                               |                               | n/a                              | n/a                              |
| Significant items(1)                         | 195                           |                               | 14                            | n/a                              | large                            |
| Total other income                           | 2,002                         | 1,614                         | 1,595                         | 24%                              | 26%                              |
| <b>Composition of Markets income</b>         |                               |                               |                               |                                  |                                  |
| 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                            |
| Total Markets income                         | 397                           | 344                           | 352                           | 15%                              | 13%                              |

(1) 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 13 to 14). 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 growth in account numbers as well as pricing initiatives and Esanda increased \$4 million as a result of higher predetermination fee income.

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New Zealand increased \$4 million (NZD increase \$6 million) due to a \$2 million increase in National Bank 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, private equity and structured finance portfolios. Working Capital increased \$7 million reflecting stronger growth in transaction volumes and 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 \$10 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.

Other operating income increased \$54 million (33%):

Partnerships & Private Bank increased \$30 million. INGA equity accounted income rose \$17 million reflecting improved funds management and life risk performances, 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 largely in Corporate & Structured Financing 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 13 to 14), 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. The decrease in NZD terms is due to the highly competitive fee environment and the impact of a realignment of product and fee structures to improve customer offerings.

Institutional increased \$10 million (4%). Working Capital increased \$10 million reflecting increased deposit volumes, higher commodity trade fees and higher volumes 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 largely in 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 largely in Markets as the second half of 2006 included \$6 million from 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).

**Expenses**

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                               |
| Core operating expenses                               | 2,386                         | 2,346                         | 2,259                         | 2%                               | 6%                               |
| Significant items - settlement of NHB insurance claim |                               |                               | (113)                         | n/a                              | -100%                            |
| ANZ National Bank incremental integration costs(1)    |                               |                               | 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>                        |
| Total employees                                       | 33,183                        | 32,256                        | 31,063                        | 3%                               | 7%                               |

(1) For March 2006 these costs are personnel costs of \$27 million, computer costs of \$7 million, and other costs of \$5 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 pages 13 to 14). 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 higher levels of 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 branch expansion program in Cambodia and increased specialist staff to further 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 NZD10 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.

**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 increased investment in Asia, new international payment sites and Corporate & Structured Financing increased 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 reassessment 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 (7%):

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 \$5 million with National Bank Retail marketing spend greater in the September 2006 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 a decrease in Institutional.

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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 net release due to provisions being lower than recoveries and particularly influenced by large recoveries late in the March 2007 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 expected levels following the benefit of higher than usual writebacks in the September 2006 half.

|                                    | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                            |

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| <b>New and increased provisions</b> | 345                                     | 311                                     | 307                                     | 11%  | 12%  |
|-------------------------------------|---|---|---|--|--|
|                                     | <b>Half<br/>year<br/>Mar 07<br/>\$M</b> | <b>Half<br/>year<br/>Sep 06<br/>\$M</b> | <b>Half<br/>year<br/>Mar 06<br/>\$M</b> | <b>Movt<br/>Mar 07<br/>v. Sep 06<br/>%</b> | <b>Movt<br/>Mar 07<br/>v. Mar 06<br/>%</b> |
| <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>                                 |

**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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| Lending growth                     | 63                            | 61                            | 70                            | 3%                               | -10%                             |
| Risk profile                       | 18                            | 22                            | (5)                           | -18%                             | large                            |
| Portfolio mix                      | 7                             | (2)                           | 8                             | large                            | -13%                             |
| Scenario impact(1)                 | (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>                       |

(1) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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.

|                                    | % of<br>Group Net<br>Advances | Half<br>year<br>Mar 07 | Half<br>year<br>Sep 06 | Half<br>year<br>Mar 06 |
|------------------------------------|-------------------------------|------------------------|------------------------|------------------------|
| <b>Expected loss by segment(1)</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>                       | <b>100%</b>                   | <b>0.28%</b>           | <b>0.27%</b>           | <b>0.26%</b>           |
| <b>Expected loss (\$million)</b>   |                               | <b>388</b>             | <b>357</b>             | <b>334</b>             |

(1) 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<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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> | <b>640</b>             | <b>661</b>             | <b>726</b>             | <b>-3%</b>                       | <b>-12%</b>                      |

### 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<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---------------------------------|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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%                             |

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|                                       |     |     |     |       |       |
|---------------------------------------|-----|-----|-----|-------|-------|
| 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<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| Income tax expense charged in the income statement | 883                           | 780                           | 742                           | 13%                              | 19%                              |
| Effective tax rate                                 | 29.6%                         | 29.3%                         | 29.1%                         |                                  |                                  |
| Income tax expense on cash profit(1)               | 817                           | 770                           | 716                           | 6%                               | 14%                              |
| Effective tax rate (cash profit(1))                | 29.7%                         | 29.3%                         | 29.2%                         |                                  |                                  |

(1) 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 withholding tax payable on future remittances of present profits from offshore operations. These were offset by the non-assessable gain on the sale of MasterCard shares and 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%, as described above.

**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 is due mainly to the continued run-off of certain structured finance transactions, higher earnings in higher tax rate jurisdictions in the March 2007 half and favourable prior period adjustments included in the September 2006 half. 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**



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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Earnings per share(1) (cents)</b>                       |                               |                               |                               |                                  |                                  |
| Basic  | 113.2                         | 101.6                         | 98.4                          | 11%                              | 15%                              |
| Diluted  | 110.0                         | 98.5                          | 95.5                          | 12%                              | 15%                              |
| <b>Cash earnings per share</b>                             |                               |                               |                               |                                  |                                  |
| 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(2) (\$M) | (166)                         | (21)                          | (80)                          | large                            | large                            |
| Cash Profit (\$M)  | 1,936                         | 1,856                         | 1,731                         | 4%                               | 12%                              |
| Preference share dividend(3) (\$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%                              |

(1) Refer page 80 for full calculation

(2) Refer pages 13 to 14

(3) The EPS calculation excludes the Euro Hybrid 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<br>year<br>Mar 07 | Half<br>year<br>Sep 06 | Half<br>year<br>Mar 06 | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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(1)(\$M)                             | (166)                  | (21)                   | (80)                   | large                            | large                            |
| Cash(1) profit (\$M)                               | 1,936                  | 1,856                  | 1,731                  | 4%                               | 12%                              |
| <b>Dividend payout ratio of cash(1) profit (%)</b> | 59.6%                  | 68.8%                  | 59.6%                  |                                  |                                  |

(1) 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 in respect of both plans 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 the DRP 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™ (Economic Value Added) growth relative to prior periods. EVA™ 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.

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|                                  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>EVA™</b>                      |                               |                               |                               |                                  |                                  |
| <b>Profit after tax</b>          | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |
| Non-core items(1)                | (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™</b>                      | 1,119                         | 1,069                         | 1,013                         | 5%                               | 10%                              |

(1) Refer footnote 1 on page 11

EVA™ 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 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<br>Mar 07<br>\$M | High for<br>period<br>Mar 07<br>\$M | Low for<br>period<br>Mar 07<br>\$M | Ave for<br>period<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | High for<br>period<br>Sep 06<br>\$M | Low for<br>period<br>Sep 06<br>\$M | Ave for<br>period<br>Sep 06<br>\$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<br>Mar 07<br>\$M | High for<br>period<br>Mar 07<br>\$M | Low for<br>period<br>Mar 07<br>\$M | Ave for<br>period<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | High for<br>period<br>Sep 06<br>\$M | Low for<br>period<br>Sep 06<br>\$M | Ave for<br>period<br>Sep 06<br>\$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                                 | 1.1                                | 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 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 on earnings (cash basis) 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

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on revenue hedges at 1 October 2006 be taken directly to retained earnings. This resulted in a realised gain of \$141 million being transferred to retained earnings at 1 October 2006.

The most significant offshore revenue stream is derived from the New Zealand geography (refer page 56) 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.

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

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 no longer designated as capital hedges 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/AUD.

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/AUD.

## 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 ñ11% (Excl Exchange Rates ñ13%)**

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 ò23% (Excl Exchange Rates ò21%)**

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 ñ64% (Excl Exchange Rates ñ63%)**

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 ñ7% (Excl Exchange Rates ñ7%)**

Derivative assets increased \$0.8 billion to \$12.3 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 ò26% (Excl Exchange Rates ò25%)**

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 ñ11% (Excl Exchange Rates ñ10%)**

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.

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  $\uparrow$ 11% (Excl Exchange Rates  $\uparrow$ 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  $\uparrow$ 7% (Excl Exchange Rates  $\uparrow$ 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 and 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 increased 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 in Europe and North America (\$8.0 billion), partially offset by an increase in Asia (\$2.1 billion) and Pacific (\$0.5 billion).

