

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD  
Form 6-K  
September 11, 2006

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

---

**FORM 6-K**

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

11 September 2006

**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.

Yes:  No:

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

This Report on Form 6-K shall be deemed to be incorporated by reference in the prospectus included in the Registration Statement on Form F-3 (No. 333 - 113524) of Australia and New Zealand Banking Group Limited and to be part thereof from the date on which this Report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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.

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

*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: 11 September 2006

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

---

**Australia and New Zealand  
Banking Group Limited**

ABN 11 005 357 522

# *Consolidated Financial Report*

**Half Year**  
**31 March 2006**

**CONSOLIDATED FINANCIAL REPORT**

Half year ended 31 March 2006

<i>CONTENTS</i>	<i>PAGE</i>
<b><u>HIGHLIGHTS</u></b>	<b>1</b>
<b><u>FINANCIAL HIGHLIGHTS</u></b>	<b>2</b>
<u>Net Profit</u>	2
<u>Profit on a fully comparable AIFRS basis</u>	2
<u>Cash profit</u>	2
<u>Earnings per share</u>	3
<u>Balance Sheet</u>	3
<u>Financial Ratios</u>	4
<u>Net profit by business unit</u>	6
<b><u>CHIEF FINANCIAL OFFICER'S REVIEW</u></b>	<b>8</b>
<u>March 2006 half year compared to September 2005 half year</u>	8
<u>March 2006 half year compared to March 2005 half year</u>	10
<u>Cash profit / non core items</u>	11
<u>AIFRS 2005 adjustments</u>	11
<u>Summary of major AIFRS impacts</u>	12
<u>Reconciliation of Net Profit to Cash Profit</u>	14
<u>Income and expenses</u>	15
<u>Earnings per share</u>	22
<u>Dividends</u>	23
<u>EVA Reconciliation</u>	23
<u>Credit Risk</u>	25
<u>Market Risk</u>	28
<u>Balance Sheet</u>	29
<u>Capital Management</u>	31
<u>ANZ National Bank - Integration</u>	33
<u>ING Australia performance</u>	34
<u>ING New Zealand joint venture</u>	36
<u>Deferred acquisition costs and deferred income</u>	36
<u>Software capitalisation</u>	37
<b><u>BUSINESS PERFORMANCE REVIEW</u></b>	<b>38</b>
<b><u>GEOGRAPHIC SEGMENT PERFORMANCE</u></b>	<b>51</b>
<b><u>FOUR YEAR SUMMARY BY HALF YEAR</u></b>	<b>52</b>
<b><u>CONSOLIDATED FINANCIAL STATEMENTS TABLE OF CONTENTS</u></b>	<b>55</b>
<b><u>DEFINITIONS</u></b>	<b>124</b>
<b><u>ALPHABETICAL INDEX</u></b>	<b>126</b>

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 Executive Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 11 September 2006.

When used in this Results Announcement the words estimate, project, intend, anticipate, believe, expect, should and similar expressions, as they relate to 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.



*HIGHLIGHTS*

**ANZ interim profit \$1,811 million**

All figures compared to March 2005 half year unless otherwise indicated

**Profit after tax**

•	<b>Statutory profit \$1,811 million</b>	<b>up 16%</b>
•	<b>Cash* profit \$1,731 million</b>	<b>up 10%</b>
•	<b>Cash* profit before provisions</b>	<b>up 10%</b>

<b>Earnings per share</b>		
•	<b>EPS 98.4 cents</b>	<b>up 18%</b>
•	<b>Cash* EPS 94.0 cents 1</b>	<b>up 10%</b>

<b>Dividend</b>		
•	<b>Interim dividend 56 cents</b>	<b>up 10%</b>

<b>Ratios</b>		
•	<b>Return on equity 20.9% (18.3%)</b>	
•	<b>Adjusted common equity ratio stable at 5.0% 2</b>	

<b>Business comment</b>		
•	<b>Earnings increased 16% in Personal Banking, record lead in customer satisfaction</b>	
•	<b>Earnings increased 14% in New Zealand and Institutional</b>	
•	<b>Continued frontline investment with 1,231 additional FTE</b>	
•	<b>Provision for credit impairment at cyclical low</b>	
•	<b>Growth and Transformation program on track</b>	
	<b>- Revenue* growth 8%</b>	(target range 7% - 9%)
	<b>- Cost-Income* ratio 45.8%</b>	(1.0% improvement)

\* Adjusted for AIFRS 2005 adjustments and non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses). Refer pages 13 and 14 of enclosed report for a detailed reconciliation of GAAP figures to non GAAP cash figures. Refer page 11 for a discussion of why management believe measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations.

1. Refer page 22

2. Adjusted common equity is calculated as Tier 1 capital less preference shares at current rates and deductions from total capital. This measure is commonly used to assess the adequacy of common equity held. Refer page 31 for a reconciliation to Tier 1 capital





*FINANCIAL HIGHLIGHTS*

**Net Profit**

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

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
Net interest income	3,368	2,953	2,865	14%	18%
Other operating income	1,595	1,861	1,717	-14%	-7%
Operating income	4,963	4,814	4,582	3%	8%
Operating expenses	(2,185)	(2,266)	(2,152)	-4%	2%
Profit before credit impairment and income tax	2,778	2,548	2,430	9%	14%
Provision for credit impairment	(224)	(296)	(284)	-24%	-21%
<b>Profit before income tax</b>	<b>2,554</b>	<b>2,252</b>	<b>2,146</b>	<b>13%</b>	<b>19%</b>
Income tax expense	(742)	(630)	(590)	18%	26%
Minority interest	(1)	(2)	(1)	-50%	0%
<b>Net profit attributable to shareholders of the Company</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>

**Profit on a fully comparable AIFRS basis**

Net profit attributable to shareholders of the company has been amended as follows to arrive at profit on a fully comparable AIFRS basis.

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
<b>Net profit attributable to shareholders of the Company</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>
AIFRS adjustments to bring prior periods onto a fully comparable basis <sup>1</sup>	N/A	(46)	15	n/a	n/a
<b>Profit on a fully comparable AIFRS basis<sup>1,5</sup></b>	<b>1,811</b>	<b>1,574</b>	<b>1,570</b>	<b>15%</b>	<b>15%</b>

**Cash profit**

Profit on a fully comparable AIFRS basis 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 AIFRS basis.

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
<b>Profit on a fully comparable AIFRS basis<sup>1</sup></b>	<b>1,811</b>	<b>1,574</b>	<b>1,570</b>	<b>15%</b>	<b>15%</b>
<b>Non-core items</b>					
<u>Significant items<sup>2</sup></u>					
Gain on sale of NBNZ Life	-	14	-	n/a	n/a
Settlement of NBNZ warranty claims	14	-	-	n/a	n/a
Settlement of NHB insurance claim	79	-	-	n/a	n/a
Total significant items <sup>2</sup>	93	14	-	large	n/a
Fair value hedge gains/losses <sup>3</sup>	13	12	19	8%	-32%
NBNZ incremental integration costs after tax <sup>2,4</sup>	(26)	(35)	(17)	-26%	53%
<b>Total non-core items</b>	<b>80</b>	<b>(9)</b>	<b>2</b>	<b>large</b>	<b>large</b>
<b>Cash profit<sup>6,7</sup></b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>	<b>9%</b>	<b>10%</b>

1. ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer pages 11 to 14), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability
2. In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the National Housing Bank (NHB) insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11)
3. In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) 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, profit or loss on disposal of investment securities, and fair value movement in bonds and notes designated at fair value as a non-core item. ANZ excludes volatility

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

*associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$5 million; Mar 2005: \$8 million))*

4. *In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11)*
5. *Refer page 13 for a reconciliation of Profit on a fully comparable AIFRS basis to Net Profit*
6. *Refer page 14 for a reconciliation of Cash Profit to Net Profit*
7. *Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations*

2

---

*FINANCIAL HIGHLIGHTS (continued)*

Cash profit, cont d

Analysis of Cash1 profit by key line item:

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	3,368	3,231	3,140	4%	7%
Other operating income	1,563	1,528	1,407	2%	11%
Operating income	4,931	4,759	4,547	4%	8%
Operating expenses	(2,259)	(2,213)	(2,127)	2%	6%
Profit before credit impairment and income tax	2,672	2,546	2,420	5%	10%
Provision for credit impairment	(224)	(325)	(240)	-31%	-7%
<b>Profit before income tax</b>	<b>2,448</b>	<b>2,221</b>	<b>2,180</b>	<b>10%</b>	<b>12%</b>
Income tax expense	(716)	(636)	(611)	13%	17%
Minority interest	(1)	(2)	(1)	-50%	0%
<b>Cash1 profit<sup>2,3</sup></b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>	<b>9%</b>	<b>10%</b>
<b>Earnings per share</b>					
	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Earnings per ordinary share (cents)</b>					
Basic	98.4	86.3	83.2	14%	18%
Diluted	96.1	84.3	80.6	14%	19%
Cash1 (basic adjusted for non-core items) <sup>3,4</sup>	94.0	86.1	85.7	9%	10%

1. ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer pages 11 to 14), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability

In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11)

In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) 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, profit or loss on disposal of investment securities, and fair value movement in bonds and notes designated at fair value as a non-core item. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$5 million; Mar 2005: \$8 million))

In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11)

2. Refer page 14 for a reconciliation to Net Profit

3. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ's financial condition and results of operations

4. Refer page 22

**Balance Sheet**

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

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
<b>Assets</b>					
Liquid assets	13,870	11,601	8,856	20%	57%
Due from other financial institutions	8,336	6,348	6,428	31%	30%
Trading and available for sale assets	22,008	16,327	15,694	35%	40%
Net loans and advances including acceptances	255,238	245,939	233,316	4%	9%
Other	19,911	17,889	18,490	11%	8%
<b>Total assets</b>	<b>319,363</b>	<b>298,104</b>	<b>282,784</b>	<b>7%</b>	<b>13%</b>
<b>Liabilities</b>					
Due to other financial institutions	13,345	12,027	10,056	11%	33%
Deposits and other borrowings	196,850	190,322	185,177	3%	6%
Liability for acceptances	13,692	13,449	12,922	2%	6%
Bonds and notes	46,923	39,073	32,321	20%	45%
Other	29,757	23,695	23,381	26%	27%
<b>Total liabilities</b>	<b>300,567</b>	<b>278,566</b>	<b>263,857</b>	<b>8%</b>	<b>14%</b>
<b>Total shareholders equity</b>	<b>18,796</b>	<b>19,538</b>	<b>18,927</b>	<b>-4%</b>	<b>-1%</b>

3



*FINANCIAL HIGHLIGHTS (continued)*

## Financial Ratios

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M
<b>Net profit attributable to shareholders of the Company</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>
<b>Cash1 profit</b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>
<b>EVA TM 2</b>	<b>1,013</b>	<b>991</b>	<b>920</b>
<b>Profitability ratios</b>			
Return on:			
Average ordinary shareholders equity <sup>3,4</sup>	20.9%	18.3%	18.3%
Average ordinary shareholders equity <sup>3,4</sup> (cash1 earnings basis)	20.0%	19.0%	19.0%
Average assets	1.15%	1.10%	1.14%
Average risk weighted assets <sup>4</sup>	1.60%	1.50%	1.54%
Average risk weighted assets <sup>4</sup> (cash1 earnings basis)	1.53%	1.47%	1.55%
Total income <sup>4</sup>	14.5%	14.1%	15.0%
Net interest margin	2.29%	2.26%	2.36%
Net interest margin (cash1 earnings basis)	2.29%	2.36%	2.46%
Profit per average FTE (\$)	58,202	53,097	53,161
<b>Efficiency ratios</b>			
Operating expenses to operating income	44.0%	47.1%	47.0%
Operating expenses to average assets	1.39%	1.54%	1.57%
Operating expenses to operating income (cash1 earnings basis)	45.8%	46.5%	46.8%
Operating expenses to average assets (cash1 earnings basis)	1.44%	1.50%	1.55%
<b>Credit impairment provisioning</b>			
Collective/general provision charge (\$M)	36	90	133
Individual/specific provision charge (\$M)	188	206	151
Total provision charge (\$M)	224	296	284
Total provision charge (on fully comparable AIFRS basis)	224	325	240
Collective provision charge (fully comparable AIFRS basis)	36	119	89
Individual provision charge (fully comparable AIFRS basis)	188	206	151
<b>Ordinary share dividends (cents)</b>			
Interim - 100% franked (Mar 05: 100% franked)	56	n/a	51
Final - 100% franked	N/A	59	n/a
Ordinary share dividend payout ratio <sup>5</sup>	56.9%	68.4%	61.3%
Cash1 ordinary share dividend payout ratios	59.6%	68.6%	59.5%
<b>Preference share dividend</b>			
Dividend paid (\$M) <sup>6</sup>	12	46	38
Dividend paid (\$M) <sup>7</sup> (on fully comparable AIFRS basis)	12	12	6

- Adjusted for AIFRS 2005 adjustments and non-core items. Refer footnote 1 page 3. Refer pages 13 and 14 of enclosed report for a detailed reconciliation of GAAP figures to non GAAP cash figures. Refer page 11 for a discussion of why management believe measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations.
- EVATM refers to Economic Value Added, a measure of shareholder value. See page 23 for a reconciliation of EVATM to reported net profit and a discussion of EVATM and an explanation of its usefulness as a performance measure
- Average ordinary shareholders equity excludes minority interest
- Excludes preference share dividend
- Dividend payout ratio is calculated using the proposed interim dividend as at 31 March 2006 and the 30 September 2005 and 31 March 2005 dividends
- 2005 includes distributions on ANZ StEPS (Sep 2005: \$34 million; Mar 2005: \$32 million). Under AIFRS, distributions on ANZ StEPS are reported as interest expense in March 2006
- Represents dividends paid on Euro Hybrid

4

*FINANCIAL HIGHLIGHTS (continued)*

## Financial Ratios, cont d

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Net Assets</b>					
Net tangible assets <sup>1</sup> per ordinary share (\$)	8.00	7.77	7.38	3%	8%
Net tangible assets <sup>1</sup> attributable to ordinary shareholders (\$M)	14,622	14,199	13,443	3%	9%
Total number of ordinary shares (M)	1,828.7	1,826.4	1,822.7	0%	0%
<b>Capital adequacy ratio (%)</b>					
Tier 1	6.8%	6.9%	7.0%		
Tier 2	4.0%	3.9%	3.6%		
Total capital ratio	10.4%	10.5%	10.3%		
Adjusted common equity ratio <sup>2</sup>	5.0%	5.1%	5.1%		
<b>Impaired assets</b>					
Collective/general provision (\$M)	1,903	2,167	2,080	-12%	-9%
Collective/general provision as a % of risk weighted assets	0.83%	0.99%	0.99%		
Collective/general provision <sup>3</sup> on fully comparable AIFRS basis (\$M)	1,903	1,879	1,768	1%	8%
Collective/general provision <sup>3</sup> on fully comparable AIFRS basis as a % of risk weighted assets	0.83%	0.86%	0.84%		
Gross impaired loans (\$M)	726	642	640	13%	13%
Individual provisions on impaired loans <sup>4</sup> (\$M)	(305)	(256)	(314)	19%	-3%
Net impaired loans	421	386	326	9%	29%
Individual provision as a % of total impaired loans	42.0%	39.9%	49.1%		
Gross impaired loans as % of net advances	0.28%	0.26%	0.27%		
Net impaired loans as a % of net advances	0.16%	0.16%	0.14%		
Net impaired loans as a % of shareholders' equity <sup>5</sup>	2.2%	2.0%	1.7%		
<b>Other information</b>					
Full time equivalent staff (FTEs)	31,063	30,976	29,832	0%	4%
Assets per FTE (\$M)	10.3	9.6	9.5	7%	8%
Market capitalisation of ordinary shares (\$M)	48,461	43,834	37,584	11%	29%

1. Equals Shareholders' equity less preference share capital, minority interest and unamortised intangibles
2. Adjusted common equity is calculated as Tier 1 capital less preference shares at current rates and deductions from total capital. This measure is commonly used to assess the adequacy of common equity held. See page 31 for a reconciliation to Tier 1 capital
3. Refer footnote 1 page 3. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations
4. Excludes individual provision on unproductive facilities
5. Includes minority interest

5

*FINANCIAL HIGHLIGHTS (continued)*

## Net profit by business unit

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v Sep 05 %	Movt Mar 06 v Mar 05 %
<b>Net profit after income tax</b>					
Personal Banking Australia	542	485	468	12%	16%
Institutional	486	461	450	5%	8%
New Zealand Business	335	265	295	26%	14%
Corporate Australia	212	194	182	9%	16%
Esanda and UDC	53	55	66	-4%	-20%
Asia Pacific	46	44	39	5%	18%
Non continuing business	30	63	63	-52%	-52%
Group centre	107	53	(8)	large	large
<b>Net profit</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Net profit after income tax</b>					
Personal Banking Australia	542	485	468	12%	16%
Institutional	486	461	450	5%	8%
New Zealand Businesses	335	265	295	26%	14%
Corporate Australia	212	194	182	9%	16%
Esanda and UDC	53	55	66	-4%	-20%
Asia Pacific	46	44	39	5%	18%
Non-continuing businesses	30	63	63	-52%	-52%
Group Centre	27	16	5	69%	large
<b>Cash1 profit</b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>	<b>9%</b>	<b>10%</b>
AIFRS 2005 adjustments <sup>1</sup> and non-core items <sup>1</sup>	80	37	(13)	large	large
<b>Net profit</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>

1. Refer footnote 1 page 3. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations

## Net loans and advances including acceptances by business unit

	As at Mar 06 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Personal Banking Australia	112,212	105,681	99,681	6%	13%
Institutional	46,344	43,404	40,168	7%	15%
New Zealand Businesses <sup>1</sup>	55,441	55,152	52,094	1%	6%
Corporate Australia	23,941	22,793	21,655	5%	11%
Esanda and UDC	14,365	14,186	13,749	1%	4%
Asia Pacific	2,069	1,777	1,615	16%	28%
Non-continuing businesses	822	1,584	3,091	-48%	-73%
Group Centre	44	1,362	1,263	-97%	-97%
<b>Net loans and advances including acceptances</b>	<b>255,238</b>	<b>245,939</b>	<b>233,316</b>	<b>4%</b>	<b>9%</b>

1. New Zealand businesses growth rates in NZD terms were 7% and 14% on September 2005 and March 2005 respectively

*FINANCIAL HIGHLIGHTS (continued)*

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

Deposits and other borrowings by business unit

	As at Mar 06 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Personal Banking Australia	46,261	43,773	41,750	6%	11%
Institutional	36,205	32,403	31,886	12%	14%
New Zealand Businesses I	42,127	46,078	46,470	-9%	-9%
Corporate Australia	18,987	18,091	17,070	5%	11%
Esanda and UDC	13,409	12,907	12,167	4%	10%
Asia Pacific	6,032	5,602	5,305	8%	14%
Other	33,829	31,432	29,883	8%	13%
Non-continuing businesses	-	36	647	-100%	-100%
<b>Deposits and other borrowings</b>	<b>196,850</b>	<b>190,322</b>	<b>185,177</b>	<b>3%</b>	<b>6%</b>



*1. New Zealand businesses growth rates in NZD terms were -3% and -3% on September 2005 and March 2005 respectively*

7

---

*CHIEF FINANCIAL OFFICER'S REVIEW*

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

## March 2006 half year compared to September 2005 half year

ANZ recorded a profit after tax of \$1,811 million for the half year ended 31 March 2006, an increase of 12% over the September 2005 half year. After adjusting for AIFRS 2005 adjustments<sup>1</sup> and non-core items<sup>1</sup> referred to on pages 11 to 14, cash<sup>1</sup> profit increased 9% to \$1,731 million. Earnings per share increased 14.0% to 98.4 cents over the September 2005 half. After adjusting AIFRS 2005 adjustments and non-core items<sup>1</sup> Cash EPS increased 9.2% to 94.0 cents.

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Net profit attributable to shareholders of the Company</b>	<b>1,811</b>	1,620	1,555	12%	16%
AIFRS 2005 Adjustments <sup>1</sup>	N/A	(46)	15	n/a	n/a
<b>Profit on a fully comparable AIFRS basis</b>	<b>1,811</b>	1,574	1,570	15%	15%
Less: Non-core items <sup>1</sup>	(80)	) 9	(2)	large	large
<b>Cash<sup>1</sup> profit</b>	<b>1,731</b>	1,583	1,568	9%	10%
<b>Net profit</b>					

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	3,368	2,953	2,865	14%	18%
Other operating income	1,595	1,861	1,717	-14%	-7%
Operating income	4,963	4,814	4,582	3%	8%
Operating expenses	(2,185)	(2,266)	(2,152)	-4%	2%
Profit before credit impairment and income tax	2,778	2,548	2,430	9%	14%
Provision for credit impairment	(224)	(296)	(284)	-24%	-21%
<b>Profit before income tax</b>	<b>2,554</b>	2,252	2,146	13%	19%
Income tax expense	(742)	(630)	(590)	18%	26%
Minority interest	(1)	(2)	(1)	-50%	0%
<b>Net Profit</b>	<b>1,811</b>	1,620	1,555	12%	16%

1. ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer page 11 to 14), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability.

In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11).

In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) on economic hedges as a non-core item. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$5 million; Mar 2005: \$8 million)).

In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11).

### Profit growth

Profit increased 12% to \$1,811 million. Revenue increased 14% with volume growth partly offset by reduced margins (-7 basis points). Operating expense growth was contained to 2%.

Profit in Australia increased 8% over the September 2005 half year with strong growth in Personal (12%) and Corporate (9%). Profit in Esanda reduced 9%.

Profit in New Zealand increased 24% (25% in NZD terms) with higher lending volumes, a strong performance in the Markets business in Institutional, lower provisions in Corporate Banking and increased earnings on additional equity capital. These increases were partly offset by reduced earnings in UDC and lower earnings in non-continuing businesses from certain structured finance transactions which have been exited. Profit in Asia Pacific increased 9%, driven by volume growth in Fiji, PNG and the Indonesian cards business being partly offset by lower earnings from PT Panin Bank.

Profit in the UK and US decreased driven by reduced profit in non-continuing businesses with the sale of the London headquartered project finance business in 2005 and repatriation of capital.



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Cash1 profit

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	3,368	3,231	3,140	4%	7%
Other operating income	1,563	1,528	1,407	2%	11%
Operating income	4,931	4,759	4,547	4%	8%
Operating expenses	(2,259)	(2,213)	(2,127)	2%	6%
Profit before credit impairment and income tax	2,672	2,546	2,420	5%	10%
Provision for credit impairment	(224)	(325)	(240)	-31%	-7%
<b>Profit before income tax</b>	<b>2,448</b>	<b>2,221</b>	<b>2,180</b>	<b>10%</b>	<b>12%</b>
Income tax expense	(716)	(636)	(611)	13%	17%
Minority interest	(1)	(2)	(1)	-50%	0%
<b>Cash1 profit<sup>2,3</sup></b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>	<b>9%</b>	<b>10%</b>

- ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer page 11 to 14), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability.

In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11).

In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) on economic hedges as a non-core item. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$5 million; Mar 2005: \$8 million)).

In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11).
- Refer page 14 for a reconciliation to Net Profit
- Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ's financial condition and results of operations.

## Profit growth

Cash profit increased 9% to \$1,731 million. Core1 revenue increased 4% with volume growth partly offset by reduced margins (-7 basis points). Operating expense growth was contained to 2%.

Cash profit in Australia increased 6% over the September 2005 half year with strong growth in Personal (12%) and Corporate (9%). Profit in Esanda reduced 9%.

Cash profit in New Zealand increased 31% (32% in NZD terms) with higher lending volumes, a strong performance in the Markets business in Institutional, lower provisions in Corporate Banking and increased earnings on additional equity capital. These increases were partly offset by reduced earnings in UDC and lower earnings in non-continuing businesses from certain structured finance transactions which have been exited. Profit in Asia Pacific increased 7%, driven by volume growth in Fiji, PNG and the Indonesian cards business being partly offset by lower earnings from PT Panin Bank.

Profit in the UK and US decreased driven by reduced profit in non-continuing businesses with the sale of the London headquartered project finance business in 2005 and repatriation of capital.

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**March 2006 half year compared to September 2005 half year, continued**

**Profit drivers**

Profit after tax increased 12% over the September 2005 half year. Cash profit increased 9% over the September 2005 half. For a discussion of the impact of non-core items and AIFRS 2005 adjustments refer pages 11 to 14.

Significant influences on profit are shown below.

**Net interest  $\uparrow$ 14% - Adjusted for AIFRS 2005 adjustments and non-core items  $\uparrow$ 4%:**

Net interest income was driven by growth of 6% in interest earning assets, particularly in Institutional (13%), Personal (6%) largely in Mortgages, New Zealand businesses (5%) and Asia Pacific (29%), and deposit growth in Personal (4%), Corporate (5%) and Asia Pacific (9%). Volume growth was partly offset by a 7 basis point decline in margin.

**Other income  $\uparrow$ 14% - Adjusted for AIFRS 2005 adjustments and non-core items  $\uparrow$ 2%:**

Other income growth was driven by volume-related growth in fees and higher profit on trading securities with a strong March half result in New Zealand. These increases were partly offset by reduced foreign exchange income, lower equity accounted income in PT Panin and reduced income in Esanda largely from a reduction in residual values of leased vehicles. Other income is seasonally weaker in the September half.

**Operating expenses  $\uparrow$ 4% - Adjusted for AIFRS 2005 adjustments and non-core items  $\uparrow$ 2%:**

Operating expenses increased slightly reflecting a 2% increase in average staff numbers, largely in Personal and Institutional, offset by reduced costs in the Group Centre.

**Provision for credit impairment  $\downarrow$ 24% - Adjusted for AIFRS 2005 adjustments and non-core items  $\downarrow$ 31%:**

The reduction in Provision for credit impairment reflected the Group's strengthening risk profile. Individual provisions reduced \$18 million with a lower number of large single name losses and low levels of default in New Zealand. This was partly offset by the September 2005 half including several large write-backs and recoveries. Collective provisions reduced \$83 million, with a lower provision for oil price shock risk.

**Income tax  $\uparrow$ 18% - Adjusted for AIFRS 2005 adjustments and non-core items  $\uparrow$ 13%:**

The increase in tax expense is driven by growth in profit before tax and a 0.6% increase in the effective tax rate following the run-off of certain structured financing transactions and higher earnings in higher tax rate jurisdictions.

**Exchange rates  $\uparrow$ 1%**

The depreciation of the AUD has resulted in a \$5 million increase in the contribution from earnings denominated in foreign currencies, principally New Zealand (net of profit on contracts put in place to hedge USD and NZD revenues). Whilst the average NZD exchange rate moved by only 1%, the closing rate had depreciated by 6% with a corresponding impact on the balance sheet.

<sup>1</sup> Refer footnote 1 on page 8

**March 2006 half year compared to March 2005 half year**

The Group recorded a profit after tax of \$1,811 million for the half year ended 31 March 2006, an increase of 16% over the March 2005 half. Cash profit increased 10% over the March 2005 half.

Basic earnings per share increased 18% (15.2 cents) to 98.4 cents. Cash earnings per share (refer page 22) increased 10% (8.3 cents) to 94.0 cents.

Revenue increased 8%. After adjusting for AIFRS 2005 adjustments and non-core items, net interest increased 7% with a 14% increase in average interest earning asset volumes partly offset by a 17 basis point reduction in margin. Other operating income increased 11% with a strong performance in Institutional. Operating costs increased 6% driven by investment in staff principally in 2005.

After adjusting for AIFRS 2005 adjustments and non-core items, cash profit in Australia increased 9%, driven by 16% growth in Personal and 16% growth in Corporate. Cash profit in New Zealand increased 16% in NZD terms including 8% as a result of a lower credit impairment charge. Profit increased by 14% in New Zealand Businesses, 8% in Institutional and higher earnings on capital offset reduced profit in UDC and non-continuing businesses. Cash profit in the Asia Pacific geographies increased 26% with volume related growth and lower credit impairment provisioning. Other geographies reduced 10% reflecting the sale of the London headquartered project finance business in 2005.



**CHIEF FINANCIAL OFFICER'S REVIEW (continued)****Cash profit / non-core items**

In calculating cash profit, ANZ has adjusted the income statement for non-core items, as outlined below, to assist readers 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 will not be incurred going forward, the timing differences in the recognition of fair value gains in profit on hedging contracts and the move to the Australian equivalents of International Financial Reporting Standards (AIFRS) which has resulted in different recognition criteria in the March 2006 half than used in the 2005 financial year.

