

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD

Form 6-K

May 02, 2006

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 6-K

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

For the Month of April 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 12g32 (b) under the Securities Exchange Act of 1934.

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Yes

No

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

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

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Signatures

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

Australia and New Zealand  
Banking Group Limited  
(Registrant)

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

Date 27 April 2006

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

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06

**2006 Interim Results**

Australia and New Zealand Banking Group Limited

27 April 2006

**John McFarlane**

Chief Executive Officer

*www.anz.com*

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A good first half

	<b>1H06 v 1H05</b>	
<b>Statutory profit</b>		<b>16%</b>
<b>Cash* profit</b>		<b>10%</b>
<b>Cash* profit before provisions</b>		<b>10%</b>
<b>Cash* EPS</b>		<b>10%</b>
<b>Dividend</b>		<b>10%</b>
		<b>2006 guidance</b>
<b>Revenue Growth*</b>	<b>8%</b>	<b>7-9%</b>
<b>Expense Growth*</b>	<b>6%</b>	<b>5-7%</b>

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*\*adjusts headline numbers for AIFRS 2005 adjustments, significant items and incremental integration costs and fair value hedge gains/losses*

[LOGO]

**Strong performance from the major divisions**

[CHART]

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\* Does not include Asia institutional business which is reported within Institutional

**A clear strategy - advance domestically while developing long term growth options in Asia**

**Winning share in Australia**

**Good earnings momentum**

**Leading customer satisfaction**

**Leading staff engagement**

**Investing for tomorrow**

[GRAPHIC]

**Build position in Australia**

[GRAPHIC]

**Benefit from NZ investment  
Improved results from  
New Zealand**

[GRAPHIC]

**Longer-term growth from Asia  
Portfolio of low-risk Asian growth  
investments, where we can add value**

**A stronger foundation than ever for the future**

Years of investment (**branches, customers, people, technology, community**)

Now engaged staff, satisfied customers, community respect,

Specialisation strategy and unique culture key differentiators

Growing in Australia, dominant in NZ, real Asian opportunity

Reliable and consistent delivery and execution

**ANZ now a very different bank, for all stakeholders**

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06

**2006 Interim Results**

Australia and New Zealand Banking Group Limited

27 April 2006

**Peter Marriott**

Chief Financial Officer

*www.anz.com*

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**Welcome to IFRS!**

**1 October 2004**

IFRS applies, except AASB 139/132/4. AASB 139 the most significant of new standards for a bank

**1 October 2005**

AASB 139, 132 & 4 come into play

	Mar 2005	Sep 2005	Mar 2006
<b>Statutory IFRS Accounts</b> 2005 not restated for AASB 139, 132, and 4	<b>2005</b> [GRAPHIC]	<b>2005</b> [GRAPHIC]	<b>2006</b> [GRAPHIC]
<b>Fully Comparable IFRS Accounts</b> We have applied all standards to 2005 to generate meaningful cash earnings comparatives	<b>2005</b> [GRAPHIC]	<b>2005</b> [GRAPHIC]	<b>2006</b> [GRAPHIC]

**Lack of comparability HOH a real issue eg:**

Change in margin	3 bp (statutory)	7 bp (fully comparable)
Other income growth	-14% (statutory)	2% (fully comparable)

[LOGO]

**Very strong headline growth; 10.4% underlying growth**

[CHART]



Good underlying business momentum

Strong income growth, continued investment

(Cash Earnings)

[CHART]

<b>HOH Growth</b>	4.2%	2.3%	2.1%	(31.1)%	12.4%	<b>9.3%</b>
			<b>Profit before Provisions</b>	<b>4.9%</b>		

**Solid volume growth offset by margin pressure, particularly in Corporate and Esanda**

[CHART]

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*@Continuing Businesses*

*#NII includes tax equivalent gross-up*

*^excludes non core items & shareholder functions*

*+growth in net loans & advances, including acceptances, fx adjusted*

**Competitive impacts on overall margin moderating slightly\***

**Lower competitive intensity in NZ,  
partly offset by increase in Australia**

Includes 1.5bp impact from higher trading securities etc, which  
drove higher non-interest income

[CHART]