**Derivatives ñ35%** (*Excl Exchange Rates ñ35%*)

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 ñ5%** (*Excl Exchange Rates ñ6%*)

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 ñ15%** (*Excl Exchange Rates ñ15%*)

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 ñ6%** (*Excl Exchange Rates ñ6%*)

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

**Capital Management**

|                                    | As at<br>Mar 07 | As at<br>Sep 06 | As at<br>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 98 to 100*

**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 26 basis points principally due to:

net profit, excluding non-core items and after preference share dividends, of \$1.9 billion (+80 basis points);

ordinary share dividend commitments, net of expected reinvestment through the BOP and DRP Plans, of \$1.0 billion (-43 basis points);

increase in risk weighted assets, excluding the impact of exchange rate movements and sale of Esanda Fleetpartners (-24 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), ETRADE Australia Limited (-9 basis points) and smaller Asian and Pacific banks (-2 basis points) offset by the disposal of Esanda Fleetpartners (+9 basis points);

policy and regulatory changes (+19 basis points) including first time accrual of the BOP and DRP Plans (+5 basis points); AIFRS (AASB 2005-1) requirement to recognise in retained earnings at 1 October 2006 a \$141 million unbooked gain on New Zealand revenue hedges (+6 basis points), refer note 1(i) page 70; netting of New Zealand deferred tax assets against deferred tax liabilities following our obtaining the verification letters required under the prudential standards (+8 basis points); and

other items net to zero and include the impact of exchange rate movements; movement in capitalised expenses, deferred fee income, capitalised software, other non-core items and share issuances to staff and option conversions.

**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**

Changes to the prudential standards impacted the Group's capital base 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 jurisdictions and as such ANZ has taken a Tier 1 deduction for net deferred tax assets from July 2006. ANZ has subsequently obtained the requisite verification letter for ANZ Holdings (New Zealand) Limited 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.

### Hybrid Capital and Tier 1 Capital

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

At 31 March 2007, ANZ has an Innovative hybrid usage rate of 19.2% (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.

### Innovative Hybrid Capital details

|                                  | ANZ StEPS         | US Stapled Trust Security  | Euro Hybrid    |
|----------------------------------|-------------------|--|----------------|
| 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%<br>Tranche 2 (US\$750m) Coupon: 5.36% | Euribor +0.66% |

**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 as net interest income 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(1) |               |               |               | Deferred Income |               |
|------------------------|-------------------------------|---------------|---------------|---------------|-----------------|---------------|
|                        | Mar 07<br>\$M                 | Sep 06<br>\$M | Mar 06<br>\$M | Mar 07<br>\$M | Sep 06<br>\$M   | Mar 06<br>\$M |
| Personal(2)            | 444                           | 440           | 447           | 138           | 149             | 143           |
| Institutional          | 12                            | 21            | 10            | 189           | 212             | 240           |
| New Zealand Businesses | 95                            | 80            | 67            | 42            | 42              | 39            |
| Other(3)               | 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>    |

(1) *Deferred acquisition costs largely include the amounts of brokerage capitalised and amortised in the Business segments: Personal and New Zealand Businesses. Deferred acquisition costs also include capitalised debt raising expenses*

(2) *Includes 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: \$50 million; Mar 2006: \$52 million)*



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(3) Includes Group Centre and Partnerships & Private Bank

Deferred acquisition costs analysis:

|                        | March 2007                   |                                | September 2006               |                                |
|------------------------|------------------------------|--------------------------------|------------------------------|--------------------------------|
|                        | Amortisation<br>Costs<br>\$M | Capitalised<br>Costs(1)<br>\$M | Amortisation<br>Costs<br>\$M | Capitalised<br>Costs(1)<br>\$M |
| Personal(2)            | 130                          | 134                            | 137                          | 131                            |
| Institutional(3)       | 3                            | (6)                            |                              | 12                             |
| New Zealand Businesses | 18                           | 33                             | 18                           | 26                             |
| Other(4)               | 4                            |                                |                              | 1                              |
| <b>Total</b>           | <b>155</b>                   | <b>161</b>                     | <b>155</b>                   | <b>170</b>                     |

(1) Costs capitalised during the year exclude brokerage trailer commissions paid

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

(3) Includes reversal of break costs on Stadium acquisition

(4) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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                              |
| Total software capitalisation          | 425                           | 397                           | 390                           | 7%                               | 9%                               |

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

|                                | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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(1)              | 166                           | 21                            | 80                            | large                            | large                            |
| <b>Profit</b>                  | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |

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

|                                 | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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(2)                  | 1,936                         | 1,841                         | 1,709                         | 5%                               | 13%                              |
| Non-core items(1)               | 166                           | 21                            | 81                            | large                            | large                            |
| <b>Profit</b>                   | 2,102                         | 1,862                         | 1,790                         | 13%                              | 17%                              |
| FX impact on reported profit(2) |                               | 15                            | 21                            | -100%                            | -100%                            |
| <b>Reported profit</b>          | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |

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 & Transaction 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.

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*(1) 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 13)*

*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 14)*

*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*

*(2) 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*

**Personal**

Brian Hartzer

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1) | 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(2)                                      | (10) | (19) | (12) | -47% | -17% |
|   | 709  | 654  | 583  | 8%   | 22%  |

**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% |

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|   |         |         |         |     |     |
|---|---------|---------|---------|-----|-----|
| 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%  |

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(1) *Comprises Regional & Rural Banking and Small Business Banking*

(2) *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 customer deposit growth (11% and 13% 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 lending growth of 13% offset by a reduction in margins due to higher growth in lower margin products. Mortgages grew 6% with lending growth of 10% offset by declining margins reflecting increased competition, increased sales of fixed rate products and higher funding costs. Pacific grew 12% reflecting benefits from revenue initiatives. Small Business Banking grew 24% reflecting our expanded sales force driving strong balance sheet growth (lending up 40% and deposits up 24%). Regional & Rural Banking 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 increasing volumes and related growth in issuing and lending fees. Mortgages grew other income 44%, benefiting from the full effect of fee alignments 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 344 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 credit card 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 customer deposit growth across the business (up 5% and 6% 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. Investment in the retail footprint expanded with 9 more branches and 148 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 Banking 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 income grew 7% on deposit growth of 6%. Margin pressure saw Mortgages net interest income flat as margin decline of 4 basis points offset lending growth of 5%. Consumer Finance net interest income increased 2%, with lending 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%. Consumer Finance other income growth is seasonally lower in the March half as more annual fees are charged in the second half and 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.



Personal division by business unit

|                          | March 2007   |              |              |            |            | Comparison to March 2006 |           |            |            |            |
|--------------------------|--------------|--------------|--------------|------------|------------|--------------------------|-----------|------------|------------|------------|
|                          | Revenue      | Expenses     | PBP(1)       | Credit(2)  | NPAT       | Revenue                  | Expenses  | PBP(1)     | Credit(2)  | 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%        |
| Regional & Rural         |              |              |              |            |            |                          |           |            |            |            |
| Banking                  | 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(3)                 | 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> |

|                          | March 2007   |              |              |            |            | Comparison to September 2006 |            |           |            |           |
|--------------------------|--------------|--------------|--------------|------------|------------|------------------------------|------------|-----------|------------|-----------|
|                          | Revenue      | Expenses     | PBP(1)       | Credit(2)  | NPAT       | Revenue                      | Expenses   | PBP(1)    | Credit(2)  | 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%       |
| Regional & Rural         |              |              |              |            |            |                              |            |           |            |           |
| Banking                  | 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(3)                 | 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> |

(1) PBP (profit before provision) is profit before credit impairment and income tax

(2) Credit impairment expense

(3) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1)                  | 442  | 394  | 374  | 12%  | 18% |
| Markets(2)                          | 156  | 137  | 149  | 14%  | 5%  |
| Business Banking                    | 121  | 131  | 128  | -8%  | -5% |
| Corporate & Structured Financing    | 100  | 111  | 95   | -10% | 5%  |
| Relationships and Infrastructure(3) | (69) | (72) | (68) | -4%  | 1%  |
|                                     | 750  | 701  | 678  | 7%   | 11% |

**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%   |

- (1) Working Capital consists of the Debt Product Group and Trade & Transaction Services
- (2) 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)
- (3) 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, offset by Trade & Transaction Services which fell 3%, although after allowing for the March 2006 release of revenue relating to prior years, profit growth was 11%. 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. The Division continues to maintain a low cost to income ratio, notwithstanding significant pressure on personnel costs in the investment banking market.

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 growth of 12% in Business Banking. Customer deposits grew a pleasing 24%, 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. 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.

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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 margin contraction, investment in front-line staff and an increase in provision for credit losses in the half. Profit in Corporate & Structured Financing, which traditionally has a weaker first half, reduced 10% with declining net interest income and increased individual provisions.

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 large writebacks and recoveries.