**Non-core items in the profit and loss**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Mar 06 v. Sep 05 %	Mar 06 v. Mar 05 %
<b>Significant items</b>					
Gain on sale of NBNZ Life	-	14	-	-100%	n/a
Settlement of NBNZ warranty claims	14	-	-	n/a	n/a
Settlement of NHB insurance claim	79	-	-	n/a	n/a
Total significant items	93	14	-	large	n/a
Fair value hedge gains/losses	13	12	19	8%	-32%
NBNZ incremental integration costs after tax	(26)	(35)	(17)	-26%	53%
<b>Non-core items</b>	<b>80</b>	<b>(9)</b>	<b>2</b>	<b>large</b>	<b>large</b>

§ **Significant items**

Significant items in the profit and loss 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:

- **Settlement of the NHB insurance claim (March 2006 half year)**

During the March 2006 half ANZ settled its \$130 million claim with a number of reinsurers over the 1992 and 2002 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 warranty claims (March 2006 half year)**

As part of the purchase of the National Bank of New Zealand on 1 December 2003, Lloyds TSB provided ANZ with certain warranties. A claim was made under these warranties in relation to the accounting treatment in the Completion Accounts of the provision for retirement gratuities. As a result of the mediation of this claim, ANZ National Bank received in the March 2006 half \$14 million pre-tax revenue (\$14 million after tax) on final settlement of the claim.

- **Sale of NBNZ Life and Funds Management (September 2005 half year)**

On 30 September 2005 ANZ National Bank sold NBNZ Life and Funds Management businesses into a joint venture with ING. Profit after tax on sale of \$14 million was recognised.

§ **ANZ National Bank incremental integration costs**

Expenditure on the integration of ANZ National Bank includes both the reallocation of existing resources to integration and incremental integration costs. Incremental costs are those costs that will not recur once integration is complete and thus do not form part of the core ongoing cost base. During the March 2006 half year \$26 million after tax (Sep 2005 half: \$35 million; Mar 2005: \$17 million) or \$39 million before tax (Sep 2005 half: \$53 million; Mar 2005 half: \$25 million) of incremental integration costs were incurred. This program is now complete.

§ **Fair Value hedging gains**

As at 1 October 2005, the Group has designated certain fair value hedges and financial liabilities as fair value through profit and loss. Any hedge ineffectiveness will result in volatility through the Income Statement. ANZ has separately reported the impact of volatility due to hedge ineffectiveness as a non-core item as the profit reported on hedge transactions will reverse over time and as such is not part of the core operating performance. During the March 2006 half year



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

\$13 million (Sep 2005: \$12 million; Mar 2005: \$19 million) after tax or \$18 million (Sep 2005: \$17 million; Mar 2005: \$27 million) before tax profit has been reported as a non-core item.

### **AIFRS 2005 adjustments**

The Group implemented accounting policies in accordance with AIFRS on 1 October 2004, except for those relating to financial instruments and insurance contracts, which were implemented on 1 October 2005. The 2005 comparatives for these standards have not been restated in the statutory accounts. To assist readers understand the core business performance on a comparable basis, ANZ has adjusted the 2005 figures to be comparable with the March 2006 half year result within the Chief Financial Officer's and Business Performance Reviews. The major adjustments are to the provision for credit impairment and recognition of fees as effective yield adjustments to net interest. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability and as there is no impact on cash. Ineffectiveness on these hedges was trivial on the March 2006 half year.

11

---

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Summary of major AIFRS impacts

The following table reconciles fully comparable AIFRS values with equivalents calculated under previous AGAAP.

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
	\$M	\$M	\$M		
<b>Net interest income (previous AGAAP)</b>	<b>3,069</b>	<b>2,945</b>	<b>2,853</b>	<b>4%</b>	<b>8%</b>
Fees recognised as an adjustment to yield <sup>1</sup>	318	313	309	2%	3%
Reclassified hybrid financial instruments <sup>2</sup>	(33)	(34)	(32)	-3%	3%
Securitisation and SPVs	16	9	12	78%	33%
Amortisation of STEPS issue costs	(2)	(2)	(2)	0%	0%
<b>Net interest income (fully comparable AIFRS basis)</b>	<b>3,368</b>	<b>3,231</b>	<b>3,140</b>	<b>4%</b>	<b>7%</b>
<b>Other operating income (previous AGAAP)</b>	<b>1,872</b>	<b>1,848</b>	<b>1,704</b>	<b>1%</b>	<b>10%</b>
Fees recognised as an adjustment to yield <sup>1</sup>	(300)	(326)	(309)	-8%	-3%
Derivatives and hedging <sup>3</sup>	18	17	27	6%	-33%
Notional goodwill amortisation in joint ventures and associates <sup>4</sup>	22	22	23	0%	-4%
Securitisation and SPVs	(11)	(8)	(11)	38%	0%
Accounting for INGA	(6)	6	-	large	n/a
<b>Other operating income (fully comparable AIFRS basis)</b>	<b>1,595</b>	<b>1,559</b>	<b>1,434</b>	<b>2%</b>	<b>11%</b>
<b>Operating income (previous AGAAP)</b>	<b>4,941</b>	<b>4,793</b>	<b>4,557</b>	<b>3%</b>	<b>8%</b>
Total AIFRS income adjustments	22	(3)	17	large	29%
<b>Operating income (fully comparable AIFRS basis)</b>	<b>4,963</b>	<b>4,790</b>	<b>4,574</b>	<b>4%</b>	<b>9%</b>
<b>Operating expenses (previous AGAAP)</b>	<b>(2,233)</b>	<b>(2,315)</b>	<b>(2,200)</b>	<b>-4%</b>	<b>2%</b>
Goodwill amortisation <sup>5</sup>	90	92	87	-2%	3%
Share based payments expense <sup>6</sup>	(38)	(41)	(39)	-7%	-3%
Other	(4)	(2)	-	100%	n/a
<b>Operating expenses (fully comparable AIFRS basis)</b>	<b>(2,185)</b>	<b>(2,266)</b>	<b>(2,152)</b>	<b>-4%</b>	<b>2%</b>
<b>Profit before credit impairment and income tax (previous AGAAP)</b>	<b>2,708</b>	<b>2,478</b>	<b>2,357</b>	<b>9%</b>	<b>15%</b>
Total AIFRS adjustments (net total of identified above)	70	46	65	52%	8%
<b>Profit before credit impairment and income tax (fully comparable AIFRS basis)</b>	<b>2,778</b>	<b>2,524</b>	<b>2,422</b>	<b>10%</b>	<b>15%</b>
<b>Provision for credit impairment (previous AGAAP)</b>	<b>(334)</b>	<b>(296)</b>	<b>(284)</b>	<b>13%</b>	<b>18%</b>
Movement in credit impairment provisioning <sup>7</sup>	110	(29)	44	large	large
<b>Provision for credit impairment (fully comparable AIFRS basis)</b>	<b>(224)</b>	<b>(325)</b>	<b>(240)</b>	<b>-31%</b>	<b>-7%</b>
<b>Profit before income tax (previous AGAAP)</b>	<b>2,374</b>	<b>2,182</b>	<b>2,073</b>	<b>9%</b>	<b>15%</b>
Total AIFRS profit before income tax adjustments	180	17	109	large	65%
<b>Profit before income tax (fully comparable AIFRS basis)</b>	<b>2,554</b>	<b>2,199</b>	<b>2,182</b>	<b>16%</b>	<b>17%</b>
<b>Income tax expense and minority interest (previous AGAAP)</b>	<b>(709)</b>	<b>(639)</b>	<b>(598)</b>	<b>11%</b>	<b>19%</b>
Tax on AIFRS adjustments	(34)	14	(14)	large	large
<b>Income tax expense and minority interest (fully comparable AIFRS basis)</b>	<b>(743)</b>	<b>(625)</b>	<b>(612)</b>	<b>19%</b>	<b>21%</b>
<b>Net profit (previous AGAAP)</b>	<b>1,665</b>	<b>1,543</b>	<b>1,475</b>	<b>8%</b>	<b>13%</b>
AIFRS net profit adjustments	146	31	95	large	54%
<b>Net profit (fully comparable AIFRS basis)</b>	<b>1,811</b>	<b>1,574</b>	<b>1,570</b>	<b>15%</b>	<b>15%</b>

1. Reclassification of fees and commissions against interest income and measured on the effective yield basis
2. Reclassification of interest expense on reclassification of ANZ StEPS from equity to debt
3. Measuring derivatives on a fair value basis and the reclassification of interest expense on non-hedged derivatives to other income
4. Reversal of notional goodwill amortisation reflected in the take-up of equity accounted earnings of associates and joint ventures
5. Reversal of goodwill amortisation, goodwill now subject to impairment testing

6. *Share based payments expense recognised for the period covering all share based remuneration, including deferred shares and options*
7. *Refer page 26 - Economic loss provisioning*

12

---

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Summary of major AIFRS impacts, continued

The following table reconciles comparative AIFRS (statutory) numbers with equivalent figures on a fully comparable AIFRS basis, including the impact of AASB 139.

	Half year Sep 05	Half year Mar 05
	\$M	\$M
<b>Net interest income (statutory basis)</b>	<b>2,953</b>	<b>2,865</b>
Fees recognised as an adjustment to yield <sup>1</sup>	313	309
Reclassified hybrid financial instruments <sup>2</sup>	(34)	(32)
Other	(1)	(2)
<b>Net interest income (fully comparable AIFRS basis)</b>	<b>3,231</b>	<b>3,140</b>
<b>Other operating income (statutory basis)</b>	<b>1,861</b>	<b>1,717</b>
Fees recognised as an adjustment to yield <sup>1</sup>	(326)	(309)
Derivatives and hedging <sup>3</sup>	17	27
Other	7	(1)
<b>Other operating income (fully comparable AIFRS basis)</b>	<b>1,559</b>	<b>1,434</b>
<b>Operating income (statutory basis)</b>	<b>4,814</b>	<b>4,582</b>
Total AIFRS income adjustments	(24)	(8)
<b>Operating income (fully comparable AIFRS basis)</b>	<b>4,790</b>	<b>4,574</b>
<b>Operating expenses (statutory basis)</b>	<b>(2,266)</b>	<b>(2,152)</b>
Other	-	-
<b>Operating expenses (fully comparable AIFRS basis)</b>	<b>(2,266)</b>	<b>(2,152)</b>
<b>Profit before credit impairment and income tax (statutory basis)</b>	<b>2,548</b>	<b>2,430</b>
Total AIFRS adjustments (net total of identified above)	(24)	(8)
<b>Profit before credit impairment and income tax (fully comparable AIFRS basis)</b>	<b>2,524</b>	<b>2,422</b>
<b>Provision for credit impairment (statutory basis)</b>	<b>(296)</b>	<b>(284)</b>
Movement in credit impairment provisioning <sup>4</sup>	(29)	44
<b>Provision for credit impairment (fully comparable AIFRS basis)</b>	<b>(325)</b>	<b>(240)</b>
<b>Profit before income tax (statutory basis)</b>	<b>2,252</b>	<b>2,146</b>
Total AIFRS profit before income tax adjustments	(53)	36
<b>Profit before income tax (fully comparable AIFRS basis)</b>	<b>2,199</b>	<b>2,182</b>
<b>Income tax expense and minority interest (statutory basis)</b>	<b>(632)</b>	<b>(591)</b>
Tax on AIFRS adjustments	7	(21)
<b>Income tax expense and minority interest (fully comparable AIFRS basis)</b>	<b>(625)</b>	<b>(612)</b>
<b>Net profit (statutory basis)</b>	<b>1,620</b>	<b>1,555</b>
AIFRS net profit adjustments	(46)	15
<b>Net profit (fully comparable AIFRS basis)</b>	<b>1,574</b>	<b>1,570</b>

1. Reclassification of fees and commissions against interest income and measured on the effective yield basis

2. Reclassification of interest expense on reclassification of ANZ StEPS from equity to debt

3. Measuring derivatives on a fair value basis and the reclassification of interest expense on non-hedged derivatives to other income

4. Restatement of credit loss provisions for an ELP basis under previous AGAAP

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Reconciliation of Net Profit to Cash Profit

The following table reconciles fully comparable AIFRS values with equivalents calculated under previous AGAAP and with fully comparable AIFRS values adjusted to exclude non core items<sup>8</sup>

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>
<b>Net interest income (statutory basis)</b>	3,368	2,953	2,865
Fees recognised as an adjustment to yield <sup>1</sup>	-	313	309
Reclassified hybrid financial instruments <sup>2</sup>	-	(34 )	(32 )
Other	-	(1 )	(2 )
<b>Net interest income (cash basis)</b>	<b>3,368</b>	<b>3,231</b>	<b>3,140</b>
<b>Other operating income (statutory basis)</b>	1,595	1,861	1,717
Fees recognised as an adjustment to yield <sup>1</sup>	-	(326 )	(309 )
Derivatives and hedging <sup>3</sup>	-	17	27
Other	-	7	(1 )
<b>Other operating income (fully comparable AIFRS basis)</b>	1,595	1,559	1,434
Settlement of NBNZ warranty claims <sup>4</sup>	(14 )	-	-
Fair value hedge gains/losses <sup>5</sup>	(18 )	(17 )	(27 )
Gain on sale of NBNZ Life <sup>4</sup>	-	(14 )	-
<b>Other operating income (cash basis)</b>	<b>1,563</b>	<b>1,528</b>	<b>1,407</b>
<b>Operating income (statutory basis)</b>	4,963	4,814	4,582
Total AIFRS income adjustments	-	(24 )	(8 )
<b>Operating income (fully comparable AIFRS basis)</b>	4,963	4,790	4,574
Total significant items income adjustments	(32 )	(31 )	(27 )
<b>Operating income (cash basis)</b>	<b>4,931</b>	<b>4,759</b>	<b>4,547</b>
<b>Operating expenses (statutory basis)</b>	<b>(2,185 )</b>	<b>(2,266 )</b>	<b>(2,152 )</b>
NBNZ incremental integration costs <sup>6</sup>	39	53	25
Settlement of NHB insurance claim <sup>4</sup>	(113 )	-	-
<b>Operating expenses (cash basis)</b>	<b>(2,259 )</b>	<b>(2,213 )</b>	<b>(2,127 )</b>
<b>Profit before credit impairment and income tax (statutory basis)</b>	<b>2,778</b>	<b>2,548</b>	<b>2,430</b>
Total AIFRS adjustments (net total identified above)	-	(24 )	(8 )
<b>Profit before credit impairment and income tax (fully comparable AIFRS basis)</b>	2,778	2,524	2,422
Total significant items adjustments (net total identified above)	(106 )	22	(2 )
<b>Profit before credit impairment and income tax (cash basis)</b>	<b>2,672</b>	<b>2,546</b>	<b>2,420</b>
<b>Provision for credit impairment (statutory basis)</b>	<b>(224 )</b>	<b>(296 )</b>	<b>(284 )</b>
Movement in credit impairment provisioning <sup>7</sup>	-	(29 )	44
<b>Provision for credit impairment (fully comparable AIFRS basis)</b>	<b>(224 )</b>	<b>(325 )</b>	<b>(240 )</b>
<b>Provision for credit impairment (cash basis)</b>	<b>(224 )</b>	<b>(325 )</b>	<b>(240 )</b>
<b>Profit before income tax (statutory basis)</b>	<b>2,554</b>	<b>2,252</b>	<b>2,146</b>
Total AIFRS profit before income tax adjustments	-	(53 )	36
<b>Profit before income tax (fully comparable AIFRS basis)</b>	2,554	2,199	2,182
Total significant items before income tax adjustments	(106 )	22	(2 )
<b>Profit before income tax (cash basis)</b>	<b>2,448</b>	<b>2,221</b>	<b>2,180</b>
<b>Income tax expense and minority interest (statutory basis)</b>	<b>(743 )</b>	<b>(632 )</b>	<b>(591 )</b>
Tax on AIFRS adjustments	-	7	(21 )
<b>Income tax expense and minority interest (fully comparable AIFRS basis)</b>	<b>(743 )</b>	<b>(625 )</b>	<b>(612 )</b>
Tax on significant items adjustments	26	(13 )	-
<b>Income tax expense and minority interest (cash basis)</b>	<b>(717 )</b>	<b>(638 )</b>	<b>(612 )</b>
<b>Net profit (statutory basis)</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>
AIFRS net profit adjustments	-	(46 )	15
<b>Net profit (fully comparable AIFRS basis)</b>	1,811	1,574	1,570
Significant items net profit adjustments	(80 )	9	(2 )

<b>Net profit (cash basis)</b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>
--------------------------------	--------------	--------------	--------------

1. *Reclassification of fees and commissions against interest income and measured on the effective yield basis*
2. *Reclassification of interest expense on reclassification of ANZ StEPS from equity to debt*
3. *Measuring derivatives on a fair value basis and the reclassification of interest expense on non-hedged derivatives to other income*
4. *Refer page 11 - Significant items*
5. *Refer page 11 - Fair value hedging gains*
6. *Refer page 11 - ANZ National Bank incremental integration costs*
7. *Refer page 26 - Economic loss provisioning*
8. *Refer page 11 for a description of non-core items*

14

---

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Income and expenses

## Net Interest

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income (\$M)	3,368	2,953	2,865	14%	18%
Average interest earning assets (\$M)	294,364	261,414	244,906	13%	20%
Net interest margin (%)	2.29	2.26	2.36	1%	-3%
Net interest income (adjusted for AIFRS 2005 adjustments <sup>1,3</sup> )	3,368	3,231	3,140	4%	7%
Average interest earning assets <sup>2</sup> (\$M) (adjusted for AIFRS 2005 adjustments)	294,364	274,309	257,606	7%	14%
Net interest margin (adjusted for AIFRS 2005 adjustments <sup>1</sup> )	2.29	2.36	2.46	-3%	-7%

1. Refer footnote 1 on page 8

2. AIFRS 2005 adjustments include the reclassification of customers liability for acceptance from non-interest earning to interest earning (Sep 2005: \$13.3 billion; Mar 2005: \$13.1 billion) to be consistent with the classification of commercial bill fees as interest

3. Refer page 14 for a reconciliation of net interest income to cash net interest income

## Average Interest Earning Assets

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v Sep 05 %	Movt Mar 06 v Mar 05 %
Average Interest earning assets	294,364	261,414	244,906	13%	20%
Acceptances reclassified as interest earnings assets	-	13,344	13,134	-	-
Reclass of deferred fees on non Commercial bills	-	(449)	(434)	-	-
Average Interest earning assets (adjusted for AIFRS 2005 adjustments)	294,364	274,309	257,606	7%	14%

§ **March 2006 half year compared to September 2005 half year**

Net interest income at \$3,368 million was 14% (\$415 million) higher than the September 2005 half. After adjusting for non-core items and AIFRS 2005 adjustments, cash net interest was 4% (\$137 million) higher than the September 2005 half.

## Volume

Average interest earning assets increased 13%.

- Average net advances grew by \$11.8 billion (5%). Growth in net advances in Australia was attributable to Personal Banking Australia (\$18.6 billion or 18% with \$4.7 billion in Mortgages or 5%) and Corporate Australia (\$1.3 billion or 6%). New Zealand's average net advances increased by \$3.2 billion (5%) with exchange rate impacts (-\$1.0 billion). Average net advances grew by \$0.6 billion (7%) in Overseas Markets.

- Other interest earning assets increased \$7.6 billion (23%), driven by higher levels of liquid assets, trading securities, available-for-sale assets and interbank lending.

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

Average deposits and other borrowings grew \$10.9 billion (6%) with growth in Treasury (\$2.3 billion or 13%) to fund asset growth, Personal Banking Australia (\$15.9 billion or 37%) and Corporate Australia (-\$1.1 billion or -6%). Average deposits and other borrowings increased in New Zealand (\$0.8 billion or 1%) with exchange rate impacts (\$0.3 billion). Average deposits and other borrowings grew (\$0.3 billion or 3%) in Overseas Markets, with exchange rate impacts \$0.1 billion.

After adjusting for AIFRS 2005 adjustments, interest earning assets increased 7%

- Average net advances grew by \$12.6 billion (5%). Growth in net advances in Australia was attributable to Personal Banking Australia (\$5.8 billion or 6% with \$4.7 billion in Mortgages or 5%) and Corporate Australia (\$1.4 billion or 6%). New Zealand's average net advances increased by \$3.1 billion (5%) with exchange rate impacts (-\$0.3 billion). Average net advances grew by \$0.6 billion (7%) in Overseas Markets.

- Other interest earning assets increased \$7.6 billion (23%), driven by higher levels of liquid assets, trading securities, available-for-sale assets and interbank lending.

Average deposits and other borrowings grew \$11.0 billion (6%) with growth in Treasury (\$2.3 billion or 13%) to fund asset growth, Personal Banking Australia (\$2.2 billion or 5%) and Corporate Australia (\$1.3 billion or 7%). Average deposits and other borrowings increased in New Zealand (\$0.8 billion or 1%) with exchange rate impacts (\$0.3 billion). Average deposits and other borrowings grew (\$4.5 billion or 23%) in Overseas Markets, with exchange rate impacts \$0.4 billion.

15

---



*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**Income and expenses, continued**

**Average Interest Earning Assets, continued**

**Margin**

Net interest average margin increased by 3 basis points, however, core net interest margin adjusted for AIFRS 2005 adjustments reduced 7 basis points from the September 2005 half year:

- **AIFRS 2005 adjustments (+10 basis points)**

Changes predominantly reflect the inclusion of certain fees as net interest income, partially offset by interest expense on Hybrid securities, reported as debt instruments under AIFRS and inclusion of acceptances in average interest earning assets.

- **Funding mix (-4 basis points)**

Changes in the funding mix reduced the net interest margin due to substitution of wholesale funding for customer deposits (2 basis points) and a decrease in net non-interest bearing items (2 basis points).

- **Asset mix (-2 basis point)**

Movements in the composition of assets in the portfolio negatively impacted the net interest margin by 2 basis points, reflecting an increase in the proportion of lower yielding non-lending liquid assets in Group Treasury and Institutional.

- **Competition (-4 basis points)**

Competitive pressures were most marked in Australian Mortgages (1 basis point), Corporate Australia and Institutional (1 basis point), plus migration of customers to lower yielding credit cards and New Zealand fixed rate mortgages (1 basis point) and high yielding deposits (1 basis point).

- **Wholesale rates (+2 basis points)**

Wholesale rate movements benefited margins from lower basis risk in variable rate mortgages and credit cards plus increased earnings on the investment of capital and rate insensitive deposits (2 basis points), with minimal changes in Treasury mismatch earnings.

- **Other items (+1 basis point) include:**

- a reduction in retail broker payments and higher earnings from foreign exchange revenue hedging (+1 basis point)
- release of a provision relating to prior year income in Institutional (+2 basis points)
- reduced effective yield fee income decreased margins (-1 basis point)
- other impacts including decreases from change in interest not recognised on impaired loans, discontinued businesses and cash flow impacts on derivatives (-1 basis point)

§ **March 2006 half year compared to March 2005 half year**

Net interest increased \$503 million (18%) over the March 2005 half, or \$228 million (7%) after adjusting for AIFRS 2005 adjustments.

*Volume*

Average interest earning assets increased 20%.

- Average net advances grew by \$24.5 billion (11%). Growth in net advances in Australia was attributable to Personal Banking Australia (\$24.8 billion or 26% with Mortgages contributing \$9.9 billion or 12%), Institutional (\$2.1 billion or 7%) and Corporate Australia (\$1.3 billion or 6%). New Zealand's average net advances increased by \$6.8 billion (11%) with exchange rate impacts (-\$1.2 billion). Average net advances decreased by \$0.2 billion (2%) in Overseas Markets.

- Other interest earning assets increased \$11.6 billion (40%), driven by higher levels of liquid assets, trading securities, available-for-sale assets and interbank lending.

Average deposits and other borrowings increased \$17.3 billion (10%) from growth in Personal Banking Australia (\$17.2 billion or 41%), Institutional (\$1.9 billion or 10%) and Corporate Australia (-\$0.5 billion or -3%). Average deposits and other borrowings increased in New Zealand (\$1.3 billion or 3%) with exchange rate impacts (-\$1.1 billion). Average deposits and other borrowings grew (\$5.3 billion or 28%) in Overseas Markets with exchange rate impacts \$0.3 billion.

After adjusting for AIFRS 2005 adjustments, interest earning assets increased 14%:

- Average net advances grew by \$25.3 billion (11%). Growth in net advances in Australia was attributable to Personal Banking Australia (\$12.0 billion or 12% with Mortgages contributing \$9.8 billion or 12%), Institutional (\$3.3 billion or 11%) and Corporate Australia (\$2.2 billion or 10%). New Zealand's average net advances increased by \$6.6 billion (11%) with exchange rate impacts (-\$0.5 billion). Average net advances increased by \$0.1 billion (1%) in Overseas Markets.

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**Income and expenses, continued**

**Average Interest Earning Assets, continued**

§ **March 2006 half year compared to March 2005 half year, continued**

- Other interest earning assets increased \$11.6 billion (40%), driven by higher levels of liquid assets, trading securities, available-for-sale assets and interbank lending.

Average deposits and other borrowings increased \$17.3 billion (10%) from growth in Personal Banking Australia (\$3.5 billion or 9%), Institutional (\$1.9 billion or 10%) and Corporate Australia (\$1.9 billion or 11%). Average deposits and other borrowings increased in New Zealand (\$1.3 billion or 3%) with exchange rate impacts (-\$0.4 billion). Average deposits and other borrowings grew (\$5.3 billion or 28%) in Overseas Markets with exchange rate impacts \$0.3 billion.

**Margin**

Net interest average margin reduced by 7 basis points whilst core net interest margin adjusted for AIFRS 2005 adjustments reduced 17 basis points from the March 2005 half:

- **AIFRS 2005 adjustments (+10 basis points)**

Changes predominantly reflect the inclusion of certain fees as net interest income, partially offset by interest expense on Hybrid securities, reported as debt instruments under AIFRS and inclusion of acceptances in average interest earning assets.

- **Funding mix (-7 basis points)**

Higher proportions of more expensive wholesale and customer liabilities (-4 basis points) within the portfolio and falling levels of net non-interest bearing interest items (-3 basis points).

- **Asset mix (-4 basis points)**

Lower proportions of higher yielding assets in Asset Finance and Corporate and Structured Financing reduced margin by 2 basis points and an increase in the proportion of lower yielding non-lending liquid assets in Group Treasury and Institutional (2 basis points)

- **Competition (-10 basis points)**

Competitive pressures reduced margins, with this impact arising mainly in Mortgages (Australian mortgages 2 basis points, New Zealand mortgages 1 basis points) and Institutional lending with slight margin reductions in Corporate Banking, Business Banking and Rural portfolios. In addition customer migration to lower yielding credit cards and New Zealand fixed rate mortgages reduced the net interest margin (-2 basis points), together with migration into high yielding customer deposits (-2 basis points).

- **Wholesale rates (+3 basis points)**

Increased income on the investment of capital and rate insensitive deposits (+2 basis points) and less basis risk in variable rate mortgages and credit cards (+1 basis point).

- **Other items (+1 basis point) include:**

- Funding costs associated with unrealised trading gains increased as a result of movements in the AUD. This decrease in interest income is reflected in the net interest margin, however it is directly offset by an equivalent increase in trading income (-3 basis points)

- Release of revenue relating to prior year income in Institutional (+2 basis points)
- Benefit from mix impacts on discontinued businesses (+2 basis points)

17

---

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Income and expenses, continued

## Other Operating Income

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Other operating income</b>					
Total fee income	1,029	1,027	953	0%	8%
Foreign exchange earnings	227	233	221	-3%	3%
Profit on trading instruments	144	93	39	55%	large
Other	163	176	194	-7%	-16%
Core other operating income	1,563	1,529	1,407	2%	11%
AIFRS 2005 adjustments <sup>1</sup>	N/A	301	283	n/a	n/a
Fair value hedging gains	18	17	27	6%	-33%
Significant items <sup>1</sup>	14	14	-	0%	n/a
Total other income	1,595	1,861	1,717	-14%	-7%

1. Refer footnote 1 on page 8. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ's financial condition and results of operations

§ **March 2006 half year compared to September 2005 half year**

Other operating income decreased \$266 million (14%). After adjusting for AIFRS 2005 adjustments and non-core items, core other operating income increased \$34 million (2%) (refer pages 11 to 14 for details).