**Competition reflected mainly  
in product migration**

(competition impact on Group Margin  
2H05 - 1H06)

[CHART]

Offset by 2bp benefit from basis risk

Total Mortgages margin has increased by 1bp

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\* Competition impact in 2H05 was 5.4bp including impacts of product migration

**Non Interest Income highly seasonal, but good momentum**

Item	pcp growth	hoh growth
Fee Income	8%	flat
FX Earnings	3%	2%
Profit on Trading Secs.	large	56%
Other	16%	7%
<b>Total</b>	<b>11%</b>	<b>2%</b>

**Non Interest Income is subject to seasonality, largely on fee line**

**(other income growth hoh\*)**

[CHART]

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*\*Operating segments core OOI growth, 1H06 & 2H05 AIFRS, 1H05 & 2H04 AGAAP*

**Client flows driving increased Markets income, assisted by favourable conditions**

**Total Markets Revenue (\$m)**

Looking at Trading Income in isolation is misleading, given interplay with NII and FX revenue

[CHART]

**ANZ VaR remains significantly below peers  
(Ave period VaR 99% confidence level)**

[CHART]

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*^NAB & WBC ave. for Sep-05 half, CBA ave. for Dec-05 half*

Re-opening the Jaws increasing the gap between revenue and cost growth

Revenue/Cost Jaws reopening

Revenue Growth v Cost Growth (hoh)\*

1.1% -2.2% -1.3% +0.1% +2.2%

[CHART]

Cost to Income reduced^ Impacted by IFRS restatements

[CHART]

Continuing to invest in frontline capabilities

(1H06 FTE growth)

Integration savings key driver. 64 frontline FTE added in the half

[CHART]

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\*2H05 & 1H06 AIFRS, remainder AGAAP, Core revenue and expense growth, adjusted for NBNZ normalisation

^Adjusted for AIFRS 2005 adjustments and non core items

**Portfolio credit quality remains strong**

**Increase in Non Accrual loans  
driven by two accounts**

[CHART]

**Delinquencies remain low  
(60+ day delinquencies)**

[CHART]

**Individual Provisions  
maintained at low levels  
(Ind. Provisions / Net Lending Assets\*)**

[CHART]

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*\*annualised*

**Collective Provision driven by a reduction in risk offset by lending growth**

**Collective Provision Charge (\$m)**

[CHART]

<b>Key Drivers</b>	<b>1H05</b>	<b>2H05</b>	<b>1H06</b>
Portfolio growth & risk changes	8%+ portfolio growth and flat risk mix in continuing business	10%+ portfolio growth and flat risk mix in continuing business, except for Cards	11%+ portfolio growth and flat risk mix in continuing business, except for Cards & Esanda
Scenario impact	Introduction of Oil Provision due to increased volatility in oil price. Rundown of offshore risk provision	Increased Oil Provision due to spike in oil price. Rundown of offshore risk provision	Oil Provision reduction in line with modelled emergence pattern
Other	Reduction in risk as legacy assets, including offshore energy exposures matured or sold	Continuing risk reduction as legacy assets matured or sold	Final run-off of risk associated with legacy assets

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+annualised



**Capital management and other financial considerations**

**Capital Management**

Capital management initiatives will generally be considered when ACE capital is above the target range

In the short-term, ACE capital generation needs to cover:

Balance Sheet impact of market share gains driving above peer RWA growth

Asian acquisitions

Deductions - eg capitalised software

Lower DRP flow back than peers

APRA's revised hybrid rules expected to allow access to cost effective non-innovative hybrid capital

**Revenue Hedging**

Current revenue hedging policy is to remain unhedged unless the currency is perceived to be significantly overvalued

Future foreign exchange hedging may be designated as a mixture of revenue (short term P&L) and capital hedges (Equity)



**Group outlook**

Item	Outlook	Drivers
Revenue	Slightly above mid point of 7% - 9% medium term target range	Continued strong volume growth in both Aust & NZ, driving interest and fee income  Margin compression forecast to be slighter greater than long term trend
Expenses	Low end of 5%-7% 2006 guidance	Ongoing investment particularly in Personal and increased people costs in Inst/Corp  Partly offset by continued efficiency gains across the Group
Provisions	Difficult to be prescriptive - no immediate concerns	Uncertain - dependant on actual losses, asset growth and change in risk profile, but more likely to increase
Taxation	Higher tax rate than FY05	Increased tax rate due to continued run-off of structured transactions. Likely to be higher in 2 <sup>nd</sup> half