## Institutional division by business unit

|                                   | Comparison to March 2006 |            |              |            |            | Comparison to March 2007 |           |                    |              |            |
|-----------------------------------|--------------------------|------------|--------------|------------|------------|--------------------------|-----------|--------------------|--------------|------------|
|                                   | Revenue                  | Expenses   | PBP(1)       | Credit(2)  | NPAT       | Revenue                  | Expenses  | Growth Rate PBP(1) | Credit(2)    | 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(3) | 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 |            |              |            |            | Comparison to March 2007 |           |                    |              |           |
|-----------------------------------|------------------------------|------------|--------------|------------|------------|--------------------------|-----------|--------------------|--------------|-----------|
|                                   | Revenue                      | Expenses   | PBP(1)       | Credit(2)  | NPAT       | Revenue                  | Expenses  | Growth Rate PBP(1) | Credit(2)    | 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(3) | 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> |

(1) PBP (profit before provision) is profit before credit impairment and income tax

(2) Credit impairment expense

(3) Relationships & Infrastructure includes Personal & Private Banking Asia, Institutional Banking, Financial Institutions and Corporate Banking

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**New Zealand Businesses(1)**

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Graham Hodges

Table reflects NZD results for New Zealand Businesses

AUD results shown on page 45

|  | Half<br>year<br>Mar 07<br>NZD M | Half<br>year<br>Sep 06<br>NZD M | Half<br>year<br>Mar 06<br>NZD M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|---------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| 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(2) | 21  | 20  | 22  | 5%  | -5%  |
| UDC  | 13  | 12  | 12  | 8%  | 8%   |
| Central Support(3)                           | 1   | 1   | 3   | 0%  | -67% |
| New Zealand Businesses                       | 398 | 403 | 369 | -1% | 8%   |

**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 |

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|   |         |       |       |    |      |
|---|---------|-------|-------|----|------|
| 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%   |

- 
- (1) For a reconciliation of New Zealand Businesses results to the New Zealand Geographic results refer page 57
- (2) Private Banking & Retail Specialist Units include ING New Zealand joint venture
- (3) Central support includes Treasury funding and shared services

*New Zealand commentary reflects NZD*

**New Zealand Businesses**

**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%, from strong lending and deposit growth with some reinvestment in the business. 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 9%. 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 unfavourable funding and product mix, partially offset 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 4%, 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 230 basis 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 realignment of product and fee structures and 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 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 3%, 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 partially from a reduced benefit from scenario modeling in the March 2007 half.

## New Zealand Businesses by business unit

|                                     | March 2007 (NZD M) |            |            |           |            | Comparison to March 2006 |           |                    |              |           |
|-------------------------------------|--------------------|------------|------------|-----------|------------|--------------------------|-----------|--------------------|--------------|-----------|
|                                     | Revenue            | Expenses   | PBP(1)     | Credit(2) | NPAT       | Revenue                  | Expenses  | Growth Rate PBP(1) | Credit(2)    | 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> |

|                                     | March 2007 (NZD M) |            |            |           |            | Comparison to September 2006 |           |                    |              |            |
|-------------------------------------|--------------------|------------|------------|-----------|------------|------------------------------|-----------|--------------------|--------------|------------|
|                                     | Revenue            | Expenses   | PBP(1)     | Credit(2) | NPAT       | Revenue                      | Expenses  | Growth Rate PBP(1) | Credit(2)    | 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> |

(1) PBP (profit before provision) is profit before credit impairment and income tax

(2) 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.

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



**New Zealand Businesses(1)**

Graham Hodges

*Table reflects AUD results for New Zealand Businesses*

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NZD results shown on page 42

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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>                        |
| <b>Consisting of:</b>  |                               |                               |                               |                                  |                                  |
| 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(2)                           | 19                            | 17                            | 18                            | 12%                              | 6%                               |
| UDC  | 11                            | 10                            | 11                            | 10%                              | 0%                               |
| Central Support(3)   | 1                             | 1                             | 3                             | 0%                               | -67%                             |
| New Zealand Businesses   | 351                           | 339                           | 337                           | 4%                               | 4%                               |
| <b>Balance Sheet</b>   |                               |                               |                               |                                  |                                  |
| 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<br>acceptances                  | 64,307                        | 57,486                        | 58,907                        | 12%                              | 9%                               |
| Average deposits and other borrowings                                  | 42,646                        | 39,359                        | 42,233                        | 8%                               | 1%                               |
| <b>Ratios</b>  |                               |                               |                               |                                  |                                  |
| 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                                   | (23)                          | (8)                           | (10)                          | large                            | large                            |
| Individual provision (charge)/credit as a % of<br>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<br>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<br>advances                     | 0.08%                         | 0.08%                         | 0.14%                         |                                  |                                  |
| Total employees  | 8,990                         | 8,785                         | 8,667                         | 2%                               | 4%                               |

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- (1) For a reconciliation of New Zealand Businesses results to the New Zealand Geographic results refer page 57
- (2) Private Banking & Retail Specialist Units include ING New Zealand joint venture
- (3) Central support includes Treasury funding and shared services

**Partnerships & Private Bank**

Bob Edgar

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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>                                  | 103                           | 91                            | 79                            | 13%                              | 30%                              |
| <b>Consisting of:</b>                          |                               |                               |                               |                                  |                                  |
| INGA   | 75                            | 64                            | 58                            | 17%                              | 29%                              |
| International Partnerships(1)                  | 22                            | 18                            | 14                            | 22%                              | 57%                              |
| Other(2)                                       | 6                             | 9                             | 7                             | -33%                             | -14%                             |
|  | 103                           | 91                            | 79                            | 13%                              | 30%                              |
| Total employees                                | 764                           | 635                           | 533                           | 20%                              | 43%                              |

(1) PT Panin, Metrobank Card Corporation and Bank of Tianjin are equity accounted. Indonesia Cards and ANZ Royal are controlled entities

(2) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| Funds management income   | 243                           | 237                           | 208                           | 3%                               | 17%                              |
| Life Risk Income  |                               |                               |                               |                                  |                                  |
| planned margin  | 117                           | 96                            | 89                            | 22%                              | 31%                              |
| experience variation(1)   | 13                            | 16                            | 18                            | -19%                             | -28%                             |
| assumption changes(1)   | 8                             | -                             | 15                            | n/a                              | -47%                             |
|   | 138                           | 112                           | 122                           | 23%                              | 13%                              |
| <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(2)   | (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>                       |
| <b>ANZ share of INGA earnings @ 49%</b>                               |                               |                               |                               |                                  |                                  |
| JV operating profit   | 54                            | 48                            | 43                            | 13%                              | 26%                              |
| JV capital investment earnings  | 20                            | 14                            | 14                            | 43%                              | 43%                              |
|   | 74                            | 62                            | 57                            | 19%                              | 30%                              |
| Net funding   | 1                             | 2                             | 1                             | -50%                             | 0%                               |
| Net return to ANZ   | 75                            | 64                            | 58                            | 17%                              | 29%                              |
| Carrying value of investment(3)                                       | 1,507                         | 1,461                         | 1,407                         | 3%                               | 7%                               |
| Annualised return on ANZ investment                                   | 9.8%                          | 8.5%                          | 8.1%                          |                                  |                                  |
| <b>Performance measures @ 100%</b>                                    |                               |                               |                               |                                  |                                  |
| Value of new business(4)  | 63                            | 47                            | 34                            | 34%                              | 85%                              |
| Cost to income(5)   | 56%                           | 58%                           | 60%                           |                                  |                                  |
| <b>Funds Management</b>   |                               |                               |                               |                                  |                                  |
| Retail & mezzanine funds under management                             | 43,797                        | 38,849                        | 33,731                        | 13%                              | 30%                              |
| Net retail & mezzanine flows  | 1,202                         | 842                           | 415                           | 43%                              | large                            |
| <b>Life Risk</b>  |                               |                               |                               |                                  |                                  |
| Total in-force  | 624                           | 596                           | 536                           | 5%                               | 16%                              |
| New premiums(6)   | 95                            | 103                           | 65                            | -8%                              | 46%                              |

| Funds management growth (Retail & mezzanine)(7) | Mar 07<br>\$M | In-<br>flows | Out-<br>flows | Other<br>flows | Sep 06<br>\$M |
|---|---------------|--------------|---------------|----------------|---------------|
| 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         |
| Total   | 43,797        | 4,364        | (3,162)       | 3,746          | 38,849        |

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- (1) 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
- (2) Remediation expenses represent costs incurred in rectifying historical unit pricing errors and fully compensating customers
- (3) 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
- (4) 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
- (5) Cost to Income ratio is management expenses (excluding Remediation Expenses & Capitalised Software Write-offs) / Total Income
- (6) The spike in new premiums in the September 2006 half year is in respect of a significant mastertrust new business win
- (7) Other Flows includes investment income net of taxes, fees and charges



### 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 performing ahead of expectations.

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(1) |        | Life Insurance(2) |           |
|---------------------|----------------------------|--------|-------------------|-----------|
|                     | Mar 07                     | Sep 06 | Mar 07            | Sep 06(3) |
| 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%       |
| Total               | 100%                       | 100%   | 100%              | 100%      |

(1) Includes mezzanine funds management business

(2) Includes directly marketed life insurance and consumer credit life insurance

(3) Open Market channel in September 2006 includes a substantial mastertrust client win

**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 capital gain (\$12 million) following a restructure of INGA's shareholder capital in February 2007.