- Fee income increased \$2 million.
- Lending fee income increased \$7 million (3%):
  - Personal Banking Australia increased \$5 million (7%) with a seasonal increase and higher volumes in Banking Products (\$3 million or 8%) with a higher number of transaction accounts and Mortgages increasing \$2 million (12%) driven by lending growth.
  - New Zealand increased \$5 million (15%).
  - Institutional decreased \$4 million (6%) with a \$7 million reduction in Corporate and Structured Financing due to large deals in the Structured Debt portfolio closing in the second half of 2005 offset by a \$4 million increase in Trade and Transaction Services as a result of an improved performance in Trade Finance.
- Non-lending fee income decreased \$5 million (1%):
  - Institutional decreased \$18 million with Corporate and Structured Financing decreasing \$16 million related to a reduction in advisory and syndication fees and coming off a particularly strong September 2005 half.
  - Personal Banking Australia increased \$12 million (4%) with a \$7 million (12%) increase in Investment Insurance Products primarily due to increased volume in commissions from INGA as a result of strong market conditions and funds under management growth, and Banking Products increasing \$2 million (4%) related to the

continuing strong growth in the transaction banking account base.

- Foreign exchange earnings decreased \$6 million (3%) entirely in Institutional where lower foreign exchange swap and spot earnings were offset by increased profit on trading instruments (\$24 million, see below). In New Zealand, there was an increase of \$28 million in foreign exchange earnings driven by greater currency volatility in the first half of 2006.
- Profit on trading instruments increased \$51 million with Institutional increasing \$35 million driven by strong growth in New Zealand associated with increased activity and positioning to take advantage of interest rate and currency volatility as well as the profit offsetting the foreign exchange loss referred to above. In addition the six months to September 2005 included the \$16 million cost from the hedge of capital investment earnings in INGA which ceased in October 2005.
- Other operating income decreased \$13 million (7%):
  - Esanda and UDC decreased \$17 million due to a \$6 million impact from the fall in second-hand car prices and the inclusion of a \$7 million gain in the September 2005 half year resulting from the alignment of revenue recognition on leases in the New Zealand Fleet business with Group accounting policies.
  - Group Centre decreased \$14 million mainly due to the timing of recognition of gains in ANZ's share of INGA capital investment earnings with the move to available-for-sale classification (high level of realisation of gains in the September 2005 half).
  - Non-continuing businesses increased \$18 million as a result of a \$12 million gain from settlement of the sale warranties relating to the sale of the London headquartered project finance business and a \$4 million gain on sale of power assets.
- Movements in average exchange rates over the September 2005 half year were immaterial.

18

---

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**Income and expenses, continued**

**Other Operating Income, continued**

**§ March 2006 half year compared to March 2005 half year**

Other operating income decreased \$122 million (7%). Core other operating income increased \$156 million (11%) after excluding AIFRS 2005 adjustments and non-core items (refer pages 11 to 14 for details).

- Fee income increased \$76 million (8%).

§ Lending fee income increased \$18 million (9%). Institutional increased \$16 million of which \$9 million in Corporate and Structured Financing was largely in project financing fees and \$6 million was driven by Trade and Transaction Services reflecting an improvement in performance in Trade Finance.

§ Non-lending fee income increased \$58 million (8%):

- Personal Banking Australia increased \$41 million (13%), of which \$17 million in Consumer Finance was driven by volume growth and cross sell initiatives. Investment & Insurance Products increased \$12 million due to an increase in income generated by financial planners. Banking Products increased \$7 million driven by increased account and transaction numbers.

- New Zealand increased \$8 million (4%) driven by card fees and interchange fees from credit card purchases.

- Asia Pacific increased \$5 million (21%) primarily due to increased card fees in Indonesia.

- Corporate Australia increased \$5 million (13%), which included an increase in advisory fees and ANZ Online fee income.

- Foreign exchange earnings increased \$6 million (3%). Trade and Transaction Services increased as a result of continued growth particularly from international payments revenue. There was also growth in Markets in New Zealand driven by positioning for currency volatility in the first half of 2006 and a \$10 million increase in the Pacific mainly due to growth in PNG assisted by major mining deals. This was offset by a reduction in Australia where reduced foreign exchange earnings on swap and spot positions were offset in profit on trading instruments.

- Profit on trading instruments increased \$105 million:

§ Markets grew by \$89 million due primarily to strong growth in New Zealand (\$22 million) associated with increased activity and positioning to take advantage of interest rate and currency volatility and a \$28 million increase due to revenue growth underpinned by increased frontline staff and initiatives following the restructure in the first half of 2005. Increased profit on swap and spot foreign exchange contracts (\$24 million) offset the foreign exchange reduction referred to above. Total income in Markets increased \$58 million.

§ Group Centre also increased with the March 2005 half including a \$16 million cost as a result of the hedge of capital investment earnings in INGA. Hedging of capital investment earnings ceased in October 2005.

- Other operating income decreased \$31 million (16%):

- § Group Centre decreased \$18 million due mainly to lower share of INGA capital investment earnings following the capital repatriation in 2005 and the timing of profit recognition on the available-for-sale accounting basis.
- § Esanda and UDC decreased \$13 million due largely to the impact of a fall in second-hand car prices.
- § Institutional reduced \$10 million with the March 2005 half including a \$10 million gain on sale of Sydney Futures Exchange shares.
- § Asia Pacific decreased \$7 million due to reduced equity accounted earnings from PT Panin Bank as the first half of 2006 has seen increased pressure on margins from interest rates, increased costs relating to the branch expansion project and reduced bond income.
- § Non-continuing Businesses increased \$11 million due to the gain from the settlement of warranties relating to the sale of the London headquartered project finance business as well as the gain on sale of power assets. This was offset by the \$4 million profit on sale of the London based headquartered project finance business in the first half of 2005.
- § Personal Banking Australia increased \$6 million with Mortgages increasing \$4 million as a result of increased insurance premiums driven by higher sales of LMI loans.
- Movements in average exchange rates over the March 2005 half year were immaterial



*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

Income and expenses, cont d

## Expenses

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Operating expenses</b>					
Personnel expenses	1,341	1,286	1,207	4%	11%
Premises expenses	205	197	193	4%	6%
Computer expenses	258	281	260	-8%	-1%
Other expenses	433	427	440	1%	-2%
Restructuring costs	22	22	27	0%	-19%
Core operating expenses	2,259	2,213	2,127	2%	6%
NBNZ incremental integration costs <sup>1</sup>	39	53	25	-26%	56%
Significant items - settlement of NHB insurance claim	(113)	-	-	n/a	n/a
<b>Total operating expenses</b>	<b>2,185</b>	<b>2,266</b>	<b>2,152</b>	<b>-4%</b>	<b>2%</b>
Total employees	31,063	30,976	29,832	0%	4%

1. These costs are personnel costs of \$22 million (Sep 2005 half: \$23 million; Mar 2005 half: \$13 million), computer costs of \$6 million (Sep 2005 half: \$15 million; Mar 2005 half: \$2 million), and other costs of \$11 million (Sep 2005 half: \$15 million; Mar 2005 half: \$10 million). Refer page 11 for a description of non-core items, including a discussion of why management believes measures of core performance provide useful information to investors regarding ANZs financial condition and results of operations

§ **March 2006 half year compared to September 2005 half year**

Operating expenses decreased \$81 million (4%) over the September 2005 half year due largely to the \$113 million pre-tax settlement of the NHB insurance claim. After adjusting for non-core items, core operating expenses increased \$46 million (2%) (refer page 11 for details of non-core items).

- Personnel expenses increased \$55 million (4%) as a result of annual salary increases and growth in staff numbers; especially in the September 2005 half.
- Premises costs increased \$8 million (4%) driven largely by rental expense reflecting additional space requirements.
- Computer costs decreased \$23 million (8%). The reduction was mainly in Operations, Technology and Shared Services due to an \$11 million reduction in computer contractors resulting from the completion of business systems integration in New Zealand, a \$7 million reduction in depreciation principally as a result of asset write-downs in the second half of 2005 and assets fully depreciating. Lower software licence costs also contributed to the reduction (\$3 million).
- Other expenses increased \$6 million with non-lending losses increasing \$14 million in Institutional and New Zealand (the latter including a NZD10 million Commerce Commission settlement impact and NZD5 million cost of operating relocated domestic systems as part of integration) offset by a \$6 million reduction in indirect taxes in Esanda.
- Movements in average exchange rates over the September 2005 half year were immaterial.

CHIEF FINANCIAL OFFICER'S REVIEW (continued)

Income and expenses, continued

Expenses, continued

§ **March 2006 half year compared to March 2005 half year**

Operating expenses increased \$33 million (2%) or \$132 million (6%) adjusting for non-core items including the \$113 million pre-tax settlement of the NHB insurance claim and ANZ National Bank incremental integration costs (refer page 11 for details).

- Personnel costs were up \$134 million (11%) due to annual salary increases and a 4% increase in staff numbers mainly in the following business units:

§ Personal Banking Australia increased 6%. Retail Banking increased 5% due to frontline increases primarily as a result of new branch staffing and network initiatives. Consumer Finance increased by 5% following the introduction of the 24 hour call centre in April 2005, increased sales staffing and the introduction of the white-labelling capability.

§ Institutional increased 8% mainly due to a 15% increase in Trade and Transaction Services reflecting business expansion particularly in the Trade Finance and Custodian Services businesses.

§ Asia Pacific increased 10% related mainly to the formation of the ANZ Royal Bank joint venture in Cambodia and the broader partnership agenda as well as business growth and the launch of initiatives in the Pacific mainly in Amerika Samoa, Solomon Islands and PNG.

- Premises costs increased \$12 million (6%) with a \$7 million increase in rental expense reflecting additional space requirements and a \$4 million rise in the cost of security services.

- Computer costs decreased \$2 million (1%). A \$4 million decrease due to timing of software purchases was offset by a \$5 million increase in computer repairs.

- Other expenses were \$7 million (2%) lower. This was due to a reduced charge for non-lending losses (\$4 million) as the first half of 2005 included a \$15 million charge for cheque conversion losses. This was offset by a NZD10 million increase in New Zealand in the first half of 2006 as a result of the Commerce Commission settlement. In addition, there was a \$4 million reduction in professional fees due to a decrease in AIFRS and Sarbanes Oxley project costs and a \$6 million decline in indirect taxes in Esanda. These were offset by increased travel costs of \$11 million.

- Movements in exchange rates reduced cost growth by \$5 million.

Income Tax Expense

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Income tax expense on profit	742	630	590	18%	26%
Effective tax rate	29.1%	28.0%	27.5%		
Income tax expense on cash profit1	716	636	611	13%	17%
Effective tax rate (cash profit1)	29.2%	28.6%	28.0%		

1. Refer footnote 1 on page 8. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations

§ **March 2006 half year compared to September 2005 half year**

The Group's income tax expense increased by \$112 million to \$742 million resulting in an effective tax rate of 29.1%, an increase of 1.1% from the September 2005 half year. The March 2006 half year included the settlement of an ANZ National Bank warranty claim, which was non-taxable, and the September 2005 half year included the non-taxability of profit on sale of NBNZ Life and Funds Management businesses.

Adjusted for AIFRS 2005 adjustment and non-core items, income tax expense increased by \$80 million resulting in an effective tax rate of 29.2% an increase of 0.6% from the September 2005 half year. This increase reflects the run-off of certain New Zealand and Australian structured financing transactions and proportionately higher earnings in higher tax rate jurisdictions, predominately New Zealand.

§ **March 2006 half year compared to March 2005 half year**

The Group's effective tax rate for the March 2006 half year increased 1.6% from the March 2005 half year.

Adjusted for AIFRS 2005 adjustment and non-core items, the effective tax rate increased 1.2% from the March 2005 half year. This increase reflects the run-off of certain New Zealand and Australia structured financing transactions, lower equity accounted earnings from INGA and PT Panin Bank and proportionately higher earnings in higher tax rate jurisdictions, predominantly New Zealand. The March 2005 half year included the non-taxable profit on sale of Sydney Futures Exchange shares.

## CHIEF FINANCIAL OFFICER S REVIEW (continued)

## Earnings per share

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Earnings per share<sup>1</sup> (cents)</b>					
Basic	98.4	86.3	83.2	14%	18%
Diluted	96.1	84.3	80.6	14%	19%
<b>Cash earnings per share</b>					
Net profit attributable to shareholders of the Company (\$M)	1,811.0	1,620.0	1,555.0	12%	16%
Less: non-core items included in profit after tax <sup>2</sup> (\$M)	(80)	9	(2)	large	large
AIFRS 2005 Adjustments <sup>2</sup> (\$M)	N/A	(46)	15	n/a	n/a
Cash Profit (\$M) <sup>4</sup>	1,731	1,583	1,568	9%	10%
Preference share adjustments <sup>3</sup> (\$M)	(12)	(12)	(6)	0%	100%
Earnings adjusted for non-core items and AIFRS 2005 adjustments (\$M)	1,719	1,571	1,562	9%	10%
Weighted average number of ordinary shares (M)	1,828.4	1,824.7	1,822.7	0%	0%
<b>Cash earnings per share (cents)</b>	94.0	86.1	85.7	9%	10%

1. Refer Note 6 for full calculation

2. Refer page 8

3. The EPS calculation excludes the Euro preference shares

4. Refer page 14 for a reconciliation to Net Profit. Refer page 11 for a discussion of why management believes measures of cash profit provides useful information to investors regarding ANZs financial condition and results of operations

Earnings per share increased 14.0% (12.1 cents) to 98.4 cents on the September 2005 half. Cash EPS for the Group increased 9.2% or 7.9 cents on the September 2005 half. The main drivers of the increase in cash EPS on the September 2005 half are:

§ Growth in continuing business profit before provisions contributed 5.4%

§ Reduction in the continuing businesses provision charge contributed 6.5%

§ Partly offset by headwinds, including non-continuing businesses (2.5%) and the dilution by the issuance of shares (-0.2%)

Earnings per share increased 18.3% (15.2 cents) on the March 2005 half. Cash EPS for the Group increased 9.7% or 8.3 cents on the March 2005 half. The main drivers of the increase in cash EPS on the March 2005 half are:

§ Growth in continuing business profit before provisions contributed 10.3%

§ Reduction in the continuing businesses provision charge contributed 2.3%

§ Partly offset by headwinds, including non-continuing businesses (2.6%) and the dilution by the issuance of shares (0.3%)

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Dividends

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Dividend per ordinary share (cents)</b>					
Interim (fully franked)	56	n/a	51	n/a	10%
Final (fully franked)	n/a	59	n/a	n/a	n/a
<b>Ordinary share dividend payout ratio (%)</b>	56.9%	68.4%	61.3%		
Net profit after tax (\$M)	1,811	1,620	1,555	12%	16%
Non-core items <sup>1</sup> and AIFRS 2005 adjustments (\$M)	(80)	(37)	13	large	large
Cash <sup>1</sup> profit (\$M) <sup>2</sup>	1,731	1,583	1,568	9%	10%
<b>Dividend payout ratio of cash<sup>1</sup> profit (%)</b>	59.6%	68.6%	59.5%		

1. Refer footnote 1 on page 8

2. Refer page 14 for a reconciliation to Net Profit. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations

The Directors propose that an interim dividend of 56 cents be paid on each ordinary share, up 5 cents (9.8%) on the 2005 interim dividend broadly in line with the growth in Cash EPS (adjusted for non-core items and AIFRS 2005 adjustments). The proposed interim dividend will be fully franked.

The Group has a dividend reinvestment plan and a bonus option plan. Participation in these plans is limited to 50,000 shares in each plan. Election notices for these plans must be received by 5.00 pm (AEST) on the record date, namely, 19 May 2006. It is proposed that the interim dividend will be payable on 3 July 2006. Dividends payable to shareholders with a registered address in Great Britain (including the Channel Islands and the Isle of Man) and New Zealand will be converted to their local currency at ANZ's daily forward exchange rate at the close of business on the record date for value on the payment date.

The Group expects current timing differences will generate future 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 EVATM (Economic Value Added) growth relative to prior periods. EVATM for the half year ended 31 March 2006 at \$1,013 million was up \$22 million on the half year ended 30 September 2005, and up \$93 million on the March 2005 half.

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>EVATM</b>					
<b>Net profit after tax</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>
AIFRS 2005 adjustments and non-core items <sup>1</sup>	(80)	(37)	13	large	large
Cash Profit <sup>2</sup>	1,731	1,583	1,568	9%	10%
Credit cost adjustment	(74)	22	(26)	large	large
Economic profit	1,657	1,605	1,542	3%	7%
Imputation credits	313	308	286	2%	9%
Adjusted economic profit	1,970	1,913	1,828	3%	8%
Cost of ordinary capital	(945)	(910)	(902)	4%	5%
Cost of preference share capital	(12)	(12)	(6)	0%	100%
<b>EVATM</b>	<b>1,013</b>	<b>991</b>	<b>920</b>	<b>2%</b>	<b>10%</b>

1. Refer footnote 1 on page 8

2. Refer page 14 for a reconciliation to Net Profit. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZs financial condition and results of operations

EVATM is a measure of risk adjusted accounting profit used for evaluating business unit performance and is a key factor in determining the variable component of remuneration packages. It is based on operating 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 provision charge with economic loss provision after tax at the rate applicable in the relevant geography.

23

---

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**EVA Reconciliation, cont d**

At ANZ, economic capital is equity allocated according to a business unit's inherent risk profile. It is allocated for several risk categories including: credit risk, operating risk, interest rate risk, basis risk, mismatch risk, investment risk, trading risk deferred acquisition costs risk and other risk. The methodology used to allocate capital to business units for risk is designed to help drive appropriate risk management and business strategies.

Management believes that EVATM provides useful information to investors regarding ANZ's financial conditions and operations because it removes the impacts of non-recurring and other items that are not part of the core business and recognises the cost of investors capital and the long run expected credit losses.

24

---



CHIEF FINANCIAL OFFICER'S REVIEW (continued)

Credit Risk

Individual provision charge

The individual provision charge was \$188 million, down \$18 million over the September 2005 half. This reduction results from lower single name provisions, especially in New Zealand as well as Esanda and UDC, partially offset by two larger single name provisions in Institutional. This was a strong result given the September 2005 half benefited from large write-backs in non-continuing businesses, due to sales and realisations of non-performing Power assets.

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Individual provision charge</b>					
Personal Banking Australia	86	87	60	-1%	43%
Institutional	38	11	12	large	large
New Zealand Businesses	6	65	26	-91%	-77%
Corporate Australia	20	18	23	11%	-13%
Esanda and UDC	35	48	24	-27%	46%
Asia Pacific	6	7	17	-14%	-65%
Non-continuing businesses	(3	) (30	) (11	) -90%	-73%
<b>Individual/specific provision charge</b>	<b>188</b>	<b>206</b>	<b>151</b>	<b>-9%</b>	<b>25%</b>
<b>Collective (general) provision charge</b>					

Collective (general) provision charges were \$36 million, down \$54 million over the September 2005 half or \$83 million on a comparable basis after AIFRS 2005 adjustments. The reduction over the half was largely driven by improved risk profiles in Institutional, Corporate and New Zealand, a benign credit environment, as well as a partial unwind across all business units of non-customer specific provisions held for oil price risk. Partially offsetting this was some increase for growth and the strategic risk mix change in Personal Banking Australia towards lower rate cards and declining secondhand car prices in Esanda. The increase in the September 2005 half was driven by growth and a \$68 million top up for non-customer specific oil price risk, partially offset by a modest improvement in the Group's overall profile.

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Collective (general) provision charge</b>					
Personal Banking Australia	31	46	43	-33%	-28%
Institutional	(5	) 19	9	large	large
New Zealand Businesses	(3	) 24	26	large	large
Corporate Australia	2	28	22	-93%	-91%
Esanda and UDC	14	19	18	-26%	-22%
Asia Pacific	2	6	4	-67%	-50%
Non-continuing businesses	(5	) (23	) (33	) -78%	-85%
Group Centre	-	(29	) 44	-100%	-100%
<b>Collective (general) provision charge</b>	<b>36</b>	<b>90</b>	<b>133</b>	<b>-60%</b>	<b>-73%</b>
<b>Collective (general) provision balance</b>					

The collective provision balance at 31 March 2006 was \$1,903 million (0.83% of risk weighted assets), a decrease of \$264 million from the general provision balance of \$2,167 million (0.99% of risk weighted assets) at 30 September 2005. This represents a surplus of \$237 million over the APRA minimum guideline. The reduction in balance results from the first time adoption of AIFRS on 1 October 2005.

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Credit Risk, continued

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Provision for credit impairment charge</b>					
Personal Banking Australia	117	133	103	-12%	14%
Institutional	33	30	21	10%	57%
New Zealand Businesses	3	89	52	-97%	-94%
Corporate Australia	22	46	45	-52%	-51%
Esanda and UDC	49	67	42	-27%	17%
Asia Pacific	8	13	21	-38%	-62%
Non-continuing businesses	(8	) (53	) (44	) -85%	-82%
Group Centre	-	(29	) 44	-100%	-100%
<b>Provision for credit impairment charge</b>	<b>224</b>	<b>296</b>	<b>284</b>	<b>-24%</b>	<b>-21%</b>
<b>Economic loss provisions (ELP)</b>					

With effect from 1 October 2005 the Group has adopted an incurred loss approach to credit loss provisioning as required by AASB 139: Financial Instruments: Recognition and Measurement. Prior to that date the Group had adopted an economic loss provisioning (ELP) methodology that recognised an expense for credit losses based on the expected long term loss ratio for each part of the loan portfolio.

Management believe that disclosure of ELP data will assist readers in determining the longer term expected loss rates on the lending portfolio as ELP removes the volatility in reported earnings created by the use of an incurred loss methodology. ANZ will continue to use the ELP methodology internally for economic value added (EVA) reporting and as another factor when determining the dividend payout ratio.

The Group economic loss provision charge (ELP) was \$334 million, an increase of \$38 million (13%) over the half year to September 2005. This increase was driven by growth and the strategically planned risk mix shift in Consumer Finance and slightly higher expected losses in Esanda due to a decrease in the realisable value of motor vehicles in default.

	% of Group Net Advances	Half year Mar 06	Half year Sep 05	Half year Mar 05
<b>ELP rates by segment</b>				
Personal Banking Australia	44%	0.22%	0.21%	0.19%
Institutional	18%	0.32%	0.30%	0.31%
New Zealand Businesses	22%	0.17%	0.17%	0.18%
Corporate Australia	9%	0.32%	0.32%	0.32%
Esanda and UDC	6%	0.49%	0.44%	0.45%
Asia Pacific	1%	1.58%	1.38%	1.40%
Non-continuing businesses	0%	0.46%	0.18%	0.26%
<b>Total</b>	<b>100%</b>	<b>0.26%</b>	<b>0.25%</b>	<b>0.26%</b>
<b>ELP charge (\$ million)</b>		<b>334</b>	<b>296</b>	<b>284</b>

1. *ELP rate = Annualised economic loss provisioning divided by average net lending assets*

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

## Credit Risk, continued

## Gross impaired loans

Gross impaired loans increased to \$726 million, up \$84 million from \$642 million as at 30 September 2005. This increase was largely driven by two new accounts in Institutional and a small increase in Mortgages. Offsetting this were strong realisations and a falling exchange rate in New Zealand, plus strong realisations in non-continuing businesses.

The default rate (new impaired loans/average gross lending assets) has increased 1 basis point since September 2005 half. This increase was also largely the result of higher new impaired loans in Institutional, offset by lower new impaired loans in New Zealand.

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
<b>Gross impaired loans</b>					
Personal Banking Australia	57	48	37	19%	54%
Institutional	352	189	215	86%	64%
New Zealand Businesses	116	162	81	-28%	43%
Corporate Australia	90	85	120	6%	-25%
Esanda and UDC	82	79	78	4%	5%
Asia Pacific	21	35	36	-40%	-42%
Non-continuing businesses	8	44	73	-82%	-89%
<b>Total gross impaired loans</b>	<b>726</b>	<b>642</b>	<b>640</b>	<b>13%</b>	<b>13%</b>
<b>Net impaired loans</b>					

Net impaired loans are \$421 million (Sep 2005: \$386 million; Mar 2005: \$326 million) representing 2.2% of shareholders' equity as at 31 March 2006 (Sep 2005: 2.0%; Mar 2005: 1.7%). The Group has an individual provision coverage ratio of 42%.

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
	\$M	\$M	\$M	%	%
<b>Net impaired loans</b>					
Personal Banking Australia	24	19	15	26%	60%
Institutional	249	123	114	large	large
New Zealand Businesses	64	101	35	-37%	83%
Corporate Australia	30	38	54	-21%	-44%
Esanda and UDC	39	40	43	-3%	-9%
Asia Pacific	8	21	14	-62%	-43%
Non-continuing businesses	7	45	52	-84%	-87%
Other	-	(1)	(1)	-100%	-100%
<b>Total net impaired loans</b>	<b>421</b>	<b>386</b>	<b>326</b>	<b>9%</b>	<b>29%</b>
<b>Individual provision coverage</b>	<b>42%</b>	<b>40%</b>	<b>49%</b>		

27

CHIEF FINANCIAL OFFICER'S REVIEW (continued)

Market Risk

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

97.5% confidence level 1 day holding period

	As at Mar 06	High for period Mar 06	Low for period Mar 06	Ave for period Mar 06	As at Sep 05	High for period Sep 05	Low for period Sep 05	Ave for period Sep 05
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Value at risk at 97.5% confidence								
Foreign exchange	1.1	1.9	0.4	0.9	0.8	1.7	0.3	1.0
Interest rate	1.3	2.3	0.5	1.2	1.2	1.8	0.2	0.9
Credit Spread	1.6	1.7	0.8	1.2	0.8	1.5	0.6	1.0
Diversification benefit	(2.3)	n/a	n/a	(1.5)	(1.2)	n/a	n/a	(1.2)
<b>Total VaR</b>	<b>1.7</b>	<b>3.2</b>	<b>0.9</b>	<b>1.8</b>	<b>1.6</b>	<b>2.7</b>	<b>0.8</b>	<b>1.7</b>

99% confidence level 1 day holding period

	As at Mar 06	High for period Mar 06	Low for period Mar 06	Ave for period Mar 06	As at Sep 05	High for period Sep 05	Low for period Sep 05	Ave for period Sep 05
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Value at risk at 99% confidence								
Foreign exchange	1.3	2.2	0.3	1.1	0.9	2.1	0.3	1.1
Interest rate	1.7	2.6	0.5	1.4	1.7	2.7	0.2	1.3
Credit Spread	2.9	3.1	1.4	2.3	1.4	2.4	1.0	1.6
Diversification benefit	(3.5)	n/a	n/a	(2.3)	(1.8)	n/a	n/a	(1.7)
<b>Total VaR</b>	<b>2.4</b>	<b>4.0</b>	<b>1.2</b>	<b>2.5</b>	<b>2.2</b>	<b>3.5</b>	<b>1.0</b>	<b>2.3</b>

1. Numbers are based on half year period

The table below shows all outstanding revenue hedges, interest income earned and fair value of these hedges.

Revenue related cash flow hedges

	31 March 2006			30 September 2005		
	Notional Principal Amount \$M	Amount taken to Income \$M	Unrealised Gains/ (Losses) \$M	Notional Principal Amount \$M	Amount taken to Income \$M	Unrealised Gains/ (Losses) \$M
USD Revenue Hedges	-	-	-	-	8	-
NZD Revenue Hedges	3,776	(3)	204	3,957	(16)	41
<b>Total</b>	<b>3,776</b>	<b>(3)</b>	<b>204</b>	<b>3,957</b>	<b>(8)</b>	<b>41</b>

1. Notional principal amount for March 2006 is \$3,131 million purchased and \$645 million sold contracts from partial close out of hedge. The net open position is \$2,486 million. Revenue hedges are treated as cash flow hedges

2. Numbers are based on half year period

The Group uses a variety of derivative instruments to hedge against the adverse impact on future offshore revenue streams from exchange rate movements. As at 31 March 2006 ANZ had net \$2.5 billion (Sep 2005: \$4.0 billion; Mar 2005: \$3.9 billion) hedge contracts in place.

Movements in average exchange rates resulted in an increase of \$5 million in the Group's profit after tax (net of profit and loss on revenue hedges). Earnings from revenue hedges increased by \$5 million (before tax) from the September half. Hedge revenue is booked in the Group Centre as interest income.



**CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

**Balance Sheet**

Total assets increased by \$21.3 billion (7%) since 30 September 2005 to \$319.4 billion. Exchange rate movements accounted for a net reduction of \$3.6 billion consisting of a reduction of \$4.7 billion in New Zealand partly offset by a \$1.2 billion increase in Overseas Markets. Excluding the impact of exchange rate movements, total assets increased \$17.3 billion (9%) in Australia, \$8.3 billion (11%) in New Zealand, \$1.2 billion (12%) in Asia Pacific and \$0.2 billion (2%) in other geographies.