[GRAPHIC]

06

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Australia and New Zealand Banking Group Limited

27 April 2006

**John McFarlane**

Chief Executive Officer

*www.anz.com*

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A good first half

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\* *adjusts headline numbers for AIFRS 2005 adjustments, significant items and incremental integration costs and fair value hedge gains/losses*

[GRAPHIC]

06

**2006 Interim Results**

Australia and New Zealand Banking Group Limited

27 April 2006

**Additional Information**

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**Profit & Cash EPS reconciliation**

	1H06 (\$m)	2H05 (\$m)	1H05 (\$m)	pcp change (%)	hoh change (%)
Income	4,963	4,814	4,582	8.3	3.1
Expenses	(2,185)	(2,266)	(2,152)	(1.5)	3.6
<b>Profit before Provisions</b>	<b>2,778</b>	<b>2,548</b>	<b>2,430</b>	<b>14.3</b>	<b>9.0</b>
Provision for Credit Impairment	(224)	(296)	(284)	21.1	24.3
Tax & OEI	(743)	(632)	(591)	(25.7)	(17.6)
<b>NPAT</b>	<b>1,811</b>	<b>1,620</b>	<b>1,555</b>	<b>16.4</b>	<b>11.8</b>
AIFRS 2005 Adjustments		(46)	15		
Non Core Items*	(67)	21	17		
Fair Value Hedging Gains/Losses	(13)	(12)	(19)		
Pref. Share Dividend	(12)	(12)	(6)		
<b>Adjusted Cash NPAT</b>	<b>1,719</b>	<b>1,571</b>	<b>1,562</b>	<b>10.1</b>	<b>9.4</b>
Average Shares	1,828	1,825	1,823		
<b>Basic Cash EPS (cents)</b>	<b>94.0</b>	<b>86.1</b>	<b>85.7</b>	<b>9.7</b>	<b>9.2</b>

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\*includes significant items & incremental integration costs

**Cash EPS comparison AGAAP v A-IFRS**

12 months ended 30/09/05 (\$m)	Reported AGAAP	Goodwill amortisation	Share based payments	Fee revenue	Credit loss provisioning	Derivative accounting incl. hedging(1)	Hybrid financial instruments	Other	AIFRS
Net interest income	5,798			622			(66)	17	6,371
Other operating income	3,552	45		(635)		43		(13)	2,992
Operating expenses	(4,515)	179	(80)					(2)	(4,418)
Provision for Credit Impairment	(580)				15				(565)
Income tax expense	(1,234)		17	3	(6)	(12)		(1)	(1,233)
Net profit attributable to minority interests	(3)								(3)
<b>Net profit after tax attributable to shareholders of the Company</b>	<b>3,018</b>	<b>224</b>	<b>(63)</b>	<b>(10)</b>	<b>9</b>	<b>31</b>	<b>(66)</b>	<b>1</b>	<b>3,144</b>
Goodwill amortisation	224	(224)							0
Significant items	38								38
Derivatives revaluation	0					(31)			(31)
<b>Cash net profit after tax</b>	<b>3,280</b>								<b>3,151</b>
Hybrid financial instruments	(84)						66		(18)
Cash earnings	3,196								3,133
Average shares (basic)	1,824								1,824
<b>Cash EPS (cents per share)</b>	<b>175.2</b>								<b>171.8</b>

(1) This excludes the effect of applying bid or offer prices rather than mid prices and changes in the market value of counterparty risk included in the measurement of the fair value of derivatives



**Major divisions driving improved revenue growth**

**Divisional Revenue<sup>^</sup> Growth Matrix**

[CHART]

*2005 growth represents AGAAP Mar 05 v Mar 04, 2006 growth represents AIFRS Mar 06 v Mar 05*