**Non-continuing businesses(1)**

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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%                            |

(1) 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 run-off of legacy project finance assets in Institutional.

**Group Centre(1)**



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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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>                                  | 23                            | 49                            | 23                            | -53%                             | 0%                               |
| <b>Total employees</b>                         | 4,354                         | 4,239                         | 4,014                         | 3%                               | 8%                               |

(1) 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 (\$22 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 lower term debt funding costs. 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 global tax provisioning requirements.

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***GEOGRAPHIC SEGMENT PERFORMANCE***

**Geographic performance**



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|               | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|-----------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Cash(1) 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(2)       | Credit(3)  | NPAT         | Revenue                          | Expenses  | PBP(2)     | Credit(3) | 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%       |
|                      | <b>5,381</b>         | <b>2,386</b> | <b>2,995</b> | <b>240</b> | <b>1,936</b> | <b>9%</b>                        | <b>6%</b> | <b>12%</b> | <b>7%</b> | <b>12%</b> |
| New Zealand<br>(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(2)       | Credit(3)  | NPAT         | Revenue                              | Expenses  | PBP(2)    | Credit(3)  | 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%        |
|                      | <b>5,381</b>         | <b>2,386</b> | <b>2,995</b> | <b>240</b> | <b>1,936</b> | <b>4%</b>                            | <b>2%</b> | <b>7%</b> | <b>31%</b> | <b>4%</b> |
| New Zealand<br>(NZD) | 1,418                | 654          | 764          | 30         | 484          | 2%                                   | 2%        | 2%        | large      | -1%       |

(1) 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 13)

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)

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*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 14)*

*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*

- (2) PBP (profit before provision) is profit before credit impairment and income tax
- (3) Credit impairment expense

**Australia**





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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1) profit</b>  | 1,323                         | 1,269                         | 1,108                         | 4%                               | 19%                              |
| Non-core items(1)  | 94                            | 23                            | 88                            | large                            | 7%                               |
| <b>Profit</b>  | 1,417                         | 1,292                         | 1,196                         | 10%                              | 18%                              |
| Net interest average margin  | 2.23%                         | 2.33%                         | 2.31%                         |                                  |                                  |
| Return on risk weighted assets                                     | 1.74%                         | 1.64%                         | 1.59%                         |                                  |                                  |
| Operating expenses(1) to operating income                          | 42.0%                         | 44.5%                         | 42.0%                         |                                  |                                  |
| Operating expenses(1) to average assets                            | 1.34%                         | 1.39%                         | 1.29%                         |                                  |                                  |
| Return on risk weighted assets (cash(1))                           | 1.62%                         | 1.61%                         | 1.47%                         |                                  |                                  |
| Operating expenses to operating income (cash(1))                   | 43.8%                         | 44.9%                         | 45.6%                         |                                  |                                  |
| Operating expenses to average assets (cash(1))                     | 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%                               |

(1) 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 pages 13 to 14)

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

**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 13 to 14), cash profit increased 19%.

Key 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. Market's net interest income increased \$29 million due to a reduction in the funding cost associated with unrealised gains with a higher proportion of revenue booked as interest, offset in other income. Net interest income also benefited from earnings on higher levels of capital.

Other income increased 24%. Institutional increased 27%, including \$29 million lower Market's other income offset in net interest income. Excluding this impact, Institutional increased 35% 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 13 to 14), cash profit increased 4% and cash profit before credit impairment and income tax increased 5%. Adjusting for the benefit in the September half from gains on the NZD revenue hedges of \$34 million after tax, cash profit increased by 5% and cash profit before provisions increased 7%.

Key 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 volume driven fee growth and increased foreign exchange revenue 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 3% 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 large recoveries. The March 2007 half also included a lower collective provision charge with an improvement in credit quality offsetting volume growth.

**New Zealand**



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|  | Half<br>year<br>Mar 07<br>NZD M | Half<br>year<br>Sep 06<br>NZD M | Half<br>year<br>Mar 06<br>NZD M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|---------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| 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(1) profit</b>  | 484                             | 490                             | 474                             | -1%                              | 2%                               |
| Non-core items(1)  | 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(1) to operating income                          | 43.3%                           | 46.2%                           | 49.9%                           |                                  |                                  |
| Operating expenses(1) to average assets                            | 1.34%                           | 1.34%                           | 1.54%                           |                                  |                                  |
| Return on risk weighted assets (cash(1))                           | 1.41%                           | 1.41%                           | 1.54%                           |                                  |                                  |
| Operating expenses to operating income (cash(1))                   | 46.1%                           | 46.3%                           | 47.4%                           |                                  |                                  |
| Operating expenses to average assets (cash(1))                     | 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%                              |

(1) 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*

**Reconciliation of Geographic profit**

|  | Half<br>year<br>Mar 07<br>NZD M | Half<br>year<br>Sep 06<br>NZD M | Half<br>year<br>Mar 06<br>NZD M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|---------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| 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(1) | 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>                       |

(1) Refer footnote 1 on page 56

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

Profit after tax increased 24%. After adjusting for non-core items (refer pages 13 to 14), 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 reducing large lending exposures impacted the NZ Institutional Businesses (-8%). Net interest margin declined 9 basis points, impacted by continued competitive pressure and unfavourable product mix, partially offset 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 130 basis points to 46.1%.

Provision for credit impairment increased NZD16 million from negligible levels in 2006. The individual provision charge is in line with the 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 pages 13 to 14), with the result impacted by a NZD17 million after tax increase in credit impairment expense. Growth in profit before provisions was 2% (NZD16 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 partially 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.



**Asia**



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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1)</b>                            | 77                            | 70                            | 55                            | 10%                              | 40%                              |
| Non-core items(1)                                | (3)                           |                               |                               | n/a                              | n/a                              |
| <b>Profit</b>                                    | 74                            | 70                            | 55                            | 6%                               | 35%                              |
| Operating expenses to operating income           | 43.9%                         | 44.0%                         | 50.0%                         |                                  |                                  |
| Operating expenses to operating income (cash(1)) | 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%                              |

(1) 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% (37% excluding exchange rate impacts). After adjusting for non-core items (refer pages 13 to 14), profit after tax increased by 40%.

Net interest income increased 30% with net interest margin improving by 24 basis points. A program 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 full six month 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% (9% 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 trade flows contributed to the improved performance in the Institutional business.

**Pacific**

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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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.



**Other: United Kingdom, Europe, United States and South Asia  
(including Bangalore)**





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|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1)</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(1)) | 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%                              |

(1) 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 pages 13 to 14), 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.

**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.

**FOUR YEAR SUMMARY BY HALF YEAR**

|  | Mar 07       | Sep 06       | Mar 06       | Sep 05       | Mar 05       | Sep 04       | Previous AGAAP<br>Mar 04 | Sep 03       |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------------------|--------------|
|  | \$M          | \$M          | \$M          | \$M          | \$M          | \$M          | \$M                      | \$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(1)   | 1,936        | 1,856        | 1,731        | 1,583        | 1,568        | 1,419        | 1,312                    | 1,207        |
| Non-core items(1)  | 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(2)                               | 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(3) 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%         |
| <b>Share price(4)</b>  |              |              |              |              |              |              |                          |              |
| 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(4)                                      | 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> | 1,844.7 | 1,836.6 | 1,828.7 | 1,826.4 | 1,822.7 | 1,818.4 | 1,808.2 | 1,521.7 |
| Other information                           |         |         |         |         |         |         |         |         |
| 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(5)                   | 300,987 | 291,262 | 273,503 | 263,467 | 255,655 | 252,072 | 245,173 | 223,545 |

(1) 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 13)

*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 14)*

*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*

(2) Average ordinary shareholders equity excludes minority interest

(3) 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

(4) September 2003 adjusted for the bonus element of the rights issue

(5) 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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Directors Declaration

Auditors Review Report and Independence Declaration

*DIRECTORS REPORT*



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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 11 to 51 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 11 to 51.