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

**Liquid assets  $\tilde{n}20\%$  (Excl Exchange Rates  $\tilde{n}19\%$ )**

Liquid assets increased by \$2.3 billion to \$13.9 billion at 31 March 2006.

Australia increased \$1.1 billion mainly in Group Treasury. New Zealand increased \$0.7 billion, despite the weakening NZD, with increased liquidity held by Treasury. Overseas Markets increased \$0.5 billion due to a weakening AUD (+\$0.3 billion) and increased liquid assets in China and the Treasury operations in New York.

**Due from other financial institutions  $\tilde{n}31\%$  (Excl Exchange Rates  $\tilde{n}31\%$ )**

Due from other financial institutions increased by \$2.0 billion to \$8.3 billion at 31 March 2006 due largely to increase in volume of interbank lending, bank overdrafts, securities borrowing volumes in Institutional Australia and interbank lending in the Treasury operations in Singapore, New Zealand and the United States.

**Derivatives  $\tilde{n}101\%$  (Excl Exchange Rates  $\tilde{n}104\%$ )**

Derivative assets increased \$3.8 billion to \$7.5 billion at 31 March 2006 driven principally by increased volatility in exchange rates, notably the significant depreciation in the AUD and NZD during March 2006 and increased trading activity. Derivative liabilities increased 45%, also driven by exchange rates.

**Trading securities  $\tilde{n}39\%$  (Excl Exchange Rates  $\tilde{n}40\%$ )**

Trading securities volumes increased \$2.4 billion to \$8.7 billion at 31 March 2006 due largely to more active trading in Institutional in Australia (\$1.8 billion) and New Zealand (\$0.5 billion).

**Available-for-sale assets  $\tilde{n}32\%$  (Excl Exchange Rates  $\tilde{n}31\%$ , excl Exchange Rates and AIFRS 2005 Adjustment  $\tilde{n}18\%$ )**

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

Available-for-sale assets include assets previously classified as investment securities and loans and advances and other assets that are available-for-sale. These assets are measured at fair value. Available-for-sale asset volumes increased \$3.2 billion to \$13.3 billion at 31 March 2006 due to the reclassification of \$1.1 billion assets from net loans and advances and other assets on 1 October 2005 on adoption of AIFRS and an increase in available-for-sale loans in Institutional Australia. Increased liquidity holdings in overseas markets have offset reduced levels of available-for-sale securities in New Zealand where a greater proportion of the liquidity portfolio were reported as trading securities.

### **Net loans and advances $\uparrow 4\%$ (Excl Exchange Rates $\uparrow 5\%$ )**

Net loans and advances increased \$9.1 billion since September 2005 to \$241.5 billion. Excluding the impact of exchange rate movements (-\$3.2 billion) and the impact of adopting AIFRS (-\$1.3 billion resulting from changes in credit provisioning and the reclassification to available-for-sale), the increase was \$13.6 billion (6%).

Growth in Australia was 5% (\$8.6 billion). After adjusting 2005 to a fully comparable AIFRS basis growth was \$9.5 billion (6%) largely the result of increases in the following businesses:

- Personal Banking Australia (6% or \$6.5 billion), predominantly in Mortgages (\$5.4 billion) as a result of growth in housing loans. Consumer Finance increased \$0.6 billion, reflecting the success of the low rate MasterCard product, and Regional Commercial and Agribusiness Products grew \$0.3 billion.
- Institutional Australia (6% or \$1.5 billion) largely in Corporate and Structured Financing (\$0.9 billion) due to increased project finance and structured debt activity. Debt Products Group increased \$0.3 billion driven by increased demand for funding of mergers and acquisition activity, and volumes in Trade and Transaction Services increased \$0.2 billion as a result of growth in overdrafts.
- Corporate Australia (5% or \$1.1 billion) largely in Business Banking (\$0.6 billion) driven by continued investment in frontline staff and process simplification, the industry specialisation approach to customers and a competitive customer service proposition, and Corporate banking (\$0.5 billion).
- Esanda (3% or \$0.4 billion) with solid new business writings partly offset by the natural run-off of assets.

New Zealand reduced by \$0.2 billion; however, after excluding the impact of exchange rates and impact of adopting AIFRS, growth was \$3.7 billion, or 6%, with increases in National Bank Retail (\$1.1 billion), ANZ Retail (\$1.0 billion), Rural Banking (\$0.6 billion), Institutional (\$0.2 billion) and Corporate Banking (\$0.9 billion) partly offset by a \$0.3 billion reduction in non-continuing businesses.

Overseas Markets grew by \$0.6 billion (7%). After excluding the impact of exchange rate movements and the impact of adopting AIFRS on 1 October 2005 growth was \$0.4 billion (5%) in Asia Pacific (\$0.2 billion) and the north west Institutional operations (\$0.2 billion).

### **Customer's liability for acceptance $\uparrow 2\%$ (Excl Exchange Rates $\uparrow 2\%$ )**

Customer's liability for acceptance increased by \$0.2 billion to \$13.7 billion at 31 March 2006 with growth in Institutional Australia (\$0.1 billion) and Asia (\$0.1 billion).

### **All other assets $\downarrow 12\%$ (Excl Exchange Rates $\downarrow 10\%$ )**

Other assets reduced \$1.7 billion due mainly to lower trade dated asset volumes in Institutional.





**CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

**Balance Sheet, continued**

Total liabilities increased by \$22.0 billion (8%) from 30 September 2005. Exchange rate movements accounted for a net reduction of \$2.6 billion consisting of a \$4.1 billion reduction in New Zealand offset by a \$1.5 billion reduction 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  $\uparrow$ 10%)**

Due to other financial institutions increased \$1.3 billion to \$13.3 billion at 31 March 2006.

Volumes in Australia increased \$1.9 billion principally in the Markets business in Institutional with increased interbank repo activity. Excluding exchange rate movements New Zealand reduced \$0.6 billion largely in Structured Finance.

**Deposits and other borrowings  $\uparrow$ 3% (Excl Exchange Rates  $\uparrow$ 5%)**

Deposits and other borrowings increased \$6.5 billion to \$196.9 billion at 31 March 2006. Exchange rate movements reduced deposits and other borrowings by \$2.1 billion with a \$3.3 billion reduction in New Zealand partly offset by a \$1.2 billion reduction in Overseas Markets. Excluding exchange rate movements:

Australia increased \$2.7 billion (2%) largely as a result of increases in the following businesses:

- Treasury funding reduced \$1.9 billion with a reduced requirement for short-term domestic funding with increased term debt issuance and higher offshore commercial paper funding.
- Personal Banking Australia increased \$2.6 billion mainly due to growth in high yielding term deposit and cash management account products.
- Institutional increased \$0.5 billion with increased funding in Markets, Corporate and Structured Financing and Debt Product group, partly offset by a slight reduction in corporate deposits in Trade and Transaction Services.
- Corporate Australia increased \$0.9 billion, with strong growth across all segments.
- Esanda increased \$0.6 billion to fund asset growth.

New Zealand increased \$1.5 billion (3%), largely in Institutional (\$2.7 billion), National Bank retail (\$0.6 billion) ANZ Retail (\$0.4 billion) and Corporate Banking (\$0.6 billion) partly offset in Treasury (-\$2.8 billion) with increased term funding allowing a reduction in shorter term commercial paper and certificate of deposit funding.

Overseas Markets increased by \$4.9 billion largely due to increased commercial paper issuance by ANZ Delaware (\$3.4 billion) and the requirement to fund balance sheet growth.

**Payables and other liabilities  $\uparrow$ 27% (Excl Exchange Rates  $\uparrow$ 30%)**

Payables and other liabilities increased \$2.1 billion (27%) to \$9.7 billion at 31 March 2006 with an increase in securities lending volumes in Institutional.

**Derivatives  $\uparrow$ 45% (Excl Exchange Rates  $\uparrow$ 49%)**

Derivative liabilities increased \$1.9 billion to \$6.1 billion at 31 March 2006. The increase is driven by increased volatility in exchange rates, principally the significant movement in the NZD during March and increased trading activities. The movement is consistent with the movement in Derivative assets

**Bonds and Notes  $\uparrow$ 20% (Excl Exchange Rates  $\uparrow$ 14%)**

Bonds and notes increased \$7.9 billion to \$46.9 billion at 31 March 2006. Excluding exchange rate movements, bonds and notes increased by \$5.5 billion in response to increased term funding requirements.

**Loan Capital  $\uparrow$ 22% (Excl Exchange Rates  $\uparrow$ 18%)**

Loan capital increased \$2.0 billion to \$11.1 billion at 31 March 2006 in response to term funding requirements and the reclassification of ANZ StEPS from equity to debt on adoption of AIFRS on 1 October 2005.

CHIEF FINANCIAL OFFICER'S REVIEW (continued)

Capital Management

	As at Mar 06	As at Sep 05	As at Mar 05
Tier 1	6.8	% 6.9	% 7.0
Tier 2	4.0	% 3.9	% 3.6
Deductions	(0.4)	%) (0.3	%) (0.3
Total	10.4	% 10.5	% 10.3
ACE	5.0	% 5.1	% 5.1
RWA \$m	230,653	219,573	209,524
<b>ACE Ratio</b>			

The ACE ratio at 5.0% remains at the upper end of the Group's targeted capital range. During the period, ACE ratio declined 9 basis points principally due to:

- § net profit excluding preference share dividends of \$1.8 billion (+82 basis points);
- § ordinary share dividend commitments of \$1.0 billion (-47 basis points);
- § buy-back of ordinary equity of \$146 million (-7 basis points) being offset by share issues of \$179 million (+8 basis points) through the Bonus Option Plan, Dividend Reinvestment Plan, option conversions and issues to staff;
- § increase in risk weighted assets, excluding the impact of exchange rate movements (-30 basis points);
- § increase in investment/profit retention in funds management businesses and associates (-12 basis points); and
- § exchange rate movements and opening AIFRS adjustments had an immaterial impact.

**Hybrid Capital and Tier 1 Capital**

The Group raises hybrid capital to supplement the Group's ACE capital to further strengthen the Group's capital base and ensure compliance with APRA's prudential capital requirements, principally its Tier 1 capital requirements.

At 31 March 2006 the Group had three Hybrid Capital instruments on issue:

**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	Debt	Equity
Regulatory (APRA) classification	Tier 1	Tier 1	Tier 1
March 2006 balance	\$1,000 million	\$1,536 million	\$871 million
Interest rate	BBSW +1.00%	Tranche 1 Coupon: 4.48%	Euribor +0.66%
		Tranche 2 Coupon: 5.36%	

On adoption of AIFRS on 1 October 2005 the ANZ StEPS issue was reclassified from equity to debt, however, it continues to be classified as Tier 1 capital for regulatory purposes.

**Buy-Back of Ordinary Equity**

The Group commenced an on-market buy-back of \$350 million of ordinary equity on 10 January 2005. The buy-back was completed 14 March 2006 with the Group repurchasing 15.7 million shares at an average cost of \$22.26 per share. Shares repurchased for the current half-year was 6.1 million shares at an average cost of \$24.02 per share, totalling \$146 million.

**Prudential Issues - APRA's proposals on AIFRS changes and Tier 1 hybrid capital**

APRA has recently released several announcements concerning the development of the prudential capital standards that will be adopted on 1 July 2006 post the adoption of AIFRS. The final format and content of these standards are still subject to on-going discussions between APRA and the financial industry.

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**Capital Management, continued**

**AIFRS and capital deductions**

In November 2005, APRA issued draft prudential standards and guidance notes outlining the proposed prudential capital treatment of various adjustments arising from the adoption of AIFRS. This statement was supplemented in March 2006 with the issue of a statement dealing with Capitalised Software Costs. Based upon these statements and discussions to date with APRA, the issues that most affect ANZ are:

§ APRA introduced transition rules requiring ADIs to report their prudential capital ratios up until 1 July 2006 based upon AGAAP existing at 30 September 2005, unless otherwise agreed with APRA. ANZ has agreed alternative arrangements with APRA and is reporting capital ratios based upon its financial statements subject to reversing the impact of recognising deferred pension liabilities, deferred fee revenue and cash flow hedge accounting of derivatives. At 1 October 2005 the impact on ACE capital of the various AIFRS adjustments, net of the transitional rules, was a reduction of \$48 million.

§ Effective 1 July 2006:

- The transitional rules agreed with APRA will cease and a deduction for the pension liability (\$91 million as at 31 March 2006) will be required to be taken; and

- Capitalised Software Costs are classified as an intangible asset under AIFRS and APRA has indicated that they be taken as a Tier 1 deduction. At 31 March 2006 ANZ had \$384 million of capitalised software costs (before tax).

§ APRA introduced further transitional rules in their April 2006 statement on Tier 1 Capital and Securitisation, where ADIs will calculate the impact of AIFRS on their capital base at 1 July 2006, and this amount, the IFRS transitional adjustment, will be added back to an ADI's capital base between 1 July 2006 and 1 January 2008. The IFRS transitional adjustment will effectively defer any adverse impact from adopting AIFRS accounting until introduction of BASEL II. ANZ is in discussion with APRA on this issue; based upon the items outlined above, ANZ would anticipate an add back to capital of approximately \$500 million as an IFRS transitional adjustment.

**Tier 1 Capital and Securitisation**

In April 2006, APRA issued draft prudential standards and guidance notes outlining what instruments and items will qualify for Tier 1 and Tier 2 capital, including sub-categories therein for hybrid Tier 1, Lower and Upper Tier 2. Material changes from the existing prudential standards are:

§ Introduction of a sub-category of Tier 1 capital being Fundamental Tier 1 which includes most components of shareholders equity, excluding hybrid Tier 1 instruments. This sub-category must be at least 75% of net Tier 1, which effectively reduces the level of hybrid Tier 1 capital (Residual Tier 1) to 25% of net Tier 1 (previously it was 25% of Tier 1 before deductions).

§ Splitting hybrid Tier 1 into two sub-categories, Innovative and Non-Innovative Tier 1, with limits of 15% and 10% of net Tier 1 respectively. Transition rules will be available to ADIs up until January 2010 if the ADI is above these limits when first measured on 1 January 2008 based upon hybrid Tier 1 instruments on issue at 31 August 2005 (subject to certain conditions being met).

§ The Non-Innovative category is a new classification covering instruments that have the characteristics of non-cumulative, irredeemable preference shares without innovative capital features.

§ ANZ believes that its existing hybrid Tier 1 instruments will be classified as Innovative and as such ANZ expects that it will be applying for the transitional relief contemplated in the draft standard.

32

---

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)*

**ANZ National Bank - Integration**

The integration program that began in 2004 has been completed during the half. The key achievements in this half have been:

- § Transfer from Australia to New Zealand of the location and operation of ANZ Retail and related systems and functions to complete compliance with Reserve Bank of New Zealand (RBNZ) Conditions of Registration 13(i)
- § Completion of the successful migration to ANZ Group systems in Institutional, and Corporate Banking
- § Transition of all New Zealand processes and systems to Business-As-Usual management.

The integration objectives have been successfully achieved:

§ Business integration is complete. This has delivered integration of organisational and management structures, processes, systems, and premises for Institutional, Corporate Banking, Rural Banking, Retail Banking support functions, head office and central support functions which has facilitated:

- establishing a common platform for future growth initiatives and further transformation of support services
- growing our Institutional businesses under the ANZ brand
- maintaining separately branded Retail and Corporate Banking businesses
- strengthening our Rural banking business primarily under National Bank brand
- merging and rationalising head office and support functions
- aligning, to the extent possible, ANZ National and ANZ technology systems and functions.

§ Compliance with RBNZ Conditions of Registration 13(i) relating to location and operation of domestic systems in New Zealand. This delivered the transfer of ANZ Retail, HR/Payroll, and General Ledger systems to New Zealand, the augmentation of New Zealand-based IT support staff, and establishment of certain new New Zealand-based business functions

§ Customer satisfaction and retention targets have been achieved revenue attrition relating to integration activities has continued to track favourably against estimates

§ Staff engagement has been achieved, and a single enterprise agreement has been established

§ Realisation of integration synergies has tracked in line with expectations.

Integration has successfully delivered a major program for ANZ National Bank:

- § 30 workstreams comprising approximately 150 individual projects have progressed successfully in line with plans
- § Around 1300 system changes have been successfully implemented
- § At its peak over 600 staff were contributing to the program

§ 126 property relocations were implemented

§ Project execution has been completed substantially by the ambitious target of December 2005, with the final major deliverables completed in February 2006.

The RBNZ finalised its Outsourcing Policy in January 2006. The Policy addresses the location and management of so called core functions requiring ANZ National Bank to maintain continuity of core functions - settlement, clearance, payment and risk position management particularly in a stress or failure situation. Discussions continue with the RBNZ on outlining ANZ National Bank's approach to compliance with the Policy.

As the full impact of RBNZ requirements under the Conditions of Registration were clarified, the total cost of integration increased. The total cost of integration has been NZD239 million, in line with the estimate of NZD240 million advised in October 2005 and a modest increase on the original estimate of NZD220 million. Of this amount, approximately 5% has been met by a restructuring charge included in the calculation of goodwill; a further 10% relates to expenditure on equipment that has been capitalised and 22% relates to the cost of existing resources. Integration costs of NZD9 million were incurred in 2004, with the majority of integration costs of NZD139 million incurred in 2005. Expenditure of NZD51 million was incurred in this first half of 2006. These costs related primarily to systems and technology integration and non-branch expenses, with NZD46 million incurred in meeting RBNZ requirements, NZD19 million expenditure on integrating essential technology infrastructure and NZD174 million expenditure on the core business program of integration.

Revenue attrition relating to integration activities has continued to track favourably against expectations, with little attrition evident, and has stabilised at NZD34 million per annum. The cost synergies and revenue benefits, net of NZD12 million cost increase impact of RBNZ requirements have increased to an estimated NZD120 million in 2007 (cost synergies NZD70 million and revenue synergies NZD50 million, with additional cost synergies identified.)

33

---

**CHIEF FINANCIAL OFFICER'S REVIEW (continued)**
**ING Australia performance**

The results in the table below show the performance of INGA on a fully comparable AIFRS basis, other than the half year to March 2005 which adopts AIFRS from 1 January 2005 (i.e. commencement of INGA's financial year). In addition, the results have been restated to exclude net profits from the New Zealand business that INGA sold in September 2005; these are included in New Zealand Businesses.

		Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
	<b>Note</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>		
Funds management income		208	191	177	9	% 18
Life Risk Income						
- planned margin		89	85	83	5	% 7
- experience variation	1	33	25	27	32	% 22
		122	110	110	11	% 11
Total Income		330	301	287	10	% 15
Funds management expenses		(136)	(125)	(128)	9	% 6
Life risk expenses		(64)	(39)	(45)	64	% 42
Remediation Expenses	2	(24)	(23)	(15)	4	% 60
Tax on operating profit	3	(18)	(32)	(15)	-44	% 20
Operating profit after tax, before capital investment earnings		88	82	84	7	% 5
Capital investment earnings after tax		28	63	70	-56	% -60
<b>Profit after tax</b>		<b>116</b>	<b>145</b>	<b>154</b>	<b>-20</b>	<b>% -25</b>
<b>ANZ's Share of INGA earnings @ 49%</b>		<b>57</b>	<b>71</b>	<b>76</b>	<b>-20</b>	<b>% -25</b>
<b>ANZ's Share of INGA earnings @ 49%</b>						
JV operating profit		43	40	41	8	% 5
JV capital investment earnings		14	31	35	-55	% -60
		57	71	76	-20	% -25
ANZ capital Hedges		-	(10)	(11)		
Net Funding		1	-	2		
Net Return to ANZ	4	58	61	67	-5	% -13
<b>Performance measures</b>						
Carrying value of investment (\$M)	5	1,407	1,392	1,404		
ANZ return on investment	5	8.1	% 10.2	% 10.8	%	
Available for Sale reserve (ANZ share) (\$M)		14	8	12		
Value of new business	6	34	33	29		
Cost to Income	7	60	% 58	% 59	%	
<b>Funds management</b>						
Retail & mezzanine funds under management (c/bal \$M)		33,731	31,696	29,390	6	% 15
Net retail & mezzanine flows (\$M)		415	216	259	92	% 60
<b>Life risk</b>						
Total in-force (\$M)		536	496	482	8	% 11
New premiums (\$M)		65	62	53	5	% 23
<b>Funds management growth (Retail &amp; mezzanine)</b>	8	<b>Mar 06 \$M</b>	<b>In- flows</b>	<b>Out- flows</b>	<b>Other Flows</b>	<b>Sep 05 \$M</b>
OneAnswer		12,861	1,890	(1,080)	597	11,454
Other Personal Investment		9,381	247	(837)	482	9,489
Mezzanine		2,466	249	(316)	108	2,426
Employer Super		9,023	837	(574)	433	8,327
Total		33,731	3,223	(2,807)	1,620	31,696

1. Experience gains or losses arise where actual outcomes differ from valuation methods and assumptions
2. Remediation expenses represent costs incurred in rectifying historical unit pricing errors and fully compensating customers
3. Transitional tax relief for life insurance companies discontinued with effect from 1 July 2005
4. On 30 September 2005 ING Australia sold its New Zealand based businesses to a joint venture between ING Group and ANZ National Bank (further details are contained on page 11). As a result, prior period profits relating to the sold operations (Sep 2005: \$4 million; Mar 2005: \$4 million) are now reflected in the ING NZ joint venture
- 5.

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

*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 Limited (EY ABC) to provide an independent valuation of INGA for 31 March 2006 assessment purposes (the recoverable amount). 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*

- 6. 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. Consistent value factors are applied across all reporting periods*
- 7. Cost to Income ratio is management expenses (excluding Remediation Expenses) / Total Income*
- 8. Other Flows includes investment income net of taxes, fees and charges*

34

---



**CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

**ING Australia performance, continued**

**March 2006 half year compared to September 2005 half year**

Highlights of the March 2006 half year included the launch of INGA's new retail risk product, OneCare and a marked improvement in net inflows of retail and mezzanine funds management products, up 92%. The increase was driven by strong inflows into INGA's flagship platform product, OneAnswer, and lower outflows across INGA's wealth management products. INGA also acquired majority ownership of Oasis Asset Management, a rapidly growing provider of badged platform products to non-aligned advisers.

Considerable progress was made in remediation of products and systems. This work is now separated from INGA's core business and is scheduled for completion by 31 December 2006.

INGA has maintained its market share rankings over the period. In Funds Management the improvement in net flows over the year has lifted INGA's ranking to 6th position as reported by Plan For Life. INGA maintained its 3rd place ranking in the employer super mastertrust segment as measured by DEXX&R. INGA's rankings in the life risk market for both new business (3rd) and Inforce premiums (4th) as measured by Plan for Life remained unchanged.

A core component of INGA's strategy is to grow the number of aligned advisers. Following the acquisition of the Synergy dealer group in December 2005 the total number of INGA aligned advisers grew to 1,093. According to the latest Money Management Survey, INGA would rank 4th in terms of number of advisers, up from 7th position in the previous half.

Profit after tax decreased by 20% on the September 2005 half year. Operating profit after tax was 7% higher, but more than offset by lower capital investment earnings. Significant factors affecting the result were:

§ Funds management income increased by 9% based on higher average funds under management underpinned by strong investment markets, and improved net flows in both personal investments and employer super businesses. The increased fee revenue driven by these factors was partly offset by reduced margins arising from higher commission payments.

§ Risk income increased by 11%. Operating margins relating to INGA's life risk business increased by 6% following better client retention and improved claims experience.

§ Funds management expenses increased by 9% due to higher spend on customer service. Life risk expenses increased due to costs incurred in developing the new OneCare product and other non-recurring items. Remediation expenses are at similar levels to the September 2005 half and should be completed by the end of the calendar year.

§ Tax on operating profit decreased 44% due to favourable prior period tax adjustments in the current half, partially offset by the loss of transitional tax relief for life companies from 1 July 2005.

§ Capital investment earnings after tax declined 56% from the strong September 2005 half due to lower average capital employed in the business together with lower average yields. In 2005, ANZ partially hedged against volatility in this income stream and, as a result, gains in capital investment earnings were partially offset by hedge losses. ANZ ceased hedging capital investment earnings from 1 October 2005.

**Adviser Numbers**

(by Dealer Group)

	<b>Mar 06</b>	<b>Mar 05</b>	<b>Mvmt</b>
ANZ Financial Planners	348	305	14%
Retire Invest	214	214	0%
Tandem	84	79	6%
Millennium 3	446	350	27%
ING Financial Planners	21	2	large

Other			
Total	1,113	950	17%
<b>Sales by Channel</b>			

(12 months )

	<b>Retail Funds Management</b>		<b>Life Insurance</b>	
	<b>Mar 06</b>	<b>Mar 05</b>	<b>Mar 06</b>	<b>Mar 05</b>
ANZ Bank	47%	50%	12%	10%
IFAs aligned to ING	17%	18%	8%	9%
Direct	7%	7%	49%	41%
Other	29%	25%	31%	39%
Total	100%	100%	100%	100%
<b>March 2006 half year compared to March 2005 half year</b>				

Profit after tax decreased by 25% compared to the same period last year. Operating profit after tax was 5% higher, but more than offset by lower capital investment earnings. Significant factors impacting the result were:

§ Funds management income increased by 18% based on higher average funds under management underpinned by strong investment markets, and improved net flows.

§ Risk income increased by 11% due to ongoing favourable claims experience in the March 2006 half, supported by continued strong sales of life insurance products through the ANZ network and direct marketing initiatives.

§ Expenses increased due to higher spend on customer service in funds management together with additional costs associated with the new OneCare product and other non-recurring items in the life risk business. Remediation expenses increased by 60% as activity increased.

§ Tax on operating profit increased by 20% due to the loss of transitional tax relief for life companies from 1 July 2005, and was partially offset by lower favourable prior period tax adjustments booked in the current half.

35

---

**CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

**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.

The Group adopts the equity method of accounting for its 49% interest in INGNZ. As at 31 March 2006, the equity accounted value was NZD156 million (Sep 2005: NZD145 million). The change since September 2005 reflects the equity accounted profit for the half year.

The carrying value is subject to a recoverable amount test to ensure that this does not exceed its recoverable amount at the reporting date. The Group obtained an independent valuation at 31 March 2006 to ensure the carrying value did not exceed the recoverable amount. The valuation supported the carrying value and accordingly no write-down was made.

In the March 2006 half INGNZ contributed NZD12 million in equity accounted earnings. This was a NZD3.1 million reduction on the September 2005 half in which a total of NZD15.2 million (Mar 2005: NZD14.1 million) was reported between INGA (Sep 2005: NZD4 million; Mar 2005: NZD 4 million) and the New Zealand Businesses (Sep 2005: NZD11 million; Mar 2005: NZD10 million), prior to the establishment of the joint venture.

**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 2006 the Group's assets included \$549 million (Sep 2005: \$524 million; Mar 2005: \$492 million) in relation to costs incurred in acquiring interest earning assets. During the half year, amortisation of \$138 million (Sep 2005 half: \$135 million; Mar 2005 half: \$123 million) was recognised as an adjustment to the yield earned on interest earning assets.

Deferred income - at 31 March 2006, the Group's liabilities included \$426 million (Sep 2005: \$92 million; Mar 2005: \$130 million) in relation to income received in advance. At March 2006, this includes \$5 million (Sep 2005: \$3 million; Mar 2005 \$4 million) deferred service type fees. These fees are deferred and will be amortised over the period of service under the AIFRS standard AASB 118: Revenue.

At March 2006, fee income of \$364 million that is integral to the yield of an originated financial instrument, net of any direct incremental costs, has been capitalised. This income is deferred and recognised against net loans and advances over the expected life of the financial instrument under the AIFRS standard AASB 139: Financial Instruments: Recognition and Measurement.