Good momentum in major divisions

**Personal** driven by strong FUM growth and stable margins

Good growth in Markets, Trade, C&SF driving **Institutional**

Solid volume growth & more favourable margin environment benefiting **New Zealand**

Good performance from Pacific and growth in Asian Cards earnings driving **Asia Pacific**

Solid volume growth offset by increased margin contraction impacting **Corporate**

**Esanda** impacted by reduced margins, continued restructuring of UDC and impact of oil price on residual values

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<sup>^</sup>Continuing business, excludes significant items

\*New Zealand Businesses in NZ\$, normalised for NBNZ



**Australian Geographic margin down 2bps**

**Competition key driver of margin decline**

Includes benefit of TTS provision release, FX revenue hedge and reduced broker impact

[CHART]

**Competition impacts across the portfolio**

(competition impact on Aust margin hoh)

<b>Impact</b>	<b>1H06 (bps)</b>	<b>2H05 (bps)</b>
Mortgages	(0.9)	(1.3)
Inst. & Corp	(1.1)	(1.3)
Esanda	(0.6)	(0.5)
Card Product Mix	(0.7)	(0.3)
Deposit Product Mix	(0.3)	(0.4)
Other	(0.5)	(0.2)
<b>Total</b>	<b>(4.1)</b>	<b>(4.0)</b>

**Reduced competition offset by increased funding impact in NZ Geographic margin**

**Shift in funding mix offset by capital investment earnings**

Transfer of capital from UK to NZ

[CHART]

**Fixed rate mortgage competition abated in 1H06**

(competition impact on NZ margin hoh)

<b>Impact</b>	<b>1H06 (bps)</b>	<b>2H05 (bps)</b>
Mortgage Product Mix	(1.9)	(3.3)
Fixed Rate Competition	(0.1)	(2.5)
Inst. & Corp	(0.2)	(1.2)
UDC	(1.1)	(0.4)
Deposit Product Mix	(3.1)	(2.5)
Other (incl. Liab s)	1.3	(0.4)
<b>Total</b>	<b>(5.1)</b>	<b>(10.3)</b>

**ACE capital position relatively stable over the half**

**ACE Capital conservatively managed during 1H06 awaiting final APRA rules**

[CHART]

ANZ continues to generate sufficient organic capital to fund business growth and capital initiatives

Commitment for Tianjin partnership included in 1H06 ACE calculation

APRA recently announced deferral of net AIFRS deductions (deferred pensions liabilities, capitalised software, derivative hedge accounting) to Jan 2008 coinciding with expected BASEL II implementation

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#Includes non-core earnings of 4bps

**NZ revenue hedges partially unwound as NZ\$ weakens**

**A\$/NZ\$ weakened to long term average rate**

[CHART]

**NZ\$ Revenue Hedging**

	Mar-06	Sep-05
Notional Principal (NZ\$b pre-tax)	2.91	4.35
Deferred Market Value (A\$m post-tax)	143#	29
Expected 2HO6 Benefit	26	
Post 2006	117	
Ave. exchange rate of open position (spot)	~ 1.095	~ 1.088

Current revenue hedging policy is to remain unhedged unless the currency is perceived to be significantly overvalued.

Post Sept 06, AIFRS requires revenue hedges to be MTM through P&L. ANZ will continue with its current hedging policy, however future hedging may be designated as a mixture of revenue (short term P&L) and capital hedges (Equity).

At Sept 06, realised & unrealised profits taken to retained earnings

During the half, NZ\$0.7b of hedges matured against 1H06 earnings (cost \$2m), and additional NZ\$0.7b of hedges unwound as NZ\$ weakened approaching longer term average (benefit locked in \$26m).

95% of 2H06 NZ earnings hedged at ~1.106.

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#based on closing rate of 1.17



**\$350m on market share buyback completed in March 06**

**Summary**

Total shares repurchased	15.7m
% of shares on issue	0.9%
Capital consumption	A\$350m

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Trying to making your life easier!

ILLUSTRATIVE

**Revenue Growth**

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**PBP Growth**

[CHART]

Each 10% change in provisioning charge yoy equals 1.3% change in growth rate

Assumes slightly higher tax rate in second half.