### 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 97 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.

**Charles Goode**  
*Chairman*

**John McFarlane**  
*Director*

26 April 2007

*CONDENSED CONSOLIDATED INCOME STATEMENT*

|   | Note | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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<br>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<br/>of the Company</b> |      | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |
| <b>Earnings per ordinary share<br/>(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<br/>(cents)</b>                |      |                               |                               |                               |                                  |                                  |
|   | 5    | 62                            | 69                            | 56                            | n/a                              | 11%                              |

The notes appearing on pages 70 to 95 form an integral part of these financial statements

*CONDENSED CONSOLIDATED BALANCE SHEET*



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| Note   | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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(1)  | 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(2)                                | 3,394                  | 3,337                  | 3,272                  | 2%                               | 4%                               |
| Other assets(3)  | 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(4)  | 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 8,414            | 8,271                  | 8,068                  | 2%                               | 4%                               |
| Preference share capital   | 12,13 871              | 871                    | 871                    | 0%                               | 0%                               |
| Reserves   | 13 (524)               | (354)                  | (156)                  | 48%                              | 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, contingent assets and commitments              | 15                     |                        |                        |                                  |                                  |

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

(2) Excludes notional goodwill in equity accounted entities

(3) Includes interest revenue receivable \$1,632 million (Sep 2006: \$1,569 million; Mar 2006: \$1,468 million)

(4) Includes \$2,362 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 70 to 95 form an integral part of these financial statements*

*CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE*



|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Items recognised directly in equity(1)</b>  |                               |                               |                               |                                  |                                  |
| Currency translation adjustments   |                               |                               |                               |                                  |                                  |
| Exchange differences taken to equity   | (89)                          | 102                           | (305)                         | large                            | -71%                             |
| Available-for-sale assets  |                               |                               |                               |                                  |                                  |
| Valuation gain taken to equity   | 16                            | 2                             | 18                            | large                            | -11%                             |
| Cumulative (gain) transferred to the income statement on sale                          |                               |                               |                               |                                  |                                  |
|  | (17)                          | (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                            |
| Income/(expense) 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> |                               |                               |                               |                                  |                                  |
|  | 2,121                         | 1,944                         | 1,563                         | 9%                               | 36%                              |
| <b>Effect of adoption of AASB 139(2)</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%                            |

- (1) These items are disclosed net of tax
- (2) Adoption of AASB 2005-1 has no impact on total equity as it leads to a reclassification within equity

*The notes appearing on pages 70 to 95 form an integral part of these financial statements*

*CONDENSED CONSOLIDATED CASH FLOW STATEMENT*

|   | Note | Half<br>year<br>Mar 07<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Sep 06<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Mar 06<br>Inflows<br>(Outflows)<br>\$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                                       |      | 525  | 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  |      | (13,067)   | (12,879)   | (13,969)   |
| Increase/ (decrease) in operating liabilities               |      |  |  |  |
| Deposits and other borrowings                               |      | 7,792  | 7,400  | 8,729  |
| Due to other financial institutions                         |      | 993  | 700  | 1,159  |
| Payables and other liabilities                              |      | (665)  | (474)  | 1,015  |
| <b>Net cash (used in) operating activities</b>              | 16   | (7,477)  | (3,207)  | (1,948)  |
| <b>Cash flows from investing activities</b>                 |      |  |  |  |
| Net decrease/(increase)                                     |      |  |  |  |
| Available for sale assets                                   |      |  |  |  |
| Purchases   |      | (8,272)  | (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)                   |      | 400  | 14   |  |
| Premises and equipment                                      |      |  |  |  |
| Purchases   |      | (199)  | (97)   | (153)  |
| Proceeds from sale  |      | 16   | 17   | 2  |
| Other   |      | 172  | 1,611  | 86   |
| <b>Net cash provided by/ (used in) investing activities</b> |      | 1,040  | 4,050  | (2,100)  |
| <b>Cash flows from financing activities</b>                 |      |  |  |  |
| Net (decrease)increase                                      |      |  |  |  |
| Bonds and notes   |      |  |  |  |
| Issue proceeds  |      | 11,497   | 7,582  | 9,924  |
| Redemptions   |      | (4,351)  | (4,810)  | (4,139)  |
| Loan capital  |      |  |  |  |
| Issue proceeds  |      | 1,141  | 639  | 609  |
| Redemptions   |      | (500)  | (656)  |  |
| Change in minority 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>            |      | 6,685  | 1,884  | 5,336  |
| Net cash (used in) operating activities                     |      | (7,477)  | (3,207)  | (1,948)  |
| Net cash provided by/(used in) investing activities         |      | 1,040  | 4,050  | (2,100)  |
| Net cash provided by financing activities                   |      | 6,685  | 1,884  | 5,336  |

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|  |    |         |        |        |
|--|----|---------|--------|--------|
| Net increase/(decrease) in cash and cash equivalents |    | 248     | 2,727  | 1,288  |
| Cash and cash equivalents at beginning of period     |    | 20,344  | 16,845 | 13,702 |
| Foreign currency translation                         |    | (2,338) | 772    | 1,855  |
| <b>Cash and cash equivalents at end of period</b>    | 16 | 18,254  | 20,344 | 16,845 |

*The notes appearing on pages 70 to 95 form an integral part of these financial statements*

*NOTES TO CONDENSED 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 except for the following change in accounting policy:

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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, cash flow hedge relationships covering New Zealand's revenue flows no longer qualified for hedge accounting. The realised gains on the hedges of future years' New Zealand dollar revenues of \$141 million (net of tax) that were included in the hedging reserve at 30 September 2006 were, in line with the transitional provisions of AASB 2005-1, transferred directly to retained earnings.

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

### **(ii) Consolidation**

The financial statements comprise 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.

**(iii) Interest income and interest expense, cont d**

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 net loans and advances and recognised in interest income as part of the effective interest rate.

**(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.

### 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.

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; or

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.

**(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 indirectly credited back to the income statement.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairments are indirectly 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.



**(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 made 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*

Subsequent to the grant of an equity-based award, 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.

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

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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 method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

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, 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.



## 2. Income

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| 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(1)   | (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(2)  | 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<br>fairvalue through profit & loss(3) | 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<br>Partnerships                          | 25                            | 19                            | 15                            | 32%                              | 67%                              |
| Share of associates profit - other  | 5                             | 4                             | 3                             | 25%                              | 67%                              |
| Private equity and infrastructure earnings(4)                                       | 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<br/>income</b>                          | <b>20.57%</b>                 | <b>20.25%</b>                 | <b>20.64%</b>                 |                                  |                                  |

(1) Comprises interchange fees paid

(2) March 2007 half comprises core foreign exchange earnings \$237 million less \$4 million non-core NZD revenue hedge volatility

(3) 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

(4) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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(1)</b>                      | <b>2,386</b>                  | <b>2,346</b>                  | <b>2,185</b>                  | <b>2%</b>                        | <b>9%</b>                        |

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

## 4. Income tax expense

|   | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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   | 908                           | 901                           | 846                           | 1%                               | 7%                               |
| Deferred tax expense  | (25)                          | (121)                         | (104)                         | -79%                             | -76%                             |
|   | 883                           | 780                           | 742                           | 13%                              | 19%                              |



## 5. Dividends

## Ordinary Shares

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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</b>                     |                               |                               |                               |                                  |                                  |
| Interim dividend                                   |                               | 1,024                         |                               | n/a                              | n/a                              |
| Final dividend                                     | 1,267                         |                               | 1,078                         | n/a                              | 18%                              |
| Bonus option plan adjustment                       | (19)                          | (16)                          | (18)                          | 19%                              | 6%                               |
| Total(1)   | 1,248                         | 1,008                         | 1,060                         | 24%                              | 18%                              |
| <b>Ordinary share dividend payout ratio(2) (%)</b> | 54.9%                         | 68.0%                         | 56.9%                         |                                  |                                  |

(1) Dividends recorded when paid

(2) Dividend payout ratio calculated using proposed interim dividend of \$1,144 million not included in the above table. Dividend payout ratios for the September 2006 half year and the March 2006 half year calculated using \$1,267 million and \$1,024 million respectively

## Preference Shares

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

## 6. Earnings per share

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

(1) 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

(2) 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                              |                                  |
| <b>Total gross loans and advances</b>                   | 271,654                       | 259,638                       | 245,743                       | 5%                               | 11%                              |
| Less provisions for credit impairment<br>(refer note 9) | (2,283)                       | (2,226)                       | (2,219)                       | 3%                               | 3%                               |
| Less income yet to mature(1)                            | (2,110)                       | (2,002)                       | (1,978)                       | 5%                               | 7%                               |
| Add capitalised brokerage\mortgage origination<br>fees  | 548                           | 539                           | 507                           | 2%                               | 8%                               |
|   | (3,845)                       | (3,689)                       | (3,690)                       | 4%                               | 4%                               |
| <b>Total net loans and advances</b>                     | 267,809                       | 255,949                       | 242,053                       | 5%                               | 11%                              |

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

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

|             | Half<br>year<br>Mar 07<br>NZD M | Half<br>year<br>Sep 06<br>NZD M | Half<br>year<br>Mar 06<br>NZD M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|-------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------------------|
| New Zealand |                                 |                                 |                                 |                                  |                                  |

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|                          |        |        |        |      |      |
|--------------------------|--------|--------|--------|------|------|
| 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<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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>                       |
| <b>Non-performing loans</b>                 |                        |                        |                        |                                  |                                  |
| 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<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--------------------------------------|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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(1)</b>      | <b>531</b>                    | <b>454</b>                    | <b>630</b>                    | <b>17%</b>                       | <b>-16%</b>                      |