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

	Deferred Acquisition Costs <sup>1</sup>				Deferred Income	
	Mar 06	Sep 05	Mar 05	Mar 06	Sep 05	Mar 05
	\$M	\$M	\$M	\$M	\$M	\$M
Personal Banking Australia	155	153	151	90	32	24
Esanda	294	284	260	52	-	-
New Zealand Businesses	67	61	49	39	15	26
Institutional	5	6	10	162	27	30
Other <sup>2</sup>	28	20	22	83	18	50
<b>Total</b>	<b>549</b>	<b>524</b>	<b>492</b>	<b>426</b>	<b>92</b>	<b>130</b>

1. Deferred acquisition costs largely include the amounts of brokerage capitalised and amortised in the three Business segments: Personal Banking Australia, Esanda and the New Zealand businesses. Deferred acquisition costs also include capitalised debt raising expenses
2. Includes Group Centre, Corporate Australia, INGA and Asia Pacific

Deferred acquisition costs analysis:

	March 2006		September 2005 half	
	Amortisation Costs	Capitalised Costs <sup>1</sup>	Amortisation Costs	Capitalised Costs <sup>1</sup>

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

	\$M	\$M	\$M	\$M	
Personal Banking Australia	34	36	31	33	
Esanda	87	97	86	110	
New Zealand Businesses	13	24	13	23	
Institutional	1	-	2	(2	)
Other <sup>2</sup>	3	11	3	3	
<b>Total</b>	<b>138</b>	<b>168</b>	<b>135</b>	<b>167</b>	

1. Costs capitalised during the half exclude brokerage trailer commissions paid, relating to the acquisition of mortgage assets
2. Includes Group Centre, Corporate Australia, INGA and Asia Pacific

36

---

*CHIEF FINANCIAL OFFICER'S REVIEW (continued)***Software capitalisation**

At March 2006, the Group's intangibles included \$384 million (Sep 2005: \$381 million; Mar 2005: \$401 million) in relation to costs incurred in acquiring and developing software. During the March 2006 half year, amortisation expense of \$56 million (Sep 2005 half: \$64 million; Mar 2005 half: \$57 million) was recognised.

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>
Balance at start of period	381	401	430	-5%	-11%
Software capitalised during the period	60	51	45	18%	33%
Amortisation during the period	(56	) (64	) (57	) -13%	-2%
Software written-off	(1	) (8	) (16	) -88%	-94%
Other	-	1	(1	) -100%	-100%
Total software capitalisation	384	381	401	1%	-4%



**BUSINESS PERFORMANCE REVIEW****Profit and Loss (including effect of movements in foreign currencies)**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Net profit after income tax</b>					
Personal Banking Australia	542	485	468	12%	16%
Institutional	486	461	450	5%	8%
New Zealand Businesses	335	265	295	26%	14%
Corporate Australia	212	194	182	9%	16%
Esanda and UDC	53	55	66	-4%	-20%
Asia Pacific	46	44	39	5%	18%
Non-continuing businesses	30	63	63	-52%	-52%
Group Centre	27	16	5	69%	large
<b>Cash1 profits</b>	1,731	1,583	1,568	9%	10%
AIFRS 2005 adjustments and non-core items1	80	37	(13	) large	large
<b>Net profit</b>	1,811	1,620	1,555	12%	16%

Refer to page 6 for a table of Net profit after income tax prepared on a statutory basis

**Profit and Loss (prior period figures adjusted to remove the impact of exchange rate movements2)**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<b>Net profit after income tax</b>					
Personal Banking Australia	542	485	468	12%	16%
Institutional	486	461	450	5%	8%
New Zealand Businesses	335	263	293	27%	14%
Corporate Australia	212	194	182	9%	16%
Esanda and UDC	53	55	65	-4%	-18%
Asia Pacific	46	45	40	2%	15%
Non-continuing businesses	30	62	64	-52%	-53%
Group Centre	27	23	9	17%	large
<b>Net profit (adjusted for non-core items1,2,3)</b>	1,731	1,588	1,571	9%	11%
AIFRS 2005 adjustments1 and non-core items2	80	37	(13	) large	large
<b>Net profit3</b>	1,811	1,625	1,558	12%	17%
FX impact on reported net profit2	-	(5	) (3	) -100%	-100%
<b>Reported net profit</b>	1,811	1,620	1,555	12%	16%

- ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer pages 11 to 14), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability. In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11). In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) 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, profit or loss on disposal of investment securities, and fair value movement in bonds and notes designated at fair value as a non-core item. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$5 million; Mar 2005: \$8 million)). In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11)
- 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

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

3. *Refer pages 13 and 14 of enclosed report for a detailed reconciliation of GAAP figures to non GAAP cash figures. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ financial condition and results of operations*

The Group from time to time modifies the organisation of its businesses to enhance the focus on delivery of specialised products or services to customers. Prior period numbers are adjusted for such organisational changes to allow comparability. The significant changes since 30 September 2005 have been:

§ Non-Continuing Business - The Non-Continuing Business comprising the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy has been removed from Institutional and reported as a separate business unit.

§ Personal Banking Within Personal banking Wealth Management has been renamed Investment Insurance Products.

§ 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.

§ ANZ has netted inter-business unit expenses and inter-business unit income and reported as an expense for business unit profitability purposes.

38

---



*BUSINESS PERFORMANCE REVIEW (continued)*

**Personal Banking Australia**

Brian Hartzler

Rural Commercial  
and  
Agribusiness Products  
Banking Products  
Mortgages

Consumer Finance  
Investment Insurance  
Products  
Other <sup>1</sup>

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	1,177	1,122	1,061	5%	11%
Other external operating income	509	483	452	5%	13%
<b>Operating income</b>	<b>1,686</b>	<b>1,605</b>	<b>1,513</b>	<b>5%</b>	<b>11%</b>
External operating expenses	(726)	(705)	(677)	3%	7%
Net inter business unit expenses	(88)	(90)	(82)	-2%	7%
<b>Operating expenses</b>	<b>(814)</b>	<b>(795)</b>	<b>(759)</b>	<b>2%</b>	<b>7%</b>
<b>Profit before credit impairment and income tax</b>	<b>872</b>	<b>810</b>	<b>754</b>	<b>8%</b>	<b>16%</b>
Provision for credit impairment	(117)	(133)	(103)	-12%	14%
<b>Profit before income tax</b>	<b>755</b>	<b>677</b>	<b>651</b>	<b>12%</b>	<b>16%</b>
Income tax expense and minority interest	(213)	(192)	(183)	11%	16%
<b>Net profit attributable to shareholders of the Company</b>	<b>542</b>	<b>485</b>	<b>468</b>	<b>12%</b>	<b>16%</b>
<b>Consisting of:</b>					
Rural Commercial and Agribusiness Products	55	48	49	15%	12%
Banking Products	138	130	123	6%	12%
Mortgages	177	156	146	13%	21%
Consumer Finance	115	101	103	14%	12%
Investment and Insurance Products	60	52	51	15%	18%
Other <sup>2</sup>	(3)	(2)	(4)	50%	-25%
	542	485	468	12%	16%
<b>Balance Sheet</b>					
Net loans & advances including acceptances	112,212	105,681	99,681	6%	13%
Other external assets	2,196	1,840	1,979	19%	11%
External assets	114,408	107,521	101,660	6%	13%
Deposits and other borrowings	46,261	43,773	41,750	6%	11%
Other external liabilities	2,500	2,268	2,058	10%	21%
External liabilities	48,761	46,041	43,808	6%	11%
Risk Weighted Assets	62,184	58,489	54,897	6%	13%
<b>Ratios</b>					
Net interest margin	2.16%	2.16%	2.19%		
Return on assets	0.98%	0.92%	0.95%		
Return on risk weighted assets	1.81%	1.69%	1.77%		
Operating expenses to operating income	48.3%	49.5%	50.2%		
Operating expenses to average assets	1.47%	1.52%	1.54%		
Individual provision charge	(86)	(87)	(60)		
Individual provision charge as a % of average net advances	0.16%	0.17%	0.12%		
Net impaired loans	24	19	15	26%	60%
Net impaired loans as a % of net advances	0.02%	0.02%	0.02%		
Total employees	9,799	9,616	9,254	2%	6%

1. 2005 figures include allocations to make them comparable with March 2006  
 2. Other includes the branch network, whose costs are fully recovered from product business units, Private Banking and marketing and support costs  
 Core business performance excludes significant items and AIFRS adjustments



*BUSINESS PERFORMANCE REVIEW (continued)*



**March 2006 half year compared to September 2005 half year**

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

Profit after tax increased 12%, underpinned by strong loan and deposit growth (balances increased 6% in both categories) while maintaining a disciplined approach to pricing. Overall returns on risk adjusted assets increased, with margin growth in higher risk products offsetting the expected rise in bad debt costs.

Balance sheet growth drove the double digit earnings growth in Mortgages and Consumer Finance, while Rural Commercial and Agribusiness benefited from an improved credit environment. Banking Products continued to grow the deposit book above system levels. Investment & Insurance Products experienced strong growth from financial planner sales and other direct investment businesses and benefited from a 7% increase in INGA income.

Significant aspects to the result were:

§ Overall net interest income increased 5%. Mortgages and Rural Commercial and Agribusiness Products net interest income grew 6% in line with balance sheet growth as margins were held. Consumer Finance net interest income increased 6% with strong balance sheet growth of 10% partly offset by margin decline driven by strong growth in the lower rate MasterCard product. Banking Products net interest income increased by 3% with good deposit growth of 6% being partly offset by ongoing migration into lower margin products within the portfolio.

§ Other operating income increased 5%. Mortgages grew other income 28%, while Consumer Finance was relatively flat. Banking Products grew other income by 5% from higher numbers of transaction accounts. Financial planning income was up 11% from higher sales volumes. The contribution from the INGA increased following strong funds management and life risk performances. The underlying momentum in this business remains sound as market conditions are favourable and the life business continues to experience low levels of claims.

§ Operating costs increased 2% as the footprint expanded with 11 new branches and 134 more ATMs. This contributed to a 5% increase in premises costs and a 5% increase in personnel costs, with the latter also affected by annual salary rises. Computer costs fell as the previous half included charges for branch software now amortised fully.

§ Credit costs reduced 12% overall as there was a \$16 million beneficial adjustment in collective provisions due to a revision to oil price risk. Despite strong balance sheet growth individual provisions were flat reflecting seasonally lower March half year charges.

**March 2006 half year compared to March 2005 half year**



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

Profit after tax increased 16% with double digit profit growth recorded by all Personal businesses driven by a strong income performance.

Operating income increased 11% driven by strong volume growth across all businesses partly offset by margin contraction as higher growth was experienced in lower margin business. Double digit income growth was achieved by Mortgages (14%), Consumer Finance (13%) and Investment & Insurance Products. Sound revenue growth was achieved in Banking Products revenues (8%) and Rural Commercial and Agribusiness (7%). All businesses benefited from the investment in staff through the continued expansion of the footprint.

Operating expenses increased 7%, resulting from higher numbers of front line staff to service increased business volumes and ongoing investment in the branch network.

Credit impairment rose largely due to increases in overall lending volumes and the planned higher relative growth of Consumer Finance businesses, partly offset by a lower level of collective provisioning due to a revision to oil price risk.

40

---

*BUSINESS PERFORMANCE REVIEW (continued)*

**Institutional**

Steve Targett

Client Relationship Group      Corporate and Structured  
 Financing  
 Trade and Transaction Services      Debt Product Group  
 Markets  
 Other 1

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	568	509	544	12%	4%
Other external operating income	590	577	493	2%	20%
<b>Operating income</b>	1,158	1,086	1,037	7%	12%
External operating expenses	(339)	(324)	(310)	5%	9%
Net inter business unit expenses	(90)	(78)	(72)	15%	25%
<b>Operating expenses</b>	(429)	(402)	(382)	7%	12%
<b>Profit before credit impairment and income tax</b>	729	684	655	7%	11%
Provision for credit impairment	(33)	(30)	(21)	10%	57%
<b>Profit before income tax</b>	696	654	634	6%	10%
Income tax expense and minority interest	(210)	(193)	(184)	9%	14%
<b>Net profit attributable to shareholders of the Company</b>	486	461	450	5%	8%
<b>Consisting of:</b>					
Trade & Transaction Services	115	104	101	11%	14%
Markets	144	128	117	13%	23%
Corporate and Structured Financing	79	66	65	20%	22%
Debt Product Group	199	213	218	-7%	-9%
Other1	(51)	(50)	(51)	2%	-
	486	461	450	5%	8%
<b>Balance Sheet</b>					
Net loans & advances including acceptances	46,344	43,404	40,168	7%	15%
Other external assets	35,658	26,439	23,672	35%	51%
External assets	82,002	69,843	63,840	17%	28%
Deposits and other borrowings	36,205	32,403	31,886	12%	14%
Other external liabilities	31,389	22,712	20,660	38%	52%
External liabilities	67,594	55,115	52,546	23%	29%
Risk Weighted Assets	78,691	72,429	68,797	9%	14%
<b>Ratios</b>					
Net interest margin	1.66%	1.70%	2.02%		
Return on assets	1.28%	1.33%	1.50%		
Return on risk weighted assets	1.28%	1.33%	1.39%		
Operating expenses to operating income	37.0%	37.0%	36.8%		
Operating expenses to average assets	1.13%	1.16%	1.27%		
Individual provision charge	(38)	(11)	(12)	large	large
Individual provision charge as a % of average net advances	0.17%	0.05%	0.06%		
Net impaired loans	249	123	114	large	large
Net impaired loans as a % of net advances	0.54%	0.28%	0.28%		
Total employees	3,092	3,047	2,864	1%	8%

1. *Other includes Executive, Infrastructure and Client Relationship Group costs, not all of which are allocated to the Institutional businesses*  
*Core business performance excludes significant items and AIFRS adjustments*



*BUSINESS PERFORMANCE REVIEW (continued)*



March 2006 half year compared to September 2005 half year



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

Profit after tax increased by \$25 million (5%), as growth momentum established in the last half continued to strengthen. Strategic initiatives, aimed at tightening client focus and increasing solution driven sales, began to deliver improved results across the Institutional businesses this half.

Non-lending revenue increased reflecting the success of continuing efforts to move the mix of business from the debt product with disciplined use of capital and strong risk management. The Client Relationship Group actively leads the delivery of our client solutions.

Profit from Markets increased by 13% driven by a strong performance in New Zealand where currency and interest rate moves created favourable trading conditions, compared to the less volatile environment and softer corporate demand in the Australian market. Trade and Transaction Services increased 11% with high growth in the International Payments and Clearing Services business, strong offshore Trade Finance growth and the release of revenue that related to prior years. Corporate and Structured Financing profit increased 20% with a lower credit impairment charge resulting from the write-back of individual provisions during the half. Asset growth in the Debt Products Group was offset by competitive pressures and tighter credit spreads resulting in reduced margins and a 7% decrease in earnings. Credit quality remains sound.

Significant factors affecting the result were:

§ Net interest income grew by \$59 million (12%). Trade and Transaction Services increased \$29 million including increased deposit volumes and the release of revenue that related to prior years, partly offset by reduced lending volumes in International Trade Finance. Markets increased \$11 million, Debt Products Group increased by \$7 million, with lending growth of 2% offset by tighter spreads and competition causing margin erosion and Corporate and Structured Financing increased \$12 million.

§ Overall loan volumes increased 7%, while deposit volumes increased 12%. Net interest margin decreased by 4 basis points.

§ Other operating income increased \$13 million (2%). Markets increased \$27 million (9%) on the back of a strong New Zealand result and Trade and Transaction Services increased \$5 million. Corporate and Structured Financing other operating income reduced \$13 million (14%), with strong contributions from structured finance and private equity offset by reduced advisory fees following the particularly strong September 2005 half. Other operating income reduced by \$5 million in Debt Products Group, driven by competitive pricing pressure.

§ Operating expenses have increased by 7%, reflecting the investment being made in new growth initiatives and higher non-lending losses. Salary expenses increased 4%, and staff numbers increased by 1%. Institutional is building its staff capabilities to facilitate greater penetration of new business opportunities.

§ Provision for credit impairment increased by \$3 million. The individual provision charge was \$27 million higher, with two large new provisions in the half in Australia and New Zealand offset by recoveries. The collective provision charge reduced by \$24 million with a reduction in the provision held for oil price risk, the impact of the increase in individual provisions resulting from the down-grade of two large exposures to non-accrual and a stable risk profile on our lending assets. Net impaired loans have increased by \$126 million due largely to two corporate accounts in Australia and New Zealand.

**March 2006 half year compared to March 2005 half year**

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

Profit after tax increased by \$36 million (8%).

Operating income increased by 12%. Revenue in Trade and Transaction Services increased \$54 million on the back of stronger trade flows through Asia and the UK, increased International Payments foreign exchange revenue and the prior year income booked in the March 2006 half. Markets revenue increased \$58 million with stronger client and trading activities in Australia, New Zealand, the Pacific and Asia. Debt Products Group increased 1% with higher revenue and lending volume growth offset by margin contraction.

Operating expenses increased 12%. Staff costs were higher, due to investment in people, new capabilities and systems.

Provision for credit impairment increased \$12 million. Individual provisions increased reflecting the down-grade of two large accounts during the current half. Collective provision reduced reflecting the factors mentioned above.

42

---

*BUSINESS PERFORMANCE REVIEW (continued)*

**New Zealand Businesses**

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

Graham Hodges

ANZ Retail  
National Bank  
Retail  
Rural Banking

Corporate Banking  
Central Support (including  
Treasury)  
Excludes Institutional, UDC,  
integration and central funding

	Half year Mar 06 NZD M	Half year Sep 05 NZD M	Half year Mar 05 NZD M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	811	780	774	4%	5%
Other external operating income	268	270	253	-1%	6%
<b>Operating income</b>	1,079	1,050	1,027	3%	5%
External operating expenses	(538)	(533)	(496)	1%	8%
Net inter business unit expenses	3	2	(4)	50%	large
<b>Operating expenses</b>	(535)	(531)	(500)	1%	7%
<b>Profit before credit impairment and income tax</b>	544	519	527	5%	3%
Provision for credit impairment	(3)	(97)	(56)	-97%	-95%
<b>Profit before income tax</b>	541	422	471	28%	15%
Income tax expense and minority interest	(175)	(134)	(151)	31%	16%
<b>Net profit attributable to shareholders of the Company (NZD)</b>	366	288	320	27%	14%
<b>Net profit attributable to shareholders of the Company (AUD)</b>	335	265	295	26%	14%
<b>Consisting of:</b>					
ANZ Retail	98	92	99	7%	-1%
NBNZ Retail	128	109	110	17%	16%
Rural Banking	44	43	42	2%	5%
Corporate Banking	79	32	53	large	49%
Central Support	17	12	16	42%	6%
	366	288	320	27%	14%
<b>Balance Sheet</b>					
Net loans & advances including acceptances	64,866	60,656	56,777	7%	14%
Other external assets	6,120	5,290	4,156	16%	47%
External assets	70,986	65,946	60,933	8%	16%
Deposits and other borrowings	49,288	50,676	50,648	-3%	-3%
Other external liabilities	10,265	8,083	5,308	27%	93%
External liabilities	59,553	58,759	55,956	1%	6%
Risk Weighted Assets	52,015	48,098	45,381	8%	15%
<b>Ratios</b>					
Net interest margin	2.42%	2.49%	2.68%		
Return on assets	1.07%	0.91%	1.09%		
Return on risk weighted assets	1.47%	1.27%	1.46%		
Operating expenses to operating income	49.6%	50.6%	48.7%		
Operating expenses to average assets	1.57%	1.67%	1.71%		
Individual provision charge	(7)	(70)	(28)	-90%	-75%
Individual provision charge as a % of average net advances	0.02%	0.24%	0.10%		
Net impaired loans	75	111	38	-32%	97%
Net impaired loans as a % of net advances	0.12%	0.18%	0.07%		
Total employees	8,466	8,580	8,437	-1%	0%

Core business performance excludes significant items and AIFRS adjustments



*BUSINESS PERFORMANCE REVIEW (continued)*



**March 2006 half year compared to September 2005 half year**



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

Profit after tax for the New Zealand Businesses increased NZD78 million (27%) over the September 2005 half, assisted by a NZD63 million after tax reduction in the Provision for credit impairment. Profit before provisions increased 5%.

ANZ Retail, National Bank Retail and Corporate Banking posted strong profit growth with increases of 7%, 17% and 147% respectively. Solid asset growth in these businesses was partly offset by lower net interest margins due to price competition, increased wholesale funding, and continued unfavourable product mix with switching from variable rate to fixed rate mortgages. Profit before provisions grew by 5% in National Bank Retail and 4% in Corporate Banking. Profit before provisions in ANZ Retail and Rural Banking was flat, reflecting the competitor-driven net interest margin reduction and a seasonally stronger second half in Rural Banking. The results of the Retail Banks also include the liability for costs and compensation to customers relating to a Commerce Commission action on disclosure of optional issuer fees (NZD10 million) and the cost of the operation of domestic systems relocated to New Zealand under the integration program (NZD5 million).

Key influences on the result include the following:

§ Net interest income increased 4% (NZD31 million). Lending volumes increased 7% in NZD terms with growth in National Bank Retail (5%), ANZ Retail (8%), Corporate Banking (11%) and Rural (6%). NZD deposit volumes increased 5% in customer businesses with solid deposit growth in Corporate Banking (14%) and ANZ Retail (4%), where the On-line Call product was particularly successful. Deposits and other borrowings in Treasury reduced with other sources of wholesale funding increased to fund asset growth across the New Zealand businesses.

Net interest margins have reduced 7 basis points impacted by competition and customer migration from variable rate to fixed rate mortgages, increased requirement for wholesale funding, changes in deposit mix with growth in lower margin call (including ANZ On-line Call ) and term deposit products. Lending margins in Rural decreased slightly reflecting competition. These factors were partially offset by slightly stronger deposit margins.

§ Other operating income reduced marginally. Other income in National Bank Retail increased 12% relating to transactional and credit card accounts. Other income in Corporate Banking reduced, mainly in fees, with these being lumpy and seasonal in nature. Fees in Rural Banking were flat as were fees in ANZ Retail. Treasury other income reduced \$2 million but was offset by an increase in net interest income.

§ Operating expenses increased 1%. Salary increases, a small increase in numbers of front-line staff, and the cost of the Commerce Commission settlement (NZD10 million) were largely offset by a 6% reduction in the number of support staff and control of discretionary spend.

§ Provision for credit impairment reduced by NZD94 million. The collective provision reduced by NZD31 million, with increased lending volumes being offset by a lower provision for oil price risk, and an improved credit risk profile (an increased proportion of low risk residential and rural lending). The individual provision charge reduced by NZD63 million largely as a result of provisioning for two isolated corporate accounts and exposures to the apple and pear export industry in the preceding September half. Net impaired loans reduced NZD36 million as a result of the generally benign credit conditions.

**March 2006 half year compared to March 2005 half year**

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

Profit after tax increased 14%, with growth in National Bank Retail (16%), Rural Banking (5%), and Corporate Banking (49%). Profit in ANZ Retail was flat. Profit before provisions grew by 3% overall with growth in National Bank Retail (6%), Corporate Banking (8%) and Rural Banking (5%), partly offset by a reduction in ANZ Retail (-5%).

§ Net interest income increased 5%. Lending volumes increased 14% in NZD terms, with growth in all businesses, whilst deposits grew 8% in National Bank Retail and ANZ Retail. Interest margin has declined by 26 basis points reflecting the impact of competition, in particular the mortgage price war in the March 2005 half, product switching from variable rate to fixed rate mortgages, and a change in funding mix to higher rate deposit and wholesale products.

§ Other operating income increased 6%. Other income in National Bank Retail increased 20%, relating to transactional and credit card accounts. Other income in Corporate Banking reduced, mainly in fees, with these being lumpy in nature. Fees in Rural Banking and ANZ Retail also reduced slightly.

§ Operating expenses increased 7% with salary increases and a small increase in staff numbers reflecting an increased investment in frontline staff, and the NZD10 million cost associated with the Commerce Commission settlement and NZD5 million domestic system costs as discussed above.

§ Provision for credit impairment reduced NZD53 million. The individual provision charge reduced as a result of the provisioning for a number of isolated corporate accounts in the March 2005 half, and recoveries of previously provisioned corporate accounts in the current half. The collective provision charge reduced as a result of a lower provision for oil price risk, and an improved credit risk profile with lending growth mainly in low risk residential mortgages.

44

---

*BUSINESS PERFORMANCE REVIEW (continued)*

**Corporate Australia**

Mark Paton

Corporate Banking Australia  
Business Banking Australia  
Small Business Banking

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	461	447	432	3%	7%
Other external operating income	83	80	76	4%	9%
<b>Operating income</b>	544	527	508	3%	7%
External operating expenses	(137)	(123)	(124)	) 11%	10%
Net inter business unit expenses	(82)	(80)	(79)	) 3%	4%
<b>Operating expenses</b>	(219)	(203)	(203)	) 8%	8%
<b>Profit before credit impairment and income tax</b>	325	324	305	0%	7%
Provision for credit impairment	(22)	(46)	(45)	) -52%	-51%
<b>Profit before income tax</b>	303	278	260	9%	17%
Income tax expense and minority interest	(91)	(84)	(78)	) 8%	17%
<b>Net profit attributable to shareholders of the Company</b>	212	194	182	9%	16%
<b>Consisting of:</b>					
Business Banking Australia	103	92	89	12%	16%
Corporate Banking Australia	86	80	72	8%	19%
Small Business Banking	23	22	21	5%	10%
	212	194	182	9%	16%
<b>Balance Sheet</b>					
Net loans & advances including acceptances	23,941	22,793	21,655	5%	11%
Other external assets	130	109	113	19%	15%
External assets	24,071	22,902	21,768	5%	11%
Deposits and other borrowings	18,987	18,091	17,070	5%	11%
Other external liabilities	6,822	6,822	6,511	0%	5%
External liabilities	25,809	24,913	23,581	4%	9%
Risk Weighted Assets	23,450	22,301	21,007	5%	12%
<b>Ratios</b>					
Net interest margin	3.60%	3.66%	3.69%		
Return on assets	1.66%	1.60%	1.56%		
Return on risk weighted assets	1.82%	1.78%	1.75%		
Operating expenses to operating income	40.3%	38.5%	40.0%		
Operating expenses to average assets	1.72%	1.67%	1.74%		
Individual provision charge	(20)	(18)	(23)	11%	-13%
Net individual provision as a % of average net advances	0.17%	0.16%	0.22%		
Net impaired loans	30	38	54	-21%	-44%
Net impaired loans as a % of net advances	0.12%	0.17%	0.25%		
Total employees	2,025	1,987	1,924	2%	5%

*Core business performance excludes significant items and AIFRS adjustments*

*BUSINESS PERFORMANCE REVIEW (continued)*





**March 2006 half year compared to September 2005 half year**



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

Profit after tax increased by 9%, driven by strong balance sheet growth and continued improvement in the credit quality of the lending portfolio, partially offset by the impact of competitive pressures on margins and fees. The business franchise remains strong with leading levels of customer satisfaction and low propensity to switch, as well as very high levels of employee engagement. The business model has been further enhanced by the ongoing expansion of the Wall Street to Main Street (WSTMS) proposition for the Corporate market, the newly created Small Business segment and our industry specialisation models. ANZ received the CFO Magazine Business Bank of the Year award for 2005.

Significant influences on the result were:

§ Net interest income increased 3% driven by growth in both average lending (6%) and average deposits (7%).

The solid growth in average lending (Corporate Banking 7%, Business Banking 6% and Small Business Banking 16%) and average deposit volumes (Corporate Banking 7%, Business Banking 7% and Small Business Banking 10%) was the result of a continued focus on new customer acquisition as well as growth from existing customers. Key factors in achieving growth were ANZ's leading customer service proposition, continued investment in people and process simplification, as well as the industry and local market specialisation approach to customers.

The net interest margin declined by 6 basis points, largely driven by ongoing competitive pressures in the lending book, as well as some moderate compression of margins on the deposit portfolio.

§ Other external operating income increased 4%, largely from continued growth in the WSTMS proposition, including private equity exit profits, with marginal growth in other fees. The WSTMS proposition continues to grow our portfolio and future earnings potential, with 13 deals closing this half, bringing the total Corporate Private Equity portfolio value to over \$200 million.

§ Operating expenses increased 8% including:

- the impact of an expense refund relating to prior periods in the September 2005 half year;
- continued investment in front line staff (particularly in Small Business) and the WSTMS proposition and the creation of new Corporate Banking regions; and
- higher branch costs as a result of our increased branch footprint.

After adjusting for these factors Operating expenses, including the impact of annual salary rises and on-going commitment to the Graduate program, were well managed at 2%.

§ The benefits of our on-going productivity agenda are reflected in the increase in revenue per average FTE. Productivity gains in back and middle office operations and shared service areas have been used to partially fund the on-going investment program. The cost to income ratio remains low at 40% in line with last half, allowing for the impact of the expense refund in September 2005.

§ Credit quality remains sound and the overall quality of our credit portfolio has improved over the period. This reflects the strong focus on risk management and compliance in both the Business Banking and Corporate Banking segments and the impact of the continued de-risking of our portfolio, as well as the strength of the economy and business confidence. Provision for credit impairment decreased by 52% and impaired loans as a percentage of net loans and advances decreased to 0.12% over the period.

**March 2006 half year compared to March 2005 half year**

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

Profit after tax increased 16%, with solid growth in all businesses. Net interest income increased 7% due to growth of 10% in average lending and 11% growth in average deposit volumes. Net interest margins declined 9 basis points due principally to competitive pressures. Other external operating income increased by 9% due to an increase in advisory and ANZ Online fee income. Operating costs increased by 8% mainly due to continued investment in frontline staff and salary increases. Provision for credit impairment decreased by 51% and net impaired loans as a percentage of net advances reduced by 52% reflecting the improvement in the quality of the credit portfolio.

46

---

**BUSINESS PERFORMANCE REVIEW (continued)****Esanda and UDC**

David Hisco

**A leading provider of vehicle and equipment finance, rental services and**

fixed and at call investments. Operates in Australia as Esanda and Esanda FleetPartners and in New Zealand as UDC and Esanda FleetPartners

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>
Net interest income	202	207	202	-2%	-
Other external operating income	25	42	37	-40%	-32%
<b>Operating income</b>	<b>227</b>	<b>249</b>	<b>239</b>	<b>-9%</b>	<b>-5%</b>
External operating expenses	(84)	(82)	(82)	2%	2%
Net inter business unit expenses	(18)	(18)	(20)	0%	-10%
<b>Operating expenses</b>	<b>(102)</b>	<b>(100)</b>	<b>(102)</b>	<b>2%</b>	<b>-</b>
<b>Profit before credit impairment and income tax</b>	<b>125</b>	<b>149</b>	<b>137</b>	<b>-16%</b>	<b>-9%</b>
Provision for credit impairment	(49)	(67)	(42)	-27%	17%
<b>Profit before income tax</b>	<b>76</b>	<b>82</b>	<b>95</b>	<b>-7%</b>	<b>-20%</b>
Income tax expense and minority interest	(23)	(27)	(29)	-15%	-21%
<b>Net profit attributable to shareholders of the Company</b>	<b>53</b>	<b>55</b>	<b>66</b>	<b>-4%</b>	<b>-20%</b>
Net interest margin	2.65	% 2.79	% 2.82	%	
Operating expenses to operating income	44.9	% 40.2	% 42.7	%	
Individual provision charge	(35)	(48)	(24)	-27%	46%
Net impaired loans	39	40	43	-3%	-9%
Total employees	1,335	1,352	1,349	-1%	-1%

*Core business performance excludes significant items and AIFRS adjustments*

March 2006 half year compared to September 2005 half year

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

Profit after tax decreased by 4%. Profit growth in Australia of 9% was offset by a 31% profit reduction in New Zealand which was impacted by structural changes made last year and competitive pressure. Overall the Australian business continues to provide opportunities for future profit growth. A number of actions are underway in the New Zealand businesses to return to profitable growth.

Significant influences on the result were:

§ Net interest income declined 2%, with a 3% increase in lending volumes in Australia from solid new business writings offset by an 11% reduction in volumes in New Zealand. A 14 basis point decline in margins resulted from the run-off of higher yielding loans during the half which were replaced by lower margin new business. Pricing initiatives have been put in place to stabilise margins and grow revenue, the impact of which will flow through in the March 2007 half.

§ Other operating income decreased 40%, due to a \$6 million impact from a fall in second-hand car prices as well as the inclusion of a \$7 million gain in the September 2005 half year resulting from the alignment of revenue recognition on leases in the New Zealand Fleet business with Group accounting policies.

§ Operating expenses increased by 2% due to annual salary increases. These increases were partly offset by a \$6 million reduction in indirect taxes.

§ Provision for credit impairment decreased by 27% despite a 1% increase in lending volumes. Individual provision charge was lower compared to the 2005 half, largely associated with improvement in the commercial loan portfolio and the exited aircraft lease business (\$9 million) in 2005.

**March 2006 half year compared to March 2005 half year**

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

Profit after tax decreased by 20%. Net interest income was flat with a 5% increase in lending volumes offset by a 17 basis point margin reduction. Other operating income decreased 32% due to a \$10 million impact from the fall in second-hand car prices. Operating expenses were flat with an increase in personnel costs due to annual salary increases offset by a \$6 million reduction in indirect taxes. Provision for credit impairment increased 17% and individual provision charge increased \$11 million with an individual loss of \$5 million in the March 2006 half.

47

---

*BUSINESS PERFORMANCE REVIEW (continued)*

Asia Pacific



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

Bob Edgar

Provision of retail and corporate banking services in the Pacific region and Asia, including ANZ's share of PT Panin Bank in Indonesia; this business excludes Institutional businesses, which are a matrix responsibility and included in Institutional business unit results. Geographic results are included on page 51

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>
Net interest income	96	89	80	8%	20%
Other external operating income	71	71	70	0%	1%
<b>Operating income</b>	167	160	150	4%	11%
External operating expenses	(103)	) (93)	) (83)	) 11%	24%
Net inter business unit expenses	1	1	-	0%	n/a
<b>Operating expenses</b>	(102)	) (92)	) (83)	) 11%	23%
<b>Profit before credit impairment and income tax</b>	65	68	67	-4%	-3%
Provision for credit impairment	(8)	) (13)	) (21)	) -38%	-62%
<b>Profit before income tax</b>	57	55	46	4%	24%
Income tax expense and minority interest	(11)	) (11)	) (7)	) 0%	57%
<b>Net profit attributable to shareholders of the Company</b>	46	44	39	5%	18%
Operating expenses to operating income	61.1	% 57.5	% 55.3	%	
Individual provision charge	(6)	) (7)	) (17)	) -14%	-65%
Net impaired loans	8	21	14	-62%	-43%
Total employees	2,248	2,196	2,040	2%	10%
<i>Core business performance excludes significant items and AIFRS adjustments</i>					

March 2006 half year compared to September 2005 half year

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

Profit after tax increased by 5%. Excluding the impact of exchange rate movements profit increased 1%. A strong result in the Pacific (up 23%) was partly offset by lower equity accounted earnings for PT Panin Bank.

Excluding exchange rate movements the main drivers of the results were:

§ Net interest income increased 7% driven by a 12% growth in lending volumes. Growth in lending was particularly strong in Fiji, Samoa and PNG.

§ Other external operating income reduced 4%. Fee growth of 7% largely in the Cards business in Indonesia was offset by lower equity accounting earnings for PT Panin Bank (\$4 million) and a reduction in foreign exchange income (\$2 million) from the particularly strong September 2005 half.

§ Operating expenses increased 9% as a result of costs associated with building partner relationships in China and Vietnam, the first full half of operating costs in Cambodia, and additional customer facing staff in the Pacific.

§ Provision for credit impairment reduced by \$4 million. The individual provision charge reduced largely as a result of the write-back of provisioning in Fiji.

§ Income tax expense was flat.

**March 2006 half year compared to March 2005 half year**

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

Profit after tax increased 18%. Net interest increased 20% driven by 28% growth in lending volumes and 14% growth in deposit volumes. Other operating income increased slightly with strong card and other fee growth and increased foreign exchange revenue being partly offset by reduced equity accounted income from PT Panin. Operating expenses increased 23% largely as a result of advancing the partnership business agenda in Asia and additional customer facing staff in the Pacific. The impact of exchange rate movements was less than 3%.

48

---

*BUSINESS PERFORMANCE REVIEW (continued)*



**Non-continuing businesses**

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

Steve Targett

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

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	11	36	26	-69%	-58%
Other external operating income	18	-	7	n/a	large
<b>Operating income</b>	<b>29</b>	<b>36</b>	<b>33</b>	<b>-19%</b>	<b>-12%</b>
External operating expenses	-	-	(6	) n/a	-100%
Net inter business unit expenses	(1	) (8	) (10	) -88%	-90%
<b>Operating expenses</b>	<b>(1</b>	<b>) (8</b>	<b>) (16</b>	<b>) -88%</b>	<b>-94%</b>
<b>Profit before credit impairment and income tax</b>	<b>28</b>	<b>28</b>	<b>17</b>	<b>0%</b>	<b>65%</b>
Provision for credit impairment	8	53	44	-85%	-82%
<b>Profit before income tax</b>	<b>36</b>	<b>81</b>	<b>61</b>	<b>-56%</b>	<b>-41%</b>
Income tax expense and minority interest	(6	) (18	) 2	) -67%	large
<b>Net profit attributable to shareholders of the Company</b>	<b>30</b>	<b>63</b>	<b>63</b>	<b>-52%</b>	<b>-52%</b>
Operating expenses to operating income	3.4	% 22.2	% 48.5	%	
Individual provision (charge) credit	3	30	11	-90%	-73%
Net impaired loans	7	45	52	-84%	-87%
Total employees	-	5	9	-100%	-100%

### March 2006 half year compared to September 2005 half year

Profit after tax reduced by \$33 million (52%). Significant factors affecting the result were:

§ Net interest income reduced by \$25 million reflecting a 48% (\$0.8 billion) reduction in lending volumes from the September 2005 half.

§ Other operating income of \$18 million largely represents a \$12 million release of provisions created on the sale of the London headquartered project finance business following the expiry of certain warranties provided to Standard Chartered Bank and a \$4 million gain on sale of power assets.

§ Operating expenses reduced by \$7 million, with the remaining expenses being legal and restructuring costs associated with the legacy balances in the London headquartered project finance business.

§ Provision for credit impairment credit decreased by \$45 million. The individual provision credit in the September 2005 half reflected the net recovery of \$30 million on legacy project finance assets. The remainder of the credit impairment credit, \$23 million credit in the collective provisions resulted from the significant reduction in risk as the legacy assets matured or were sold.

### March 2006 half year compared to March 2005 half year

Profit after tax reduced by \$33 million (52%). Operating income reduced by \$4 million, with reduced net interest income resulting from a \$2.3 billion reduction in lending volumes partly offset by an \$11 million increase in other operating income. The \$18 million other operating income in the current half was largely from the release of provisions created on the sale of the London headquartered project finance business, whilst the March 2005 half included \$4 million profit on the sale of those businesses.

Operating expenses reduced by \$15 million with the London headquartered project finance business being sold part way through the March 2005 half. Provision for credit impairment reduced by \$36 million. The March 2005 half included a net recovery of \$11 million in individual provisions and a \$33 million credit in the collective provision charge resulting from the significant reduction in risk as legacy assets matured or were sold through that half.

Non-continuing businesses





*BUSINESS PERFORMANCE REVIEW (continued)*



## Group Centre

◆ Group People Capital	◆ Group Strategic Development
◆ Group Risk Management	◆ Group Financial Management
◆ Treasury	◆ Operations, Technology and
	Shared Services

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Net interest income	110	104	81	6%	36%
Other external operating income	22	26	39	-15%	-44%
<b>Operating income</b>	132	130	120	2%	10%
External operating expenses	(377)	(395)	(387)	-5%	-3%
Net inter business unit expenses	275	271	266	1%	3%
<b>Operating expenses</b>	(102)	(124)	(121)	-18%	-16%
<b>Profit before credit impairment and income tax</b>	30	6	(1)	large	large
Provision for credit impairment	-	-	-	n/a	n/a
<b>Profit before income tax</b>	30	6	(1)	large	large
Income tax expense and minority interest	(3)	10	6	large	large
<b>Net profit attributable to shareholders of the Company</b>	27	16	5	69%	large
<b>Including:</b>					
Treasury	10	10	9	0%	11%
Total employees	4,098	4,023	3,875	2%	6%

**March 2006 half year compared to September 2005 half year**

The result for the Group Centre was \$27 million profit compared with \$16 million in the September 2005 half. Significant influences on the result were:

§ Movements in the average NZD exchange rate resulted in a \$9 million after tax increase in income on contracts put in place to hedge NZD denominated earnings. These gains were partly offset in New Zealand Businesses, and the New Zealand component of the Institutional and Esanda (UDC) businesses. The gains on the NZD contracts were partly offset by the maturity of contracts put in place to hedge USD revenues, which resulted in a decline of \$6 million after tax.

§ Other operating income decreased \$4 million with lower capital investment earnings (net of hedge costs) from INGA. Capital investment hedges were terminated in October 2005.

§ Operating expenses reduced \$22 million with lower non-incremental New Zealand businesses System Integration costs and other project costs.

§ Income tax expense increase reflects a tax benefit booked in the prior half in respect of issue costs for the 2 for 11 rights issue, and lower INGA non-taxable Capital investment earnings.

**March 2006 half year compared to March 2005 half year**

The half year profit of \$27 million was \$22 million higher than the March 2005 half. Revenue increased \$12 million with higher net interest offset by lower capital investment earnings (net of hedge earnings) in INGA following the payment of dividends. External operating expenses reduced 3% with the inclusion of provisioning for cheque conversion fraud in the March 2005 half.

*GEOGRAPHIC SEGMENT PERFORMANCE*

**Geographic performance**

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>
<b>Net profit attributable to shareholders of the company</b>					
Australia	1,196	1,105	1,043	8%	15%
New Zealand	422	340	355	24%	19%
Asia Pacific	110	101	84	9%	31%
Other	83	74	73	12%	14%
	1,811	1,620	1,555	12%	16%

51

---

**FOUR YEAR SUMMARY BY HALF YEAR**

	Mar 06	Sep 05	Mar 05	Sep 04	Mar 04	Previous AGAAP1		Mar 03	Sep 02
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Income Statement</b>									
Net interest income	3,368	2,953	2,865	2,745	2,507	2,171	2,140	2,053	
Other operating income	1,595	1,861	1,717	1,694	1,681	1,456	1,352	1,561	
Operating expense	(2,185)	(2,266)	(2,152)	(2,103)	(1,902)	(1,626)	(1,602)	(1,575)	
Provision for credit impairment	(224)	(296)	(284)	(319)	(313)	(311)	(303)	(309)	
Profit before income tax	2,554	2,252	2,146	2,017	1,973	1,690	1,587	1,730	
Income tax expense	(742)	(630)	(590)	(597)	(574)	(482)	(444)	(457)	
Minority interest	(1)	(2)	(1)	(1)	(3)	(1)	(2)	(1)	
<b>Net profit attributable to shareholders of the Company</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>1,141</b>	<b>1,272</b>	
<b>Income Statement</b>									
	Mar 06	Sep 05	Mar 05	Sep 04	Mar 04	Previous AGAAP1		Mar 03	Sep 02
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Net interest income	3,368	3,231	3,140	2,745	2,507	2,171	2,140	2,053	
Other operating income	1,563	1,528	1,407	1,694	1,573	1,456	1,352	1,387	
Operating expense	(2,259)	(2,213)	(2,127)	(2,103)	(1,902)	(1,626)	(1,602)	(1,575)	
Provision for credit impairment	(224)	(325)	(240)	(319)	(313)	(311)	(303)	(309)	
Profit before income tax	2,448	2,221	2,180	2,017	1,865	1,690	1,587	1,556	
Income tax expense	(716)	(636)	(611)	(597)	(550)	(482)	(444)	(453)	
Minority interest	(1)	(2)	(1)	(1)	(3)	(1)	(2)	(1)	
Cash profit <sup>2,7</sup>	1,731	1,583	1,568	1,419	1,312	1,207	1,141	1,102	
Non-core items <sup>2</sup>	80	37	(13)	-	84	-	-	170	
<b>Net profit attributable to shareholders of the Company</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>1,141</b>	<b>1,272</b>	
<b>Balance Sheet</b>									
Assets	319,363	298,104	282,784	259,345	247,288	195,591	190,518	183,105	
Net assets	18,796	19,538	18,927	17,925	16,748	13,787	12,485	11,465	
<b>Ratios</b>									
Return on average ordinary equity <sup>3</sup>	20.9	% 18.3	% 18.3	% 17.3	% 19.1	% 20.9	% 20.3	% 24.8	%
Return on average assets	1.2	% 1.1	% 1.1	% 1.1	% 1.2	% 1.2	% 1.2	% 1.4	%
Tier 1 capital ratio	6.8	% 6.9	% 7.0	% 6.9	% 7.0	% 7.7	% 7.7	% 7.9	%
Operating expenses <sup>4</sup> to operating income	44.0	% 47.1	% 47.0	% 45.8	% 43.9	% 44.6	% 45.6	% 43.3	%
Core operating expenses <sup>4</sup> to operating income	45.8	% 46.5	% 46.8	% 45.5	% 45.1	% 44.6	% 45.6	% 45.5	%
<b>Shareholder value - ordinary shares</b>									
Total return to shareholders (share price movement plus dividends)	13.2	% 19.2	% 11.3	% 3.0	% 13.6	% 2.5	% 4.1	% 1.4	%
Market capitalisation	48,461	43,834	37,584	34,586	34,284	27,314	27,135	26,544	
Dividend	56 cents	59 cents	51 cents	54 cents	47 cents	51 cents	44 cents	46 cents	
Franked portion	100	% 100	% 100	% 100	% 100	% 100	% 100	% 100	%
<b>Share price<sup>5</sup></b>									
- high	\$26.70	\$24.45	\$22.02	\$19.44	\$19.40	\$18.45	\$18.19	\$19.70	
- low	\$22.70	\$20.53	\$19.02	\$17.45	\$15.94	\$16.66	\$15.01	\$16.18	
- closing	\$26.50	\$24.00	\$20.62	\$19.02	\$18.96	\$17.17	\$17.15	\$16.88	
<b>Share information (per fully paid ordinary share)</b>									
Earnings per share - basic <sup>5</sup>	98.4	86.3	83.2	76.4c	76.8c	73.3c	69.1c	77.7c	
Dividend payout ratio	56.9	% 68.4	% 61.3	% 71.0	% 63.8	% 67.0	% 61.3	% 57.0	%
Net tangible assets	\$8.00	\$7.77	\$7.38	\$7.51	\$6.94	\$7.49	\$7.32	\$6.58	
<b>Number of fully paid ordinary shares on issue (millions)</b>									
	1,828.7	1,826.4	1,822.7	1,818.4	1,808.2	1,521.7	1,513.4	1,503.9	
<b>Other information</b>									
Permanent employees (FTE)	29,617	29,471	28,388	27,383	26,585	21,586	21,218	21,380	
Temporary employees (FTE)	1,446	1,505	1,444	1,372	1,386	1,551	1,265	1,102	
Total employees	31,063	30,976	29,832	28,755	27,971	23,137	22,483	22,482	

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

Number of shareholders	<b>273,503</b>	263,467	255,655	252,072	245,173	223,545	210,512	198,716
------------------------	----------------	---------	---------	---------	---------	---------	---------	---------

52

---

**FOUR YEAR SUMMARY BY HALF YEAR (continued)**

1. An explanation of the differences between accounting under current AGAAP (AIFRS) as opposed to previous AGAAP is set out on pages 11 to 14
2. ANZ has reduced the September 2005 profit after tax by \$46 million (Mar 2005: \$15 million increase) to bring the result for that period to an AIFRS basis that is fully comparable with March 2006 figures (refer page 3), allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005. No adjustment has been made to retrospectively designate derivatives hedging the Group's funding on the basis of impracticability. In the March 2006 half ANZ has classified the \$113 million (\$79 million after tax) settlement of the NHB insurance matter and the \$14 million after tax settlement of warranty claims on Lloyds TSB plc (tax on warranty settlement: \$nil) as significant items. In the September 2005 half ANZ classified \$14 million after tax profit on the sale of NBNZ life and funds management businesses as a significant item (tax on gain on sale of NBNZ life and funds management businesses: \$nil). ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11). In the March 2006 half ANZ has classified \$13 million after tax profit (Sep 2005: \$12 million; Mar 2005 \$19 million) 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, profit or loss on disposal of investment securities, and fair value movement in bonds and notes designated at fair value as a non-core item. ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (tax on hedge gains/losses \$5 million (Sep 2005: \$4 million; Mar 2005: \$8 million)). In the March 2006 half ANZ has incurred \$26 million after tax ANZ National Bank incremental integration costs (Sep 2005 half: \$35 million; Mar 2005 half: \$17 million). Tax on ANZ National Bank incremental integration costs is \$13 million (Sep 2005: \$18 million; Mar 2005: \$8 million). 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 (refer page 11)
3. Average ordinary shareholders' equity excludes minority interest
4. Operating expenses excludes goodwill amortisation of \$nil (Sep 2005: \$nil; Mar 2005: \$nil; Sep 2004: \$83 million; Mar 2004: \$63 million; Sep 2003: \$9 million; Mar 2003: \$9 million; Sep 2002: \$10 million). Under AIFRS goodwill is not amortised and therefore was not recognised from the March 2005 period onwards
5. September 2003 and prior periods adjusted for the bonus element of the rights issue
6. Excludes employees whose only ANZ shares are held in trust under ANZ employee share schemes
7. Refer page 14 for a reconciliation of Net Profit to Cash Profit. Refer page 11 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ's financial conditions and results of operations



Australia and New Zealand Banking Group Limited

*CONSOLIDATED CONDENSED FINANCIAL STATEMENTS AND OTHER DISCLOSURES*

(prepared in Australian Dollars (\$))

Half year ended  
31 March 2006

*CONSOLIDATED FINANCIAL STATEMENTS TABLE OF CONTENTS*

*CONTENTS*

	<i>PAGE</i>
<u>Consolidated Condensed Income Statement</u>	<u>57</u>
<u>Consolidated Condensed Balance Sheet</u>	<u>58</u>
<u>Consolidated Condensed Statement of Recognised Income and Expense</u>	<u>59</u>
<u>Consolidated Condensed Cash flow statement</u>	<u>60</u>
<u>Notes to Financial Statements</u>	<u>61</u>
<u>1. Significant Accounting policies</u>	<u>61</u>
<u>2. Income</u>	<u>67</u>
<u>3. Operating expenses</u>	<u>68</u>
<u>4. Income tax expense</u>	<u>69</u>
<u>5. Dividends</u>	<u>70</u>
<u>6. Earnings per share</u>	<u>71</u>
<u>7. Derivative financial instruments</u>	<u>72</u>
<u>8. Net loans and advances</u>	<u>74</u>
<u>9. Impaired financial assets</u>	<u>75</u>
<u>10. Provision for credit impairment</u>	<u>78</u>
<u>11. Loan capital</u>	<u>79</u>
<u>12. Share Capital</u>	<u>79</u>
<u>13. Shareholders' Equity</u>	<u>80</u>
<u>14. Capital Management</u>	<u>82</u>
<u>15. Average balance sheet and related interest - statutory basis</u>	<u>84</u>
<u>16. Interest spreads and net interest average margins - statutory basis</u>	<u>87</u>
<u>17. Segment analysis</u>	<u>88</u>
<u>18. Contingent liabilities and contingent assets</u>	<u>89</u>
<u>19. Note to the Cash Flow Statement</u>	<u>91</u>
<u>20. Changes in composition of the Group</u>	<u>92</u>
<u>21. Associates, joint venture entities and investments</u>	<u>92</u>
<u>22. Exchange rates</u>	<u>93</u>
<u>23. Significant events since balance date</u>	<u>93</u>
<u>24. Impact of adopting Australian Equivalents to International Financial Reporting Standards (AIFRS)</u>	<u>94</u>
<u>25. US GAAP Reconciliation</u>	<u>109</u>
<u>Definitions</u>	<u>124</u>
<u>Alphabetical Index</u>	<u>126</u>

**This page has been left blank intentionally**

*CONSOLIDATED CONDENSED INCOME STATEMENT*

		Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Total income	Note 2	12,372	11,160	10,137	11%	22%
Interest income		10,777	9,299	8,420	16%	28%
Interest expense		(7,409 )	(6,346 )	(5,555 )	17%	33%
Net interest income	2	3,368	2,953	2,865	14%	18%
Other operating income	2	1,595	1,861	1,717	-14%	-7%
Operating income		4,963	4,814	4,582	3%	8%
Operating expenses	3	(2,185 )	(2,266 )	(2,152 )	-4%	2%
Profit before credit impairment and income tax		2,778	2,548	2,430	9%	14%
Provision for credit impairment	10	(224 )	(296 )	(284 )	-24%	-21%
<b>Profit before income tax</b>		2,554	2,252	2,146	13%	19%
Income tax expense	4	(742 )	(630 )	(590 )	18%	26%
<b>Profit for the period</b>		1,812	1,622	1,556	12%	16%
Net profit attributable to minority interest		(1 )	(2 )	(1 )	-50%	0%
<b>Net profit attributable to shareholders of the Company</b>		1,811	1,620	1,555	12%	16%
<b>Earnings per ordinary share (cents)</b>						
Basic	6	98.4	86.3	83.2	14%	18%
Diluted	6	96.1	84.3	80.6	14%	19%
<b>Dividend per ordinary share (cents)</b>	5	56	59	51	-5%	10%
<b>Net tangible assets per ordinary share (\$)</b>		8.00	7.77	7.38	3%	8%

The notes appearing on pages 61 to 122 form an integral part of these financial statements

## CONSOLIDATED CONDENSED BALANCE SHEET

	Note	As at Mar 06 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05
<b>Assets</b>						
Liquid assets		13,870	11,601	8,856	20%	57%
Due from other financial institutions		8,336	6,348	6,428	31%	30%
Trading securities <sup>1</sup>		8,721	6,285	6,108	39%	43%
Derivative financial instruments	7	7,485	3,730	4,002	large	87%
Available for sale assets <sup>2</sup>		13,287	10,042	9,586	32%	39%
Net loans and advances	8	241,546	232,490	220,394	4%	10%
Customers' liability for acceptances		13,692	13,449	12,922	2%	6%
Regulatory deposits		214	159	143	35%	50%
Interests in associates and joint venture entities		1,912	1,926	1,796	-1%	6%
Deferred tax assets		1,460	1,389	1,283	5%	14%
Goodwill and other intangible assets <sup>3</sup>		3,269	3,454	3,608	-5%	-9%
Other assets <sup>4,5</sup>		4,510	6,177	6,583	-27%	-31%
Premises and equipment		1,061	1,054	1,075	1%	-1%
<b>Total assets</b>		<b>319,363</b>	<b>298,104</b>	<b>282,784</b>	<b>7%</b>	<b>13%</b>
<b>Liabilities</b>						
Due to other financial institutions		13,345	12,027	10,056	11%	33%
Deposits and other borrowings		196,850	190,322	185,177	3%	6%
Derivative financial instruments	7	6,134	4,225	4,987	45%	23%
Liability for acceptances		13,692	13,449	12,922	2%	6%
Income tax liabilities		1,897	1,801	1,705	5%	11%
Payables and other liabilities <sup>5</sup>		9,697	7,618	7,703	27%	26%
Provisions		908	914	865	-1%	5%
Bonds and notes		46,923	39,073	32,321	20%	45%
Loan capital <sup>6</sup>	11	11,121	9,137	8,121	22%	37%
<b>Total liabilities</b>		<b>300,567</b>	<b>278,566</b>	<b>263,857</b>	<b>8%</b>	<b>14%</b>
<b>Net assets</b>		<b>18,796</b>	<b>19,538</b>	<b>18,927</b>	<b>-4%</b>	<b>-1%</b>
<b>Shareholders' equity</b>						
Ordinary share capital	12,13	8,068	8,053	7,982	0%	1%
Preference share capital	12,13	871	1,858	1,858	-53%	-53%
Reserves	13	(156)	(46)	102	large	large
Retained profits		9,979	9,646	8,967	3%	11%
Share capital and reserves attributable to shareholders of the Company		18,762	19,511	18,909	-4%	-1%
Minority interest		34	27	18	26%	89%
<b>Total shareholders' equity</b>		<b>18,796</b>	<b>19,538</b>	<b>18,927</b>	<b>-4%</b>	<b>-1%</b>
Contingent liabilities and contingent assets	18					

1. Includes bills held in portfolio \$1,167 million (Sep 2005: \$1,182 million; Mar 2005: \$1,395 million)

2. In 2005 available for sale assets were reported as investment securities

3. Excludes notional goodwill in equity accounted entities

4. Includes interest revenue receivable \$1,468 million (Sep 2005: \$1,443 million; Mar 2005: \$1,522 million)

5. Other assets includes life insurance assets of \$nil (Sep 2005: \$nil; Mar 2005: \$50 million). Payables and other liabilities includes policy holder liabilities of \$nil (Sep 2005: \$nil; Mar 2005: \$31 million)

6. Includes \$1,536 million (Sep 2005: \$1,443 million; Mar 2005: \$1,425 million) hybrid loan capital that qualifies for Tier 1 capital as defined by the Australian Prudential Regulation Authority

The notes appearing on pages 61 to 122 form an integral part of these financial statements