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

The following amounts are not classified as individually impaired financial assets and therefore are not included within the summary on page 82.

| Accruing loans past due 90 days or more(1) | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| Australia                                  | 459                    | 406                    | 339                    | 13%                              | 35%                              |
| New Zealand                                | 106                    | 75                     | 74                     | 41%                              | 43%                              |
| Overseas markets                           | 20                     | 18                     | 15                     | 11%                              | 33%                              |
|  | 585                    | 499                    | 428                    | 17%                              | 37%                              |

(1) 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 \$101 million (Sep 2006 half: \$84 million; Mar 2006 half: \$80 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Collective provision</b>                                   |                               |                               |                               |                                  |                                  |
| Balance at start of period                                    | 1,940                         | 1,903                         | 2,167                         | 2%                               | -10%                             |
| Adjustment due to adoption of accounting standard<br>AASB 139 |                               |                               | (288)                         | n/a                              | -100%                            |
| Restated balance at start of period                           | 1,940                         | 1,903                         | 1,879                         | 2%                               | 3%                               |
| Charge to income statement                                    | 52                            | 33                            | 36                            | 58%                              | 44%                              |
| Provisions raised (disposed)                                  | (4)                           |                               |                               | n/a                              | n/a                              |
| Adjustment for exchange rate fluctuations                     | (7)                           | 4                             | (12)                          | large                            | -42%                             |
| Total collective provision(1)                                 | 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<br>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%                               |

(1) The Collective Provision includes amounts for off balance sheet credit exposures, \$256 million at 31 March 2007 (Sep 2006: \$260 million; Mar 2006: \$254 million). The impact on the income statement for the period ended 31 March 2007 was a \$3 million release (Sep 2006 half: \$5 million charge; Mar 2006 half: \$nil).

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                               |
| Increase to collective provision             | 52                            | 33                            | 36                            | 58%                              | 44%                              |
| <b>Charge to Income Statement</b>            | 240                           | 183                           | 224                           | 31%                              | 7%                               |



|                                     | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|-------------------------------------|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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. Deposits and other borrowings

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

(1) 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

(2) 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<br>per share | Amount paid<br>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(1)               | 500,000       | 1,000                    | 1,000                       |

(1) 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<br>year<br>Mar 07 | Half<br>year<br>Sep 06 | Half<br>year<br>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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <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%                               |
| <b>Ordinary share capital</b>   |                               |                               |                               |                                  |                                  |
| Dividend reinvestment plan  | 102                           | 80                            | 85                            | 28%                              | 20%                              |
| Group employee share acquisition scheme(1)  | (22)                          | 53                            | 37                            | large                            | large                            |
| Group share option scheme   | 63                            | 70                            | 39                            | -10%                             | 62%                              |
| Group Share Buyback   |                               |                               | (146)                         | n/a                              | -100%                            |
| <b>Total share capital</b>  | <b>9,285</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%                             |
| Total foreign currency translation reserve  | (735)                         | (646)                         | (748)                         | 14%                              | -2%                              |
| <b>Share option reserve(2)</b>  |                               |                               |                               |                                  |                                  |
| Balance at start of period  | 63                            | 78                            | 67                            | -19%                             | -6%                              |
| Share-based payments  | 7                             | (14)                          | 11                            | large                            | -36%                             |
| Transfer (to) retained earnings(3)  |                               | (1)                           |                               | -100%                            | n/a                              |
| Total share option reserve  | 70                            | 63                            | 78                            | 11%                              | -10%                             |
| <b>Available-for-sale revaluation reserve(4)</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   | 16                            | 2                             | 18                            | large                            | -11%                             |
| Cumulative (gain) transferred to the income statement on sale of financial assets | (17)                          | (8)                           |                               | large                            | n/a                              |
| Total available-for-sale revaluation reserve                                      | 1                             | 2                             | 8                             | -50%                             | -88%                             |

(1) Includes \$46 million of treasury shares purchased relating to share-based payments during the half year ended 31 March 2007

(2) 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

(3) The transfer of balances from share option, general and capital reserves to retained earnings represent items of a distributable nature

(4) 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

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Hedging reserve(5)</b>  |                               |                               |                               |                                  |                                  |
| Balance at start of period   | 227                           | 176                           | n/a                           | 29%                              | n/a                              |
| Adjustments on adoption of accounting policies<br>specified by AASB 132 & AASB 139 |                               |                               | 162                           | n/a                              | -100%                            |
| Adjustment on adoption of AASB 2005-1(6)   | (141)                         |                               |                               | n/a                              | n/a                              |
| Restated balance at beginning of period  | 86                            | 176                           | 162                           | -51%                             | -47%                             |
| Gain recognised after tax  | 60                            | 93                            | 28                            | -35%                             | large                            |
| Transferred to income statement  | (6)                           | (42)                          | (14)                          | -86%                             | -57%                             |
| Total hedging reserve  | 140                           | 227                           | 176                           | -38%                             | -20%                             |
| <b>General reserve</b>   |                               |                               |                               |                                  |                                  |
| Balance at the start of the period   |                               | 181                           | 181                           | -100%                            | -100%                            |
| Transfer (to) retained earnings(3)   |                               | (181)                         |                               | -100%                            | n/a                              |
| Total general reserve  |                               |                               | 181                           | n/a                              | -100%                            |
| <b>Capital reserve</b>   |                               |                               |                               |                                  |                                  |
| Balance at the start of the period   |                               | 149                           | 149                           | -100%                            | -100%                            |
| Transfer (to) retained earnings(3)   |                               | (149)                         |                               | -100%                            | n/a                              |
| Total capital reserve  |                               |                               | 149                           | n/a                              | -100%                            |
| <b>Total reserves</b>  | (524)                         | (354)                         | (156)                         | 48%                              | large                            |
| <b>Retained earnings</b>   |                               |                               |                               |                                  |                                  |
| Balance at start of period   | 11,084                        | 9,979                         | 9,646                         | 11%                              | 15%                              |
| Adjustment on adoption of AIFRS(7)   |                               |                               | (431)                         | n/a                              | -100%                            |
| Adjustment on adoption of AASB 2005-1(6)   | 141                           |                               |                               | n/a                              | n/a                              |
| Restated balance at beginning of period  | 11,225                        | 9,979                         | 9,215                         | 12%                              | 22%                              |
| Profit attributable to shareholders of the Company                                 | 2,102                         | 1,877                         | 1,811                         | 12%                              | 16%                              |
| Total available for appropriation  | 13,327                        | 11,856                        | 11,026                        | 12%                              | 21%                              |
| Transfers from reserves  |                               | 331                           |                               | -100%                            | n/a                              |
| Actuarial gain (loss) on defined benefit plans after<br>tax(8)                     | 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>  | 12,117                        | 11,084                        | 9,979                         | 9%                               | 21%                              |
| <b>Share capital and reserves attributable to<br/>shareholders of the Company</b>  |                               |                               |                               |                                  |                                  |
| Minority interest  | 20,878                        | 19,872                        | 18,762                        | 5%                               | 11%                              |
| <b>Total equity</b>  | 32                            | 34                            | 34                            | -6%                              | -6%                              |
|  | 20,910                        | 19,906                        | 18,796                        | 5%                               | 11%                              |

(5) 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

(6) Under the provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges effective 1 October 2006 (refer Note 1(i))

(7) 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*

*(8) 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, net loans and advances. 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<br>\$M   | Int<br>\$M | Rate<br>% | Ave bal<br>\$M   | Int<br>\$M | Rate<br>% | Ave bal<br>\$M   | Int<br>\$M | Rate<br>% |
| <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          | 7,104      | 7.8%      | 175,106          | 6,491      | 7.4%      | 165,103          | 5,987      | 7.3%      |
| New Zealand                                     | 70,881           | 3,073      | 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          | 12,734     |           | 316,921          | 11,811     |           | 306,410          | 11,049     |           |
| Intragroup elimination                          |                  |            |           |                  |            |           |                  |            |           |
|   | (6,649)          | (216)      |           | (10,959)         | (287)      |           | (12,046)         | (272)      |           |
|   | 323,510          | 12,518     | 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)            |            |           |

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|                             |         |         |         |
|-----------------------------|---------|---------|---------|
|                             | 25,645  | 26,374  | 21,080  |
| <b>Total average assets</b> | 349,155 | 332,336 | 315,444 |