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

	Half year Mar 06	Half year Sep 05	Half year Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
	\$M	\$M	\$M		
<b>Items recognised directly in equity</b>					
Revaluation of investments in controlled entities	-	-	-	n/a	n/a
Currency translation adjustments					
Exchange differences taken to equity	(305	) (159	) (284	) 92%	7%
Transferred to income statement on sale	-	-	-	n/a	n/a
Available-for-sale assets					
Valuation gain (loss) taken to equity	22	-	-	n/a	n/a
Cumulative gain (loss) transferred to the income statement on sale	-	-	-	n/a	n/a
Cash flow hedges					
Valuation gain (loss) taken to equity	31	-	-	n/a	n/a
Transferred to income statement for the period	(14	) -	-	n/a	n/a
Actuarial gain (loss) on defined benefit plans	34	27	8	26%	large
Income tax recognised directly in equity	(16	) (9	) (1	) 78%	large
<b>Net loss recognised directly in equity</b>	<b>(248</b>	<b>) (141</b>	<b>) (277</b>	<b>) 76%</b>	<b>-10%</b>
<b>Profit for the period</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>12%</b>	<b>16%</b>
<b>Total recognised income and expense for the period</b>	<b>1,563</b>	<b>1,479</b>	<b>1,278</b>	<b>6%</b>	<b>22%</b>
Total recognised income and expense attributable to minority interest	1	2	1	-50%	0%
<b>Total recognised income and expense attributable to shareholders of the company</b>	<b>1,564</b>	<b>1,481</b>	<b>1,279</b>	<b>6%</b>	<b>22%</b>

The notes appearing on pages 61 to 122 form an integral part of these financial statements

*Consolidated Condensed Cash flow statement*

	Note	Half year Mar 06 Inflows (Outflows) \$M	Half year Sep 05 Inflows (Outflows) \$M	Half year Mar 05 Inflows (Outflows) \$M
<b>Cash flows from operating activities</b>				
Interest received		11,179	9,169	8,699
Dividends received		49	106	38
Fee income received		1,016	1,360	943
Other income received		581	861	152
Interest paid		(7,299)	(6,003)	(5,411)
Personnel expenses paid		(1,383)	(1,285)	(1,213)
Premises expenses paid		(188)	(186)	(181)
Other operating expenses paid		(1,244)	(1,094)	(1,050)
Recovery from NHB litigation		87	-	-
Income taxes paid				
Australia		(539)	(294)	(278)
Overseas		(82)	(305)	(195)
Net Goods and Services Tax received (paid)		(5)	24	(6)
<i>(Increase) decrease in operating assets:</i>				
Liquid assets - greater than three months		(1,798)	(358)	(370)
Due from other financial institutions		806	(358)	(13)
Trading securities		881	(183)	(638)
Regulatory deposits		(47)	(19)	24
Loans and advances		(16,502)	(13,365)	(15,423)
<i>Increase (decrease) in operating liabilities</i>				
Deposits and other borrowings		8,729	5,802	14,054
Due to other financial institutions		1,159	2,080	2,892
Payables and other liabilities		119	(652)	(687)
<b>Net cash provided by operating activities</b>	19	(4,481)	(4,700)	1,337
<b>Cash flows from investing activities</b>				
Net decrease (increase):				
Shares in controlled entities and associates		(62)	(86)	243
Available for sale assets				
Purchases		(7,657)	(7,603)	(9,585)
Proceeds from sale or maturity		8,217	7,394	10,462
Controlled entities and associates				
Purchased (net of cash acquired)		-	(149)	-
Proceeds from sale (net of cash disposed)		-	144	-
Premises and equipment				
Purchases		(153)	(170)	(155)
Proceeds from sale		2	81	5
Other		86	255	(1,975)
<b>Net cash (used in) investing activities</b>		433	(134)	(1,005)
<b>Cash flows from financing activities</b>				
Net (decrease) increase				
Bonds and notes				
Issue proceeds		9,924	9,649	8,319
Redemptions		(4,139)	(2,396)	(2,629)
Loan capital				
Issue proceeds		609	1,225	-
Redemptions		-	(93)	-
Decrease in minority interests		2	8	-
Dividends paid		(989)	(884)	(924)
Share capital issues		75	58	62
Share capital buyback		(146)	(87)	(117)
Euro Hybrid preference share issue		-	-	875
Euro Hybrid issues costs		-	-	(4)
<b>Net cash provided by financing activities</b>		5,336	7,480	5,582

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

Net cash (used in) provided by operating activities	(4,481	) (4,700	) 1,337	
Net cash (used in) investing activities	433	(134	) (1,005	)
Net cash provided by financing activities	5,336	7,480	5,582	
Net (decrease)increase in cash and cash equivalents	1,288	2,646	5,914	
Cash and cash equivalents at beginning of period	13,702	11,696	7,854	
Foreign currency translation on opening balances	1,855	(640	) (2,072	)
<b>Cash and cash equivalents at end of period</b>	19	16,845	13,702	11,696

*The notes appearing on pages 61 to 122 form an integral part of these financial statements*

60

---



**NOTES TO 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 2005 and any public announcements made by the Parent entity and its controlled entities (the Group) for the half year ended 31 March 2006 in accordance with the continuous disclosure obligations under the Corporations Act 2001 (as amended) and the ASX Listing Rules

are presented in Australian dollars in accordance with class order 98/100 dated 10 July 1998 (millions, except where stated otherwise)

comply with the accounts provisions of the Banking Act 1959, applicable Australian Accounting Standards, the Corporations Act 2001 (as amended), the Corporations Regulations 2001 and other authoritative pronouncements of the Australian Accounting Standards Board (AASB)

are condensed financial statements as defined in AASB 134: Interim Financial Reporting . Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34: Interim Financial Reporting . This report does not include all notes of the type normally included in the annual financial report

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.

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.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards issued by the AASB, being Australian equivalents to IFRS (AIFRS). The Group revised its accounting policies on 1 October 2005 to enable the preparation of financial statements that comply with AIFRS. This is the Group's first financial report prepared in accordance with AIFRS and AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition from superseded policies to AIFRS has impacted the Group's reported financial position, financial performance and cash flow, is set out in Note 24.

The accounting policies have been consistently applied by all consolidated entities and to all periods presented in the consolidated financial report and the opening AIFRS balance sheet as at 1 October 2004, except for those policies relating to Standards for which comparatives are not restated, as permitted under the first time adoption transitional provisions. The Standards are AASB 132: Financial Instruments: Presentation and Disclosure , AASB 139: Financial Instruments: Recognition and Measurement , and AASB 4: Insurance Contracts .

The Group's key accounting policies that have been amended by the adoption of AIFRS follow.

**(ii) Consolidation**

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

On adoption of AIFRS certain special purpose entities in which the Group holds less than a majority of voting rights, were deemed to be controlled entities where:

in substance, the majority of the 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**

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

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

Fee income and directly related transaction costs relating to loan origination, financing or restructurings are now deferred and amortised to interest income over the expected life of the loan using the effective interest method.

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 incremental costs directly related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

61

---

*NOTES TO FINANCIAL STATEMENTS (continued)*

**1. Significant Accounting policies, cont d**

**(iv) Fee and commission income**

Unless included in the effective interest calculation (refer 1(iii)), fees and commissions are brought to account on an accrual basis.

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

Fees charged for providing ongoing services that represent the recoupment of the costs of providing service (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, which are an integral part of the effective interest rate of a financial instrument measured at amortised cost, 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, or

where amounts are collected on behalf of third parties, where the Group is acting as an agent.

**(vi) Cash receipts on impaired loans**

Cash receipts on impaired loans are applied as a reduction to principal.

**(vii) Derivative financial instruments**

Derivative financial instruments are contracts whose value is derived from one or more underlying financial instruments or indices.

Derivative financial instruments including swaps, forward rate agreements, futures, options and combinations of these 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 remeasurement at fair value being recognised in the income statement. Where the derivative is designated and 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 treatments 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 derivatives 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 as 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.

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 cash flow 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 cash flow 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.

*NOTES TO FINANCIAL STATEMENTS (continued)*

1. Significant Accounting policies, cont'd

(vii) Derivative financial instruments, cont'd

Net investment hedge

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

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. The component of the fair value change in the derivative and 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.

Embedded derivatives - 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. The embedded derivative is reported at fair value with changes in fair value immediately recognised in the income statement.

(viii) 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 gains are recognised in the balance sheet at their fair value. Additionally, this valuation basis is used as an alternative to hedge accounting for certain financial instruments. It is not used for illiquid instruments or those for which the demonstrated variability in the range of fair value estimates is other than low.

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

(ix) 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 recorded 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 from equity to the income statement.

Where there is objective evidence of impairment to 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 and dividend income is accrued.

Financial assets previously disclosed as investment securities are now predominantly treated as available-for-sale securities.

(x) Impairment of loans and advances

Loans and advances are regularly reviewed for impairment loss.

Credit impairment provisions are raised for exposures that are known to be impaired. Loans are impaired and impairment losses incurred 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 that loss event or events has had a reliably estimable impact on the estimated future cash flows of the individual loan or the collective portfolio of loans.

Impairment is assessed firstly 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.

For those exposures that are assessed collectively, these 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.

63

---

*NOTES TO FINANCIAL STATEMENTS (continued)*

**1. Significant Accounting policies, cont'd**

**(x) Impairment of loans and advances, cont'd**

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 written down amount, it is recognised in net 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), referred to as 'Provision for credit impairment', is deducted from loans and advances in the balance sheet and the movement in the provision 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 taken to the income statement.

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

**(xi) 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 tested for impairment annually and when the goodwill is impaired the difference is charged to the income statement.

Any impairment of goodwill cannot be subsequently reversed.

**Other intangible assets**

Other intangible assets comprise 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.

**(xii) 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.

**(xiii) Employee benefits**

The directors have elected under s334(5) of the Corporations Act 2001 to early adopt the December 2004 revision of Australian Accounting Standard AASB 119: Employee Benefits.

**Defined benefit superannuation schemes**

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

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. Initially, 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. In each subsequent reporting period, ongoing movements in the defined benefit liability or asset carrying value are treated as follows:

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



*NOTES TO FINANCIAL STATEMENTS (continued)*

**1. Significant Accounting policies, cont'd**

**(xiii) Employee benefits, cont'd**

Share-based compensation

The Group has various equity settled share-based compensation plans. These are described in Note 49 of the 2005 annual financial report and largely comprise 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 is 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 where shares vest 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*

From October 2005, ANZ has granted performance Rights to certain employees. 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 equity.

*Other adjustments*

The amount of expense recognised during the vesting period is adjusted for the number of shares, options or performance rights expected to vest. Non-market vesting conditions (eg service conditions) are taken into account, so that ultimately the expense recognised in the income statement reflects the number of shares or share options that actually vest.

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

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

§ there is a current enforceable legal right to offset the asset and liability, and

§ there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(xv) 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

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

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

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

*NOTES TO FINANCIAL STATEMENTS (continued)*

1. Significant Accounting policies, cont'd

(xv) Income tax, cont'd

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

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

Offsetting

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

(xvi) Change in accounting policy

In the current reporting period the Group has adopted AASB 132: Financial Instruments: Presentation and Disclosure, AASB 139: Financial Instruments: Recognition and Measurement and AASB 4: Insurance Contracts. This change in accounting policy has been adopted in accordance with the transitional rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132, AASB 139 and AASB 4. The impact of this change in accounting policy in the current reporting period is detailed in Note 24.

**NOTES TO FINANCIAL STATEMENTS (continued)****2. Income**

	Half	Half	Half	Movt	Movt			
	year	year	year	Mar 06	Mar 06			
	Mar 06	Sep 05	Mar 05	v. Sep	v. Mar			
	\$M	\$M	\$M	05	05			
				%	%			
<b>Net interest income</b>								
Interest income	10,777	9,299	8,420	16	% 28	%		
Interest expense	(7,409 )	(6,346 )	(5,555 )	17	% 33	%		
<b>Net interest income</b>	<b>3,368</b>	<b>2,953</b>	<b>2,865</b>	<b>14</b>	<b>% 18</b>	<b>%</b>		
<b>i) Fee and commission income</b>								
Lending fees <sup>1</sup>	215	535	508	-60	% -58	%		
Non-lending fees and commissions	939	931	869	1	% 8	%		
Total fee and commission income	1,154	1,466	1,377	-21	% -16	%		
Fee and commission expense <sup>2</sup>	(125 )	(115 )	(117 )	9	% 7	%		
<b>Net fee and commission income</b>	<b>1,029</b>	<b>1,351</b>	<b>1,260</b>	<b>-24</b>	<b>% -18</b>	<b>%</b>		
<b>ii) Other income</b>								
Foreign exchange earnings	227	233	222	-3	% 2	%		
Net gains/(losses) from trading securities	17	40	(7 )	-58	% large			
Net gains/(losses) from trading derivatives	127	54	47	large	large			
Other financial instruments <sup>3</sup>	18	-	-	n/a	n/a			
Settlement of NBNZ warranty claims	14	-	-	n/a	n/a			
Net profit before tax from the sale of NBNZ Life	-	14	-	-100	% n/a			
Share of joint venture profit from ING Australia	57	69	80	-17	% -29	%		
Share of joint venture profit from ING (NZ) <sup>4</sup>	11	-	-	n/a	n/a			
Share of associates profit (net of write-offs)	18	20	27	-10	% -33	%		
Private Equity and Infrastructure earnings <sup>5</sup>	10	5	17	100	% -41	%		
Other	67	75	71	-11	% -6	%		
<b>Total other income</b>	<b>566</b>	<b>510</b>	<b>457</b>	<b>11</b>	<b>% 24</b>	<b>%</b>		
<b>Total other operating income</b>	<b>1,595</b>	<b>1,861</b>	<b>1,717</b>	<b>-14</b>	<b>% -7</b>	<b>%</b>		
<b>Total income</b>	<b>12,372</b>	<b>11,160</b>	<b>10,137</b>	<b>11</b>	<b>% 22</b>	<b>%</b>		
<b>Profit before income tax as a % of total income</b>	<b>20.64</b>	<b>% 20.18</b>	<b>% 21.17</b>	<b>%</b>				

1. Lending fees in 2006 excludes fees included as part of the effective yield calculation

2. Comprises interchange fees paid

3. Includes any fair value movements (excluding realised and unrealised interest) 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, profit or loss on disposal of investment securities, and fair value movement in bonds and notes designated at fair value

4. A joint venture entity from 30 September 2005

5. Includes earnings from private equity and infrastructure portfolios. Includes share of associates profit \$4 million (Sep 2005 half: \$4 million; Mar 2005 half: \$1 million) not included in share of associates profit above

**NOTES TO FINANCIAL STATEMENTS (continued)****3. Operating expenses**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
Personnel					
Employee entitlements and taxes	106	103	87	3	% 22
Salaries and wages	872	832	793	5	% 10
Superannuation costs - defined benefit plans	4	9	7	-56	% -43
Superannuation costs - defined contribution plans	80	72	71	11	% 13
Equity-settled share -based payments	38	39	41	-3	% -7
Temporary staff	64	62	49	3	% 31
Other	199	192	171	4	% 16
Total personnel expenses	1,363	1,309	1,219	4	% 12
Premises					
Depreciation and amortisation	16	14	13	14	% 23
Rent	113	108	105	5	% 8
Utilities and other outgoings	64	62	60	3	% 7
Other	13	16	16	-19	% -19
Total premises expenses	206	200	194	3	% 6
Computer					
Computer contractors	24	34	19	-29	% 26
Data communications	28	29	31	-3	% -10
Depreciation and amortisation	104	120	115	-13	% -10
Rentals and repairs	35	35	23	0	% 52
Software purchased	53	58	57	-9	% -7
Other	20	19	18	5	% 11
Total computer expenses	264	295	263	-11	% 0
Other					
Advertising and public relations	80	82	79	-2	% 1
Audit fees	3	4	3	-25	% 0
Depreciation of furniture and equipment	23	20	23	15	% 0
Freight and cartage	23	23	22	0	% 5
Non-lending losses, frauds and forgeries	36	22	40	64	% -10
Settlement of NHB insurance claim	(113 )	-	-	n/a	n/a
Postage and stationery	57	57	56	0	% 2
Professional fees	61	62	61	-2	% 0
Telephone	28	25	30	12	% -7
Travel	65	69	55	-6	% 18
Other	61	76	77	-20	% -21
Total other expenses	324	440	446	-26	% -27
Restructuring	28	22	30	27	% -7
<b>Operating expenses<sup>1</sup></b>	<b>2,185</b>	<b>2,266</b>	<b>2,152</b>	<b>-4</b>	<b>% 2</b>

1. Includes ANZ National Bank incremental integration costs \$39 million (Sep 2005 half: \$53 million; Mar 2005 half: \$25 million) refer page 11

**NOTES TO FINANCIAL STATEMENTS (continued)****4. Income tax expense**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
<b>(a) Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement</b>						
Operating profit before income tax	2,554	2,252	2,146	13	% 19	%
Prima facie income tax expense at 30%	766	676	644	13	% 19	%
Tax effect of permanent differences:						
Overseas tax rate differential	16	10	12	60	% 33	%
Rebateable and non-assessable dividends	(3 )	(9 )	(14 )	-67	% -79	%
Other non-assessable income	(5 )	(17 )	(15 )	-71	% -67	%
Profit from associated and joint venture entities	(26 )	(27 )	(32 )	-4	% -19	%
Life insurance accounting	-	(2 )	(3 )	-100	% -100	%
Other	(6 )	(1 )	-	large	n/a	
	742	630	592	18	% 25	%
Income tax under/ (over) provided in previous years	-	-	(2 )	n/a	-100	%
Total income tax expense on operating profit	742	630	590	18	% 26	%
Australia	474	422	381	12	% 24	%
Overseas	268	208	209	29	% 28	%
	742	630	590	18	% 26	%
Effective Tax Rate - Group	29.1	% 28.0	% 27.5	%		
Tax expense comprises:						
Current tax expense	846	591	453	43	% 87	%
Deferred tax expense	(104 )	39	137	large	large	
	742	630	590	18	% 26	%

**NOTES TO FINANCIAL STATEMENTS (continued)****5. Dividends****Ordinary Shares**

	<b>Half year Mar 06</b>	<b>Half year Sep 05</b>	<b>Half year Mar 05</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>	
<b>Dividend per ordinary share<sup>1</sup> (cents)</b>						
Interim (fully franked)	56	n/a	51	n/a	10	%
Final (fully franked)	n/a	59	n/a	n/a	n/a	
<b>Ordinary share dividend<sup>1,2</sup></b>						
Interim dividend paid	-	930	-	-100	% n/a	
Final dividend paid	1,078	-	983	n/a	10	%
Bonus option plan adjustment <sup>3</sup>	(18)	(17)	(19)	6	% -5	%
Total	1,060	913	964	16	% 10	%
<b>Ordinary share dividend payout ratio<sup>4</sup> (%)</b>	56.9	% 68.4	% 61.3	%		

1. Excludes preference share dividend
2. Dividends recorded when determined
3. This relates to prior period dividend payments
4. Dividend payout ratio calculated using proposed interim dividend of \$1,024 million not included in the above table. Dividend payout ratio for the September 2005 half year calculated using \$1,078 million dividends paid in the March 2006 half. Dividend payout ratio for March 2005 half year calculated using \$930 million dividends paid in the September 2005 half

**Preference Shares**

	<b>Half year Mar 06 \$M</b>	<b>Half year Sep 05 \$M</b>	<b>Half year Mar 05 \$M</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>	
<b>Preference share dividend</b>						
ANZ StEPS1	-	34	32	-100	% -100	%
Euro Hybrid	12	12	6	0	% 100	%
	12	46	38	-74	% -68	%
<b>Dividend per preference share</b>						
ANZ StEPS (AUD) <sup>2</sup>	-	\$3.40	\$3.18	n/a	n/a	
Euro Hybrid (EUR)	14.86	14.22	7.23	5	% large	

1. Under AIFRS, the ANZ StEPS issue is treated as debt, with distributions being reported as an interest expense in the half year ended 31 March 2006
2. Represents the equivalent dividend per share on distributions made

70

**NOTES TO FINANCIAL STATEMENTS (continued)****6. Earnings per share**

	<b>Half year Mar 06</b>	<b>Half year Sep 05</b>	<b>Half year Mar 05</b>	<b>Movt Mar 06 v. Sep 05 %</b>	<b>Movt Mar 06 v. Mar 05 %</b>	
Number of fully paid ordinary shares on issue (M)	1,828.7	1,826.4	1,822.7	0	% 0	%
<b>Basic</b>						
Net profit attributable to shareholders of the Company (\$M)	1,811	1,620	1,555	12	% 16	%
Less Preference share dividends (\$M)	12	46	38	-74	% -68	%
Net profit excluding preference share dividends (\$M)	1,799	1,574	1,517	14	% 19	%
Weighted average number of ordinary shares (M)	1,828.4	1,824.7	1,822.7	0	% 0	%
<b>Basic earnings per share (cents)</b>	98.4	86.3	83.2	14	% 18	%
<b>Diluted</b>						
Net profit excluding preference share dividends (\$M)	1,799	1,574	1,517	14	% 19	%
Interest on US Trust securities <sup>1</sup> (\$M)	29	25	23	16	% 26	%
Interest on ANZ StEPS <sup>2</sup> (\$M)	33	34	32	-3	% 3	%
Net profit attributable to shareholders of the Company excluding interest on US Trust securities and ANZ StEPS (\$M)	1,861	1,633	1,572	14	% 18	%
Adjusted weighted average number of shares on issue (M)	1,828.4	1,824.7	1,822.7	0	% 0	%
Weighted average number of convertible options (M)	11.9	9.3	7.7	28	% 55	%
Weighted average number of convertible US Trust securities at current market price <sup>1</sup> (M)	58.0	60.1	69.1	-3	% -16	%
Weighted average number of convertible ANZ StEPS securities	38.7	42.7	49.7	-9	% -22	%
Adjusted weighted average number of shares - diluted (M)	1,937.0	1,936.8	1,949.2	0	% -1	%
<b>Diluted earnings per share (cents)</b>	96.1	84.3	80.6	14	% 19	%

- 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 58.0 million*
- ANZ StEPS (issued on 23 September 2003) converts 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%. ANZ StEPS has been included for the first time in dilutive EPS in 2005 due to the adoption of AIFRS. The inclusion of this issue in EPS increased the dilutive number of shares by 38.7 million*



## NOTES TO FINANCIAL STATEMENTS (continued)

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

	As at 31 March 2006								
	Notional Principal amount \$M	Credit equivalent amount \$M	Trading <sup>6</sup>		Fair Value		Total fair value of derivatives		
			Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M	
<b>Foreign exchange and commodities contracts</b>									
Spot and forward contracts	239,291	5,406	3,405	(2,743)	216	(10)	3,621	(2,753)	
Swap agreements <sup>4</sup>	100,384	5,938	2,375	(156)	177	(270)	2,552	(426)	
Futures contracts <sup>1</sup>	466	n/a	18	(28)	-	-	18	(28)	
Options purchased	11,635	373	229	-	-	-	229	-	
Options sold <sup>2</sup>	15,671	n/a	-	(198)	-	-	-	(198)	
Other contracts	7,723	1,283	926	(823)	-	-	926	(823)	
Collateral <sup>5</sup>	-	-	(1,942)	543	-	-	(1,942)	543	
	375,170	13,000	5,011	(3,405)	393	(280)	5,404	(3,685)	
<b>Interest rate contracts</b>									
Forward rate agreements	71,743	8	3	(4)	-	-	3	(4)	
Swap agreements <sup>4</sup>	481,229	4,394	1,601	(1,687)	105	(433)	1,706	(2,120)	
Futures contracts <sup>1</sup>	78,404	n/a	168	(165)	2	-	170	(165)	
Options purchased	21,021	106	78	-	-	-	78	-	
Options sold <sup>2</sup>	44,136	n/a	-	(33)	-	-	-	(33)	
	696,533	4,508	1,850	(1,889)	107	(433)	1,957	(2,322)	
<b>Credit Contracts</b>									
Credit default swaps <sup>3</sup>	19,873	2,845	121	(124)	3	(3)	124	(127)	
<b>Total</b>	<b>1,091,576</b>	<b>20,353</b>	<b>6,982</b>	<b>(5,418)</b>	<b>503</b>	<b>(716)</b>	<b>7,485</b>	<b>(6,134)</b>	

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

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

2. *Options sold have no credit exposures as they represent obligations rather than assets*
3. *Credit default swaps include structured transactions that expose the Group to the performance of certain assets. The total investment of the Group in these transactions is USD 250 million (Sep 2005:USD 500 million)*
4. *The fair value of swap agreements includes internal allocations between Trading and Hedging*
5. *Collateral relates predominantly to Foreign Exchange contracts*
6. *Includes derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, not designated as accounting hedges*

72

---

## NOTES TO FINANCIAL STATEMENTS (continued)

## 7. Derivative financial instruments, cont d

The following table excludes the impact of AASB 132 and AASB 139. As such the data in the table is not on a comparable basis to 31 March 2006 data. This data has been adjusted to reflect the impact of derivatives in securitisation vehicles that were consolidated from 1 October 2004 on adoption of AIFRS.

	Notional Principal amount \$M	As at 30 September 2005 Credit equivalent amount \$M	Fair value	
			Assets \$M	Liabilities \$M
<b>Foreign exchange and commodities contracts</b>				
Spot and forward contracts	184,958	3,082	1,416	(1,829 )
Swap agreements <sup>4</sup>	69,212	3,820	864	(1,610 )
Futures contracts <sup>1</sup>	256	n/a	18	(14 )
Options purchased	9,340	315	186	-
Options sold <sup>2</sup>	14,925	n/a	-	(174 )
Other contracts	4,963	573	377	(379 )
Collateral <sup>5</sup>	-	-	(499 )	1,085
	283,654	7,790	2,362	(2,921 )
<b>Interest rate contracts</b>				
Forward rate agreements	47,734	8	5	(4 )
Swap agreements	405,152	3,443	1,624	(1,193 )
Futures contracts <sup>1</sup>	35,111	n/a	152	(144 )
Options purchased	12,810	96	62	-
Options sold <sup>2</sup>	16,715	n/a	-	(42 )
	517,522	3,547	1,843	(1,383 )
<b>Credit Contracts</b>				
Credit default swaps <sup>3</sup>	15,437	2,929	117	(118 )
<b>Total</b>	816,613	14,266	4,322	(4,422 )

1-5. Refer footnotes on page 72

## NOTES TO FINANCIAL STATEMENTS (continued)

## 8. Net loans and advances

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
<b>Australia</b>						
Overdrafts	5,780	5,276	5,101	10	% 13	%
Credit card outstandings	5,904	5,434	4,853	9	% 22	%
Term loans - housing	96,846	91,196	86,421	6	% 12	%
Term loans - non-housing	50,873	48,893	46,299	4	% 10	%
Lease finance	2,774	2,854	2,737	-3	% 1	%
Other	9,795	9,636	9,118	2	% 7	%
	171,972	163,289	154,529	5	% 11	%
<b>New Zealand</b>						
Overdrafts	1,677	1,647	1,683	2	% 0	%
Credit card outstandings	1,033	1,026	1,043	1	% -1	%
Term loans - housing	34,961	34,859	33,123	0	% 6	%
Term loans - non-housing	25,103	25,012	23,549	0	% 7	%
Lease finance	361	639	508	-44	% -29	%
Other	901	1,207	1,150	-25	% -22	%
	64,036	64,390	61,056	-1	% 5	%
<b>Overseas markets</b>						
Overdrafts	434	303	339	43	% 28	%
Credit card outstandings	184	134	126	37	% 46	%
Term loans - housing	693	592	519	17	% 34	%
Term loans - non-housing	8,051	7,510	7,219	7	% 12	%
Lease finance	217	217	201	0	% 8	%
Other	156	69	303	large	-49	%
	9,735	8,825	8,707	10	% 12	%
<b>Total gross loans and advances</b>	245,743	236,504	224,292	4	% 10	%
Less provisions for credit impairment (refer note 10)2	(2,219 )	(2,440 )	(2,401 )	-9	% -8	%
Less Income yet to mature1	(1,978 )	(1,574 )	(1,497 )	26	% 32	%
	(4,197 )	(4,014 )	(3,898 )	5	% 8	%
<b>Total net loans and advances1</b>	<b>241,546</b>	<b>232,490</b>	<b>220,394</b>	<b>4</b>	<b>% 10</b>	<b>%</b>

1. Includes fees and expenses capitalised and amortised using the effective interest method of \$364 million (Sep 2005: \$nil; Mar 2005: \$nil)

2. The provisions for credit impairment were recalculated under AIFRS for 31 March 2006. Refer to Note 24 for discussion of change

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

	Half year Mar 06 NZD M	Half year Sep 05 NZD M	Half year Mar 05 NZD M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
<b>New Zealand</b>						
Overdrafts	1,962	1,811	1,834	8	% 7	%
Credit card outstandings	1,209	1,128	1,137	7	% 6	%
Term loans - housing	40,904	38,339	36,101	7	% 13	%
Term loans - non-housing	29,371	27,509	25,666	7	% 14	%
Lease finance	422	703	554	-40	% -24	%
Other	1,054	1,326	1,253	-21	% -16	%
	74,922	70,816	66,545	6	% 13	%

## NOTES TO FINANCIAL STATEMENTS (continued)

## 9. Impaired financial assets

Impaired loan data in 2005 in the following table includes loans that were classified as non-accrual loans.