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



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|   | Half year Mar 07 |            |           | Half year Sep 06 |            |           | Half year Mar 06 |            |           |
|---|------------------|------------|-----------|------------------|------------|-----------|------------------|------------|-----------|
|   | Ave bal<br>\$M   | Int<br>\$M | Rate<br>% | Ave bal<br>\$M   | Int<br>\$M | Rate<br>% | Ave bal<br>\$M   | Int<br>\$M | Rate<br>% |
| <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        | 6.1%      | 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           | 1,717      | 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(1)                    |                  |            |           |                  |            |           |                  |            |           |
| 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          | 9,123      |           | 292,821          | 8,236      |           | 282,058          | 7,681      |           |
| Intragroup elimination                  | (6,649)          | (216)      |           | (10,959)         | (287)      |           | (12,046)         | (272)      |           |
|   | 296,657          | 8,907      | 6.0%      | 281,862          | 7,949      | 5.6%      | 270,012          | 7,409      | 5.5%      |
| <b>Non-interest bearing liabilities</b> |                  |            |           |                  |            |           |                  |            |           |
| Deposits                                |                  |            |           |                  |            |           |                  |            |           |
| Australia                               | 4,657            |            |           | 4,437            |            |           | 4,387            |            |           |
| New Zealand                             | 3,681            |            |           | 3,507            |            |           | 3,858            |            |           |
| Overseas markets                        | 1,149            |            |           | 1,142            |            |           | 1,104            |            |           |
| Derivatives                             |                  |            |           |                  |            |           |                  |            |           |
| Australia                               | 10,328           |            |           | 10,453           |            |           | 6,821            |            |           |
| New Zealand                             | 2,066            |            |           | 3,184            |            |           | 2,139            |            |           |
| Overseas markets                        | (287)            |            |           | (297)            |            |           | (975)            |            |           |
| Other liabilities                       | 10,396           |            |           | 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>   |            |           |

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(1) Includes foreign exchange swap costs

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M |
|--|-------------------------------|-------------------------------|-------------------------------|
| <b>Total average assets</b>  |                               |                               |                               |
| Australia  | 240,448                       | 229,872                       | 211,498                       |
| New Zealand  | 86,383                        | 80,412                        | 81,736                        |
| Overseas markets   | 28,973                        | 33,011                        | 34,256                        |
| less intragroup elimination  | (6,649)                       | (10,959)                      | (12,046)                      |
|  | 349,155                       | 332,336                       | 315,444                       |
| % 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)                      |
|  | 323,510                       | 305,962                       | 294,364                       |
| <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)                      |
|  | 328,647                       | 313,240                       | 297,310                       |
| % of total average liabilities attributable to overseas activities | 30.5%                         | 31.6%                         | 34.1%                         |
| <b>Total average shareholders equity</b>                           |                               |                               |                               |
| Ordinary share capital, reserves and retained earnings             | 19,637                        | 18,225                        | 17,263                        |
| Preference share capital   | 871                           | 871                           | 871                           |
|  | 20,508                        | 19,096                        | 18,134                        |
| <b>Total average liabilities and shareholders equity</b>           | <b>349,155</b>                | <b>332,336</b>                | <b>315,444</b>                |

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

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

|   |        |        |        |
|---|--------|--------|--------|
| <b>Australia</b>  |        |        |        |
| Gross interest spread                                   | 1.79   | 1.99   | 1.91   |
| Interest not recognised on impaired assets              | (0.01) | (0.01) | 0.00   |
| Net interest spread                                     | 1.78   | 1.98   | 1.91   |
| Interest attributable to net non-interest bearing items | 0.46   | 0.35   | 0.40   |
| Net interest margin - Australia                         | 2.24   | 2.33   | 2.31   |
| <b>New Zealand</b>                                      |        |        |        |
| 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   |
| <b>Overseas markets</b>                                 |        |        |        |
| 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   |
| <b>Group</b>  |        |        |        |
| 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   |

(1) Average interest rate received on interest earning assets

**15. Contingent liabilities, contingent assets and 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 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 either matured or 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.

### **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 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.

## **Commitments**

### **Property**

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 metres of office accommodation sufficient for 5,500 staff. The building is anticipated to cost approximately \$500 million and is due to be completed in the second half of 2009. This will be one of ANZ's core Melbourne properties.

### **Acquisitions**

On 19 February 2007, the Group announced a recommended \$268 million cash takeover offer for ETRADE Australia Limited of \$4.05 per share for the 65.8% of ETRADE Australia's issued capital that ANZ did not already own. On 23 April 2007, the Group announced an unconditional revised cash offer price of \$4.30 a share together with a scrip alternative of ANZ shares to an equivalent value. On 24 April 2007, the Group announced it had obtained a controlling interest in ETRADE Australia Limited.

As at 31 March 2007, the Group has entered into conditional contracts, subject to regulatory and shareholder approval(1), to acquire equity interests in the following entities:

AMMB Holdings Berhad in Malaysia for \$847 million

Shanghai Rural Commercial Bank in China for \$311 million

Citizens Security Bank in Guam for \$31 million



Vientiane Commercial Bank Limited in Laos for \$12 million

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(1) Shareholder approval has already been obtained for the proposed acquisition of Shanghai Rural Commercial Bank.

## 16. Note to the Cash Flow Statement

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

|   | Half<br>year<br>Mar 07<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Sep 06<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Mar 06<br>Inflows<br>(Outflows)<br>\$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  | (155)  |  |  |
| Provision for employee entitlements, restructuring and other provisions                       | 122  | 172  | 78   |
| Payments from provisions  | (198)  | (121)  | (102)  |
| (Profit) loss on sale of 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  | (13,067)   | (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   | 7,792  | 7,400  | 8,729  |
| Due to other financial institutions   | 993  | 700  | 1,159  |
| Payables and other liabilities  | (665)  | (474)  | 1,015  |
| Interest payable  | (15)   | 372  | 110  |
| Other   | (331)  | (39)   | (196)  |
| <b>Net cash (used in) operating activities</b>  | <b>(7,477)</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  |
|  | 18,254 | 20,344 | 16,845 |

**Non-cash financing and investment activities**

|                            |     |    |    |
|----------------------------|-----|----|----|
| 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<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| <b>Segment revenue(1)</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(2)                  | 542                           | 364                           | 308                           | 49%                              | 76%                              |
|                           | 5,613                         | 5,189                         | 4,963                         | 8%                               | 13%                              |
| <b>Segment result(3)</b>  |                               |                               |                               |                                  |                                  |
| Personal                  | 1,013                         | 933                           | 830                           | 9%                               | 22%                              |
| Institutional             | 1,070                         | 993                           | 971                           | 8%                               | 10%                              |
| New Zealand Businesses    | 515                           | 499                           | 499                           | 3%                               | 3%                               |
| Other(2)                  | 389                           | 235                           | 254                           | 66%                              | 53%                              |
|                           | 2,987                         | 2,660                         | 2,554                         | 12%                              | 17%                              |
| <b>Segment assets(4)</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(2)                  | 7,349                         | 14,204                        | 9,797                         | -48%                             | -25%                             |
|                           | 351,519                       | 334,387                       | 321,874                       | 5%                               | 9%                               |

(1) Segment revenue includes equity standardised net interest income and other operating income

(2) 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

(3) Segment result represents equity standardised profit before income tax expense

(4) Segment assets represents total external assets excluding deferred tax

**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 or the year to 30 September 2006.

**19. Associates, joint venture entities and investments**

|  | Half<br>year<br>Mar 07<br>\$M | Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$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(1)**

|  | Half<br>year<br>Mar 07<br>\$M | Contribution to<br>Group pre-tax profit<br>Half<br>year<br>Sep 06<br>\$M | Half<br>year<br>Mar 06<br>\$M | As at<br>Mar 07<br>% | Ownership interest<br>held by Group<br>As at<br>Sep 06<br>% | As at<br>Mar 06<br>% |
|--|-------------------------------|--|-------------------------------|----------------------|---|----------------------|
| <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<br>Tianjin City Commercial<br>Bank)(2) | 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                   |

(1) The results may differ from the published results of these entities due to the application of AIFRS and Group Policies

(2) 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:

| As at<br>Mar 07 | Balance Sheet<br>As at<br>Sep 06 | As at<br>Mar 06 | Half<br>year<br>Mar 07 | Profit and Loss Average<br>Half<br>year<br>Sep 06 | Half<br>year<br>Mar 06 |
|-----------------|----------------------------------|-----------------|------------------------|---|------------------------|
|-----------------|----------------------------------|-----------------|------------------------|---|------------------------|

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|                      |        |        |        |        |        |        |
|----------------------|--------|--------|--------|--------|--------|--------|
| 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**

On 23 April 2007, the Group announced an unconditional revised cash offer price of \$4.30 a share for the 65.8% of shares in ETRADE Australia Limited not owned by the Group together with a scrip alternative of ANZ shares to an equivalent value. On 24 April 2007, the Group announced it had obtained a controlling interest in ETRADE Australia Limited.

There have been no other 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 63 to 95 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.

**Charles Goode**  
*Chairman*

**John McFarlane**  
*Director*

26 April 2007



**AUDITORS' REVIEW REPORT AND INDEPENDENCE DECLARATION**

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 1 to 21 and the directors' declaration set out on pages 66 to 96 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 controls 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 auditors 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*.