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
	\$M	\$M	\$M			
<b>Summary of impaired financial assets</b>						
Impaired loans	726	642	640	13	% 13	%
Restructured loans	-	28	30	-100	% -100	%
Unproductive facilities	76	43	77	77	% -1	%
<b>Gross impaired financial assets</b>	<b>802</b>	<b>713</b>	<b>747</b>	<b>12</b>	<b>% 7</b>	<b>%</b>
Less individual provisions:						
Impaired loans	(305)	(256)	(314)	19	% -3	%
Unproductive facilities	(11)	(17)	(7)	-35	% 57	%
<b>Net impaired financial assets</b>	<b>486</b>	<b>440</b>	<b>426</b>	<b>10</b>	<b>% 14</b>	<b>%</b>
<b>Impaired loans</b>						
Impaired loans	726	642	640	13	% 13	%
Individual provisions	(305)	(256)	(314)	19	% -3	%
<b>Total net impaired loans</b>	<b>421</b>	<b>386</b>	<b>326</b>	<b>9</b>	<b>% 29</b>	<b>%</b>
<b>Before individual provisions</b>						
Australia	516	355	408	45	% 26	%
New Zealand	177	194	105	-9	% 69	%
Overseas markets	33	93	127	-65	% -74	%
<b>Total impaired loans</b>	<b>726</b>	<b>642</b>	<b>640</b>	<b>13</b>	<b>% 13</b>	<b>%</b>
<b>After individual provisions</b>						
Australia	304	202	220	50	% 38	%
New Zealand	102	111	42	-8	% large	%
Overseas markets	15	73	64	-79	% -77	%
<b>Total net impaired loans</b>	<b>421</b>	<b>386</b>	<b>326</b>	<b>9</b>	<b>% 29</b>	<b>%</b>

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
<b>New and increased impaired loans</b>						
Australia	513	303	282	69	% 82	%
New Zealand	102	204	78	-50	% 31	%
Overseas markets	15	69	27	-78	% -44	%
<b>Total new impaired loans</b>	<b>630</b>	<b>576</b>	<b>387</b>	<b>9</b>	<b>% 63</b>	<b>%</b>



*NOTES TO FINANCIAL STATEMENTS (continued)*





9. Impaired financial assets, cont d

Further analysis on impaired loans at 31 March 2006 and interest and/or other income recognised during the period is as follows:

	Gross balance outstanding \$M	Individual Provision \$M	Interest and / or other income recognised \$M
<b>Impaired loans</b>			
Without provisions			
Australia	31		1
New Zealand	7		
Overseas markets	4		
	42		1
With provisions and no, or partial, performance <sup>1</sup>			
Australia	369	178	7
New Zealand	60	40	
Overseas markets	28	17	
	457	235	7
With provisions and full performance <sup>1</sup>			
Australia	116	34	2
New Zealand	110	35	3
Overseas markets	1	1	
	227	70	5
<b>Total impaired loans</b>	<b>726</b>	<b>305</b>	<b>13</b>
Unproductive facilities	76	11	
<b>Total</b>	<b>802</b>	<b>316</b>	<b>13</b>

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

1. A loan's performance is assessed against its contractual repayment schedule

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05	
	\$M	\$M	\$M	%	%	%
<b>Unproductive facilities</b>						
Australia	63	29	66	large	-5	%
New Zealand	6	7		-14	%	n/a
Overseas markets	7	7	11	0	%	-36
<b>Gross unproductive facilities</b>	76	43	77	77	%	-1
<b>Individual provision</b>						
Australia	9	7	3	29	%	large
New Zealand		7		-100	%	n/a
Overseas markets	2	3	4	-33	%	-50
<b>Individual provision</b>	11	17	7	-35	%	57
<b>Net unproductive facilities</b>	65	26	70	large	-7	%

The following amounts are not classified as individually impaired financial assets and therefore are not included within the summary on page 75.

	As at Mar 06	As at Sep 05	As at Mar 05	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05	
	\$M	\$M	\$M	%	%	%
<b>Accruing loans past due 90 days or more</b>						
Australia	339	282	262	20	%	29
New Zealand	74	66	90	12	%	-18
Overseas markets	15	33	32	-55	%	-53
	428	381	384	12	%	11



*NOTES TO FINANCIAL STATEMENTS (continued)*



9. Impaired financial assets, cont d





**Interest and other income not recognised on impaired financial assets**

The following table shows the estimated amount of interest and other income not recognised, net of interest recoveries and unwind of discount, on average impaired financial assets during the period.

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
<b>Gross interest and other income receivable on impaired loans, restructured loans and unproductive facilities</b>						
Australia	14	14	12	0	% 17	%
New Zealand	9	5	4	80	% large	
Overseas markets	4	8	8	-50	% -50	%
Total gross interest and other income receivable on impaired financial assets	27	27	24	0	% 13	%
<b>Interest recognised<sup>1</sup></b>						
Australia	(10 )	(7 )	(3 )	43	% large	
New Zealand	(3 )	(3 )	(2 )	0	% 50	%
Overseas markets		(7 )	(3)	-100	% -100	%
Total interest recognised	(13 )	(17 )	(8 )	-24	% 63	%
<b>Net interest and other income not recognised</b>						
Australia	4	7	9	-43	% -56	%
New Zealand	6	2	2	large	large	
Overseas markets	4	1	5	large	-20	%
Total net interest and other income not recognised	14	10	16	40	% -13	%

1. Under AIFRS, from 1 October 2005 the impairment loss on an impaired loan is calculated 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 it is recognised as interest. The comparatives do not reflect this change and represent interest and other income received (refer Note 1 (vi))

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.

*NOTES TO FINANCIAL STATEMENTS (continued)*

**10. Provision for credit impairment**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Previous AGAAP1		Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
			Half year Mar 05 \$M			
<b>Collective provision</b>						
Balance at start of period	2,167	2,080	1,992		4	% 9
Adjustment due to adoption of accounting standard AASB 1392	(288)	)			n/a	n/a
Provisions acquired (disposed)			(13)	)	n/a	-100
Adjustment for exchange rate fluctuations	(12)	(3)	(32)	)	large	-63
Charge to income statement	36	296	284		-88	% -87
Transfer to individual provision <sup>3</sup>		(266)	(205)	)	-100	% -100
Recoveries <sup>3</sup>		60	54		-100	% -100
Total collective provision	1,903	2,167	2,080		-12	% -9
<b>Individual provision</b>						
Balance at start of period	273	321	384		-15	% -29
Adjustment due to adoption of accounting standard AASB 1392	(1)	)			n/a	n/a
Charge to income statement	188				n/a	n/a
Adjustment for exchange rate fluctuations	(3)	(4)	(7)	)	-25	% -57
Discount unwind	(13)	)			n/a	n/a
Bad debts written off	(182)	(310)	(261)	)	-41	% -30
Recoveries of amounts previously written off	54				n/a	n/a
Transfer from collective provision <sup>3</sup>		266	205		-100	% -100
Total individual provision	316	273	321		16	% -2
Total provision for credit impairment	2,219	2,440	2,401		-9	% -8

	Previous AGAAP			Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M		
<b>Provision movement analysis</b>					
New and increased provisions					
Australia	255	216	162	18	% 57
New Zealand	40	99	47	-60	% -15
Overseas markets	12	37	43	-68	% -72
	307	352	252	-13	% 22
Provision releases	(65)	(86)	(47)	-24	% 38
	242	266	205	-9	% 18
Recoveries of amounts previously written off	(54)	(60)	(54)	-10	% 0
<b>Individual provision charge</b>	188	206	151	-9	% 25
Net credit to collective provision	36	90	133	-60	% -73
<b>Charge to Income Statement</b>	224	296	284	-24	% -21

	As at Mar 06 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
	<b>Individual provision balance</b>				
Australia	221	160	191	38	% 16
New Zealand	75	90	63	-17	% 19
Domestic markets	296	250	254	18	% 17
Overseas markets	20	23	67	-13	% -70
<b>Total individual provision</b>	316	273	321	16	% -2

1. 2005 figures represent general provision and specific provision

2. Refer Note 24

10. Provision for credit impairment

3. Under AIFRS, the impairment calculation results in a nil amount for this line from 1 October 2005

78

---

*NOTES TO FINANCIAL STATEMENTS (continued)*



**11. Loan capital**



	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %	
Hybrid loan capital						
US stapled trust security issue <sup>1</sup>	1,536	1,443	1,425	6	% 8	%
ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)	1,000			n/a	n/a	
Perpetual subordinated notes	419	394	389	6	% 8	%
Subordinated notes	8,166	7,300	6,307	12	% 29	%
<b>Total Loan Capital</b>	11,121	9,137	8,121	22	% 37	%

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**

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

	Number quoted	Issue price per share	Amount paid up per share
<b>Ordinary shares</b>			
As at 31 March 2006	1,828,674,133		
Issued during the half year	8,316,739		
Bought back during half year	6,092,086		
<b>Preference shares</b>			
As at 31 March 2006			
Euro Hybrid1	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 year Mar 06		Half year Sep 05		Half year Mar 05	
Net profit as a % of shareholders equity including preference shares at end of period	19.3	%	16.6	%	16.4	%

**NOTES TO FINANCIAL STATEMENTS (continued)****13. Shareholders Equity**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v . Sep 05 %	Movt Mar 06 v . Mar 05 %	
<b>Share capital</b>						
Balance at start of period	9,911	9,840	8,992	1	% 10	%
Adjustment due to adoption of AIFRS	(987)	) -	(62)	) n/a	large	
Ordinary share capital						
Rights issue	-	-	-	n/a	n/a	
Dividend reinvestment plan	85	75	78	13	% 9	%
Group employee share acquisition scheme	37	27	30	37	% 23	%
Group share option scheme	39	56	48	-30	% -19	%
Group Share Buyback	(146)	) (87)	) (117)	) 68	% 25	%
Preference share capital						
New preference share issues	-	-	871	n/a	-100	%
<b>Total share capital</b>	<b>8,939</b>	<b>9,911</b>	<b>9,840</b>	<b>-10</b>	<b>% -9</b>	<b>%</b>
<b>Asset revaluation reserve</b>						
Balance at start of period	-	-	31	n/a	-100	%
Adjustment due to adoption of AIFRS1	-	-	(31)	) n/a	-100	%
Total asset revaluation reserve	-	-	-	n/a	n/a	
<b>Foreign currency translation reserve</b>						
Balance at start of period	(443)	) (284)	) 218	56	% large	
Adjustment due to adoption of AIFRS2	-	-	(218)	) n/a	-100	%
Restated balance at beginning of period	(443)	) (284)	) -	56	% n/a	
Currency translation adjustments net of hedges after tax	(305)	) (159)	) (284)	) 92	% 7	%
Transfer from general reserve	-	-	-	n/a	n/a	
Total foreign currency translation reserve	(748)	) (443)	) (284)	) 69	% large	
<b>Share option reserve3</b>						
Balance at start of period	67	56	-	20	% n/a	
Adjustment on adoption of AIFRS	-	-	44	n/a	-100	%
Restated balance at beginning of period	67	56	44	20	% 52	%
Share-based payments	11	11	12	0	% -8	%
Transfer to share capital	-	-	-	n/a	n/a	
Total share option reserve	78	67	56	16	% 39	%
<b>Available-for-sale revaluation reserve4</b>						
Balance at start of period	-	-	-	n/a	n/a	
Adjustments on adoption of accounting policies specified by AASB 132 & AASB 1395	(10)	) -	-	n/a	n/a	
Restated balance at beginning of period	(10)	) -	-	n/a	n/a	
Valuation gain (loss) recognised after tax	18	-	-	n/a	n/a	
Cumulative (gain) loss transferred to the income statement on sale of financial assets	-	-	-	n/a	n/a	
Cumulative (gain) loss transferred to the income statement on impairment of financial assets	-	-	-	n/a	n/a	
Total available-for-sale revaluation reserve	8	-	-	n/a	n/a	

1. Includes a \$20 million increase in the opening asset revaluation reserve balance relating to reclassification of legacy balances. The asset revaluation reserve has been transferred to retained earnings on adoption of AIFRS, refer Note 24 (vi)

2. Includes a \$19 million increase in the opening foreign currency translation reserve balance relating to reclassification of legacy balances. The foreign currency translation reserve has been transferred to retained earnings on adoption of AIFRS, refer Note 24 (v)

3. 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. Further information about share based payments to employees is disclosed in Note 24 (iii) to the financial statements

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 (refer Note 1 (ix)). 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 (refer Note 1 (ix))

5. ANZ has taken the election, pursuant to accounting standard AASB 1 (36A), to not comply with accounting standards AASB 132 and AASB 139 in the comparative information in its first AIFRS financial report. Therefore the 2005 year is nil for this line item

80

---

**NOTES TO FINANCIAL STATEMENTS (continued)****13. Shareholders Equity, cont d**

	Half year Mar 06 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v .Sep 05 %	Movt Mar 06 v .Mar 05 %	
<b>Hedging reserve<sup>6</sup></b>						
Balance at start of period	n/a	n/a	n/a	n/a	n/a	
Adjustments on adoption of accounting policies specified by AASB 132 & AASB 1395	162	n/a	n/a	n/a	n/a	
Restated balance at beginning of period	162	n/a	n/a	n/a	n/a	
Gain (loss) recognised after tax	28			n/a	n/a	
Transferred to income statement	(14	) n/a	n/a	n/a	n/a	
Total hedging reserve	176	n/a	n/a	n/a	n/a	
<b>General reserve</b>						
Balance at start of period	181	181	181	0	% 0	%
Transfer (to) from retained profits/FCTR	-	-	-	n/a	n/a	
Total general reserve	181	181	181	0	% 0	%
<b>Capital reserve</b>						
Balance at start of period	149	149	149	0	% 0	%
Total reserves	(156	) (46	) 102	large	large	
<b>Retained profits</b>						
Balance at start of period	9,646	8,967	8,336	8	% 16	%
Adjustment on adoption of AIFRS7	(431	) -	71	n/a	large	
Restated balance at beginning of period	9,215	8,967	8,407	3	% 10	%
Net profit attributable to shareholders of the Company	1,811	1,620	1,555	12	% 16	%
Total available for appropriation	11,026	10,587	9,962	4	% 11	%
Transfers from (to) reserves	-	-	-	n/a	n/a	
Actuarial gain (loss) on defined benefit plans after tax <sup>8</sup>	25	18	7	39	% large	
Ordinary share dividends paid	(1,060	) (913	) (964	) 16	% 10	%
Preference share dividends paid	(12	) (46	) (38	) -74	% -68	%
Retained profits at end of period	9,979	9,646	8,967	3	% 11	%
<b>Share capital and reserves attributable to shareholders of the Company</b>						
Balance at start of period	18,762	19,511	18,909	-4	% -1	%
Minority interest	34	27	18	26	% 89	%
Total shareholders equity	18,796	19,538	18,927	-4	% -1	%

6. 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 as detailed in Note 1 (vii)

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*
- *Recalculation of the loan impairment provision on 1 October 2005 resulting from the change to use of the incurred loss approach from the Economic Loss Provisioning approach*

8. ANZ has taken the option available under AASB 119 to recognise actuarial gains/losses on defined benefit superannuation plans directly in retained profits (refer Note 1 (xiii) and Note 24 (ii))





**NOTES TO FINANCIAL STATEMENTS (continued)****14. Capital Management**

	As at Mar 06	As at Sep 05 <sup>1</sup>	As at Mar 05 <sup>1</sup>	Movt Mar 06 v. Sep 05	Movt Mar 06 v. Mar 05	
	\$M	\$M	\$M	%	%	
<b>Qualifying capital</b>						
<b>Tier 1</b>						
Total shareholders' equity and outside equity interests	18,796	19,538	18,927	-4	% -1	%
Adjustments following adoption of AIFRS2		(50 )	81	-100	% -100	%
APRA transitional reporting adjustments						
Deferred fee revenue and expenses	258	-	-	n/a	n/a	
Pension fund deficiency charge	91	-	-	n/a	n/a	
Cash flow hedging reserve	(176 )	-	-	n/a	n/a	
Other adjustments	(5 )	-	-	n/a	n/a	
Adjusted Total Shareholders' equity and outside equity interests	18,964	19,488	19,008	-3	% 0	%
Loan capital (StEPS) <sup>3</sup>	1,000					
Hybrid loan capital <sup>4</sup>	1,536	1,443	1,425	6	% 8	%
Less: Asset revaluation reserve	-	(31 )	(31 )	-100	% -100	%
Dividend <sup>5</sup>	(1,024 )	(1,077 )	(930 )	-5	% 10	%
Accumulated retained profits and reserves of insurance, funds management and securitisation entities	(161 )	(213 )	(266 )	-24	% -39	%
Intangibles	(3,943 )	(3,902 )	(4,007 )	1	% -2	%
Capitalised expenses <sup>6</sup>	(534 )	(524 )	(492 )	2	% 9	%
Investment in ANZ Lenders Mortgage Insurance	(27 )	(27 )	(27 )	0	% 0	%
<b>Tier 1 capital</b>	<b>15,811</b>	<b>15,157</b>	<b>14,680</b>	<b>4</b>	<b>% 8</b>	<b>%</b>
<b>Tier 2</b>						
Asset revaluation reserve	-	31	31	-100	% -100	%
Perpetual subordinated notes	419	394	389	6	% 8	%
General reserve for impairment of financial assets <sup>7</sup>	1,318	1,448	1,390	-9	% -5	%
	1,737	1,873	1,810	-7	% -4	%
Subordinated notes <sup>8</sup>	7,416	6,701	5,769	11	% 29	%
<b>Tier 2 capital</b>	<b>9,153</b>	<b>8,574</b>	<b>7,579</b>	<b>7</b>	<b>% 21</b>	<b>%</b>
<b>Deductions</b>						
Investment in funds management and securitisation entities	86	84	106	2	% -19	%
Investment in joint ventures with ING <sup>9</sup>	525	528	478	-1	% 10	%
Other	334	172	183	94	% 83	%
<b>Total deductions</b>	<b>945</b>	<b>784</b>	<b>767</b>	<b>21</b>	<b>% 23</b>	<b>%</b>
<b>Total qualifying capital</b>	<b>24,019</b>	<b>22,947</b>	<b>21,492</b>	<b>5</b>	<b>% 12</b>	<b>%</b>
<b>Adjusted common equity (ACE)</b>						
Tier 1 capital	15,811	15,157	14,680	4	% 8	%
Less: Preference share capital	3,385	3,233	3,263	5	% 4	%
Deductions	945	784	767	21	% 23	%
<b>Adjusted common equity<sup>10</sup> (ACE)</b>	<b>11,481</b>	<b>11,140</b>	<b>10,650</b>	<b>3</b>	<b>% 8</b>	<b>%</b>
<b>Ratios (%)</b>						
Tier 1	6.8	% 6.9	% 7.0	%		
Tier 2	4.0	% 3.9	% 3.6	%		
	10.8	% 10.8	% 10.6	%		
Less: Deductions	(0.4	%) (0.3	%) (0.3	%)		
Total	10.4	% 10.5	% 10.3	%		
Adjusted common equity	5.0	% 5.1	% 5.1	%		
Risk weighted assets	230,653	219,573	209,524			

- 2005 figures are calculated based on the Australian Prudential Regulatory Authority requirements. These have not been retrospectively adjusted
- Refer Note 24
- Treated as preference share capital under AGAAP. Associated costs are deducted from capital
- Represents the US Stapled Trust Security Issue approved by APRA as qualifying for Tier 1 status. Refer Note 11

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

5. Relates to dividend not provided for
6. Comprises loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings
7. Net of attributable future income tax benefit
8. For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity
9. Joint ventures with ING in Australia and New Zealand
10. Tier 1 capital, less preference share capital (converted at 31 March 2006 rates), less deductions

82

---

**NOTES TO FINANCIAL STATEMENTS (continued)****14. Capital management, cont d**

	Assets		Risk Weighted Assets	
	Mar 2006	Sep 2005	Mar 2006	Sep 2005
	\$M	\$M	\$M	\$M
<b>Balance Sheet</b>				
Zero risk weighted assets <sup>1</sup>	31,779	23,160	-	-
Claims on approved banks and local governments	19,759	16,054	3,952	3,211
Advances secured by mortgages eligible for 50% risk weighting	123,998	118,895	61,999	59,448
Other assets - credit risk	133,529	127,204	133,529	127,204
Total statement of financial position assets - credit risk	309,065	285,313	199,480	189,863
Trading assets - market risk	10,298	7,872	n/a	n/a
Impact of adoption of AIFRS <sup>2</sup>	-	4,919	-	-
<b>Total balance sheet</b>	<b>319,363</b>	<b>298,104</b>	<b>199,480</b>	<b>189,863</b>

	Notional Amount		Credit Equivalent		Risk Weighted Assets	
	Mar 2006	Sep 2005	Mar 2006	Sep 2005	Mar 2006	Sep 2005
	\$M	\$M	\$M	\$M	\$M	\$M
<b>Off-balance sheet exposures<sup>3</sup></b>						
Direct credit substitutes	9,193	9,657	9,193	9,657	6,732	7,337
Trade and performance related items	14,534	13,175	6,170	5,683	5,451	4,953
Commitments	89,236	87,319	13,352	14,017	11,983	12,249
Foreign exchange, interest rate and other market related transactions	1,029,803	782,380	19,116	12,309	5,354	3,681
<b>Total off balance sheet exposures - credit risk</b>	<b>1,142,766</b>	<b>892,531</b>	<b>47,831</b>	<b>41,666</b>	<b>29,520</b>	<b>28,220</b>
<b>Total risk weighted assets - credit risk</b>					<b>229,000</b>	<b>218,083</b>
<b>Risk weighted assets - market risk</b>					<b>1,653</b>	<b>1,490</b>
<b>Total risk weighted assets</b>					<b>230,653</b>	<b>219,573</b>

1. Includes \$5,086 million in assets excluded for risk weighting calculations for Australian Prudential Regulation Authority reporting purposes

2. Refer Note 24

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

## NOTES TO FINANCIAL STATEMENTS (continued)

## 15. Average balance sheet and related interest - statutory basis

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

	Half year Mar 06			Half year Sep 05			Half year Mar 05			
	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %	
<b>Interest earning assets</b>										
Due from other financial institutions										
Australia	1,320	32	4.9	% 880	24	5.4	% 733	19	5.2	%
New Zealand	2,131	69	6.5	% 2,092	63	6.0	% 2,392	63	5.3	%
Overseas markets	4,586	99	4.3	% 3,108	58	3.7	% 2,218	32	2.9	%
Trading and available for sale and other assets										
Australia	15,255	433	5.7	% 11,300	309	5.5	% 10,296	280	5.5	%
New Zealand	2,292	83	7.3	% 2,052	63	6.1	% 2,401	70	5.8	%
Overseas markets	2,687	57	4.3	% 2,805	49	3.5	% 3,179	51	3.2	%
Loans and advances										
Australia	165,103	5,987	7.3	% 157,694	5,590	7.1	% 148,104	5,081	6.9	%
New Zealand	65,866	2,849	8.7	% 62,829	2,648	8.4	% 59,230	2,423	8.2	%
Overseas markets	9,172	308	6.7	% 8,770	244	5.5	% 9,352	217	4.7	%
Acceptances <sup>1</sup>										
Australia	13,725	464	6.8	%						
Overseas markets	170	4	4.7	%						
Other assets										
Australia	3,337	128	7.7	% 2,533	61	4.8	% 1,897	47	5.0	%
New Zealand	4,417	133	6.0	% 3,340	91	5.4	% 2,481	71	5.7	%
Overseas markets	4,303	131	6.1	% 4,011	109	5.4	% 2,623	81	6.2	%
Intragroup assets										
Overseas markets	12,046	272	4.5	% 9,242	179	3.9	% 9,706	151	3.1	%
	306,410	11,049		270,656	9,488		254,612	8,586		
Intragroup elimination	(12,046 )	(272 )		(9,242 )	(179 )		(9,706 )	(151 )		
	294,364	10,777	7.3	% 261,414	9,309	7.1	% 244,906	8,435	6.9	%
<b>Non-interest earning assets</b>										
Derivatives										
Australia	6,708			6,134			4,024			
New Zealand	2,180			1,584			1,707			
Overseas markets	(564 )			(364 )			(445 )			
Premises and equipment	1,078			1,155			1,033			
Acceptances										
Australia				13,258			13,073			
Overseas markets				86			61			
Other assets	13,794			13,516			12,683			
Provisions for credit impairment										
Australia	(1,499 )			(1,852 )			(1,792 )			
New Zealand	(432 )			(621 )			(594 )			
Overseas markets	(185 )			2			(32 )			
	21,080			32,898			29,718			
<b>Total average assets</b>	<b>315,444</b>			<b>294,312</b>			<b>274,624</b>			

1. Acceptances have been classified as interest earning assets following adoption of AIFRS on 1 October 2005. This is consistent with the reclassification of commercial bill margins from fees to net interest. Refer Note 24

## NOTES TO FINANCIAL STATEMENTS (continued)

## 15. Average balance sheet and related interest - statutory basis, cont d

	Half year Mar 06			Half year Sep 05			Half year Mar 05			
	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %	Ave bal \$M	Int \$M	Rate %	
<b>Interest bearing liabilities</b>										
<b>Time deposits</b>										
Australia	41,323	1,151	5.6	% 40,122	1,106	5.5	% 38,650	1,020	5.3	%
New Zealand	26,868	927	6.9	% 25,537	847	6.6	% 25,626	813	6.4	%
Overseas markets	12,802	283	4.4	% 11,185	210	3.7	% 10,965	173	3.2	%
Savings deposits										
Australia	14,765	228	3.1	% 14,092	215	3.0	% 13,699	199	2.9	%
New Zealand	7,021	151	4.3	% 7,264	151	4.1	% 7,155	140	3.9	%
Overseas markets	502	3	1.2	% 419	1	0.5	% 415	1	0.5	%
Other demand deposits										
Australia	37,384	812	4.4	% 35,443	765	4.3	% 32,448	666	4.1	%
New Zealand	8,375	242	5.8	% 8,165	219	5.3	% 7,818	193	5.0	%
Overseas markets	968	9	1.9	% 805	7	1.7	% 783	6	1.5	%
Due to other financial institutions										
Australia	3,012	78	5.2	% 1,515	47	6.2	% 1,397	39	5.6	%
New Zealand	2,128	58	5.5	% 1,567	47	6.0	% 1,793	45	5.0	%
Overseas markets	6,602	164	5.0	% 5,073	101	4.0	% 4,209	64	3.0	%
Commercial paper										
Australia	9,605	275	5.7	% 7,770	226	5.8	% 7,988	218	5.5	%
New Zealand	6,879	253	7.4	% 7,769	268	6.9	% 7,664	253	6.6	%
Overseas markets	8,626	180	4.2	% 6,421	103	3.2	% 6,099	69	2.3	%
Borrowing corporations' debt										
Australia	9,124	257	5.6	% 9,276	264	5.7	% 9,396	254	5.4	%
New Zealand	1,962	67	6.8	% 1,927	64	6.6	% 1,981	62	6.3	%
Acceptances <sup>1</sup>										
Australia	13,725	384	5.6	%						
Overseas markets	170	4	4.7	%						
Loan capital, bonds and notes										
Australia	43,593	1,252	5.8	% 41,281	1,176	5.7	% 35,312	962	5.5	%
New Zealand	8,891	331	7.5	% 5,906	211	7.1	% 3,601	124	6.9	%
Overseas markets	137	3	4.4	% 136	2	2.9	% 139	2	2.9	%
Other liabilities <sup>2</sup>										
Australia	4,847	233	n/a	4,729	243	n/a	4,460	206	n/a	
New Zealand	234	50	n/a	150	66	n/a	64	35	n/a	
Overseas markets	469	14	n/a	95	7	n/a	86			