**KPMG**  
*Melbourne*

**Michelle Hinchliffe**  
*Partner*

26 April 2007

**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.

**KPMG**

**Michelle Hinchliffe**

*Melbourne*

*Partner*

26 April 2007

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## SUPPLEMENTARY INFORMATION

## Capital Management

| Qualifying Capital                                |         | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|---------|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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 | (5,943)                | (5,274)                | (4,504)                | 13%                              | 32%                              |
| Transitional Tier 1 capital relief                |         | 716                    | 716                    |                        | 0%                               | n/a                              |
| <b>Tier 1 capital</b>                             |         | <b>16,796</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 | 8,398                  | 8,177                  | 7,416                  | 3%                               | 13%                              |
| <b>Tier 2 capital</b>                             |         | <b>10,718</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>25,704</b>          | <b>25,407</b>          | <b>24,019</b>          | <b>1%</b>                        | <b>7%</b>                        |
| <b>Adjusted Common Equity</b>                     |         |                        |                        |                        |                                  |                                  |
| Tier 1 capital                                    |         | 16,796                 | 16,357                 | 15,811                 | 3%                               | 6%                               |
| Less: Innovative Tier 1 capital instruments(1)    | 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>11,082</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%                               |

(1) Converted at balance date spot rates

|   | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <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                            |
| Total   | (2,120)                | (2,333)                | (1,888)                | -9%                              | 12%                              |

|  | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <b>Table 2: Deductions from Tier 1 capital</b>   |                        |                        |                        |                                  |                                  |
| 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   | (792)                  |                        |                        | n/a                              | n/a                              |
| Other adjustments  | 4                      | 9                      |                        | -56%                             | n/a                              |
| Total  | (5,943)                | (5,274)                | (4,504)                | 13%                              | 32%                              |

|   | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <b>Table 3: Upper Tier 2 capital</b>  |                        |                        |                        |                                  |                                  |
| 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                              |
| Total   | 2,320                  | 1,946                  | 1,737                  | 19%                              | 34%                              |

|   | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <b>Table 4: Subordinated notes</b>  |                        |                        |                        |                                  |                                  |
| 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 |                        |                        |                        |                                  |                                  |

|   | As at<br>Mar 07<br>\$M | As at<br>Sep 06<br>\$M | As at<br>Mar 06<br>\$M | Movt<br>Mar 07<br>v. Sep 06<br>% | Movt<br>Mar 07<br>v. Mar 06<br>% |
|---|------------------------|------------------------|------------------------|----------------------------------|----------------------------------|
| <b>Table 5: Deductions from Total capital</b>                                       |                        |                        |                        |                                  |                                  |
| 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                            |

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|  |         |         |         |     |      |
|--|---------|---------|---------|-----|------|
| Total                                    | (1,810) | (1,073) | (945)   | 69% | 92%  |
| <b>Table 6</b>                           |         |         |         |     |      |
| 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%   |
| Total                                    | (3,188) | (3,321) | (3,385) | -4% | -6%  |

|   | Assets         |                | Risk Weighted Assets |                |
|---|----------------|----------------|----------------------|----------------|
|   | Mar 2007       | Sep 2006       | Mar 2007             | Sep 2006       |
|   | \$M            | \$M            | \$M                  | \$M            |
| <b>Balance Sheet</b>  |                |                |                      |                |
| Zero risk weighted assets(1)                                  | 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 2007         | Sep 2006         | Mar 2007          | Sep 2006      | Mar 2007             | Sep 2006       |
|   | \$M              | \$M              | \$M               | \$M           | \$M                  | \$M            |
| <b>Off-balance sheet exposures(2)</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   | 104,906          | 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>1,618,464</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> |

(1) Includes \$2,114 million (Sep 2006: \$1,938 million) in assets of controlled entities consolidated on adoption of AIFRS excluded for risk weighting calculations for Australian Prudential Regulation Authority reporting purposes

(2) 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 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 exchange rate, interest rate, commodity and credit derivatives. It includes all contracts, both trading and hedging.

Notional principal amount is the face value of the contract and represents the volume of outstanding transactions. Fair value is the net position of contracts with positive market values and negative market values.

|   | Notional<br>Principal<br>amount<br>\$M | As at 31 March 2007 |                    |                       |                    |                  |                    |
|---|--|---------------------|--------------------|-----------------------|--------------------|------------------|--------------------|
|   |  | Trading             |                    | Fair Value<br>Hedging |                    | Total fair value |                    |
|   |  | Assets<br>\$M       | Liabilities<br>\$M | Assets<br>\$M         | Liabilities<br>\$M | Assets<br>\$M    | Liabilities<br>\$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                                   | 117,296                                | 3,177               | (3,764)            | 148                   | (148)              | 3,325            | (3,912)            |
| Futures contracts                                 | 882                                    | 84                  | (45)               |                       |                    | 84               | (45)               |
| Options purchased                                 | 8,946                                  | 274                 |                    |                       |                    | 274              |                    |
| Options sold                                      | 13,017                                 |                     | (195)              |                       |                    |                  | (195)              |
| Other contracts                                   | 8,505                                  | 930                 | (846)              |                       |                    | 930              | (846)              |
| Collateral(1)                                     |  | (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                                   | 748,041                                | 5,021               | (5,359)            | 555                   | (403)              | 5,576            | (5,762)            |
| Futures contracts                                 | 163,410                                | 403                 | (410)              | 3                     | (3)                | 406              | (413)              |
| Options purchased                                 | 32,077                                 | 159                 |                    |                       |                    | 159              |                    |
| Options sold                                      | 69,416                                 |                     | (151)              |                       |                    |                  | (151)              |
|   | 1,139,476                              | 5,589               | (5,927)            | 556                   | (406)              | 6,145            | (6,333)            |
| <b>Credit Contracts</b>                           |  |                     |                    |                       |                    |                  |                    |
| Credit default swaps                              | 37,076                                 | 108                 | (93)               |                       |                    | 108              | (93)               |
| <b>Total</b>                                      | 1,574,203                              | 11,551              | (13,053)           | 717                   | (554)              | 12,268           | (13,607)           |

(1) Collateral relates predominantly to Foreign Exchange contracts





As at 30 September 2006

|   | Notional<br>Principal<br>amount<br>\$M | Trading       |                    | Fair Value<br>Hedging |                    | Total fair value |                    |
|---|--|---------------|--------------------|-----------------------|--------------------|------------------|--------------------|
|   |  | Assets<br>\$M | Liabilities<br>\$M | Assets<br>\$M         | Liabilities<br>\$M | Assets<br>\$M    | Liabilities<br>\$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                                   | 110,638                                | 2,714         | (2,247)            | 114                   | (64)               | 2,828            | (2,311)            |
| Futures contracts                                 | 557                                    | 45            | (29)               |                       |                    | 45               | (29)               |
| Options purchased                                 | 9,166                                  | 259           |                    |                       |                    | 259              |                    |
| Options sold                                      | 13,916                                 |               | (202)              |                       |                    |                  | (202)              |
| Other contracts                                   | 7,397                                  | 1,055         | (916)              |                       |                    | 1,055            | (916)              |
| Collateral(1)                                     |  | (1,279)       | 1,256              |                       |                    | (1,279)          | 1,256              |
|   | 359,196                                | 4,848         | (4,333)            | 115                   | (98)               | 4,963            | (4,431)            |
| <b>Interest rate contracts</b>                    |  |               |                    |                       |                    |                  |                    |
| Forward rate agreements                           | 96,147                                 | 14            | (10)               |                       |                    | 14               | (10)               |
| Swap agreements                                   | 589,135                                | 3,296         | (3,566)            | 423                   | (324)              | 3,719            | (3,890)            |
| Futures contracts                                 | 99,184                                 | 249           | (242)              | 2                     | (2)                | 251              | (244)              |
| Options purchased                                 | 17,733                                 | 141           |                    |                       |                    | 141              |                    |
| Options sold                                      | 33,638                                 |               | (100)              |                       |                    |                  | (100)              |
|   | 835,837                                | 3,700         | (3,918)            | 425                   | (326)              | 4,125            | (4,244)            |
| <b>Credit Contracts</b>                           |  |               |                    |                       |                    |                  |                    |
| Credit default swaps                              | 23,965                                 | 76            | (78)               |                       |                    | 76               | (78)               |
| <b>Total</b>                                      | 1,218,998                              | 8,624         | (8,329)            | 540                   | (424)              | 9,164            | (8,753)            |

(1) Collateral relates predominantly to Foreign Exchange contracts

**DEFINITIONS**

**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 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.

**Relationships & Infrastructure** includes Institutional Banking, Financial Institutions, Corporate Banking and Personal & Private Banking Asia.

## **New Zealand Businesses**

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.

**National Bank 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 NZD100 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 lives. 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 Pricing)** 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 deferred 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 substantial 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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