# Credit Quality

**Net Individual Provision charge down 8.5%**

Credit quality in New Zealand and Offshore continues to improve, with lower Net Individual Provisions.

Net Individual Provisions are up in Australia, due to the downgrade and provisioning of two Institutional accounts.

**Net Individual Provisions by Geography**

[CHART]

**Net Individual Provisions By Size 1H06**

[CHART]

**Group risk grade profile largely unchanged**

**Group Outstandings**

[CHART]

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\*Excludes Kingfisher securitisation amount of \$1.5bn

**Institutional risk grade profile continues to improve**

**Institutional Outstandings**

[CHART]

**Credit quality robust in Mortgages Australia**

Dynamic LVR profile reflects strong migration into lower LVR buckets compared to time of origination

**Strong LVR profile**

[CHART]

Owner Occupied dominates the portfolio, while the uptake of Equity products has stabilised

Broker and Network 60+ day arrears are marginally higher at Mar-06 than at Sep-05 due to seasonality, but in line with Mar-05

**Network vs Brokers 60+ day Delinquencies**

[CHART]

**Portfolio by product Mortgages Australia (incl Origin)**

[CHART]

**Credit Cards: Risk Mix shift towards Proprietary Cards**

The Consumer Cards portfolio has traditionally been weighted towards Loyalty however this balance is progressively changing due to strong Proprietary growth through competitive products and focused marketing campaigns, including the very successful Zero % balance transfer

**Consumer Cards Outstandings (A\$b)**

[CHART]

Proprietary products are higher risk than Loyalty products and while their arrears rate is higher, there is no deteriorating trend present in either product

**Credit Cards Australia 60+Days arrears impacted by seasonality**

[CHART]

**Personal Loans Australia arrears improving following seasonal up-tick**

[CHART]

**NZ consumer credit quality putting it in perspective**

**NZ Home Loan arrears in line with same period last year**

[CHART]

**NZ Credit Card arrears well down on same period last year**

[CHART]

**Income growth likely to absorb higher repayment costs from refinancing at higher interest rates, even for those coming off best in market offers**

[CHART]

**Estimated Effective Rate on fixed borrowings across all tenors**

[CHART]

Best 2yr rate on offer during price war was 6.89% by TSB

**Interest rate at time of refinancing**

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\* Based on 20 year loan period

Sources: Reserve Bank; ANZ National Bank



**Industry exposures Australia & New Zealand**

**Health & Community Services**

[CHART]

**Mining**

[CHART]

**Cultural & Recreational Services**

[CHART]

**Personal & Other Services**

[CHART]

**Forestry & Fishing**

[CHART]

**Communication Services**

[CHART]

**Finance - Other**

**Transport & Storage**

**Utilities**

[CHART]

[CHART]

[CHART]

**Finance Banks, Building Soc etc.**

**Accommodation, Clubs, Pubs etc.**

**Construction**

[CHART]

[CHART]

[CHART]

**Real Estate Operators & Dev.**

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**Retail Trade**

[CHART]

**Agriculture**

[CHART]

**Manufacturing**

[CHART]

**Wholesale Trade**

[CHART]

**Business Services**

[CHART]

# Divisional Performance

**Personal: Record lead on customer satisfaction driving market share and share of wallet gains**

**Leading major bank customer satisfaction  
(Main Financial Institution\*)**

[CHART]

**Closing gap on number 2 market position  
(share of traditional banking products\*)  
Market Share Gap**

[CHART]

**Significantly increasing customer share of wallet  
(traditional banking products\*)**

[CHART]

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\*Source: Roy Morgan Research - Main Financial Institution, % Satisfied (Very or Fairly Satisfied), 6 monthly moving average

\*Source: Roy Morgan Research - Traditional Banking 12 monthly moving average

**Personal: Convenience & Simplicity delivering for our staff and customers**

**Continuing to invest in distribution  
(# branches and ATMs)**

[CHART]

**Margins remain stable; some  
benefits from basis risk (bps)**

[CHART]

**Frontline staff engagement continues to improve  
(branch manager engagement)**

[CHART]

**Strong growth in Everyday Banking \* accounts in all states  
(# new accounts)**

[CHART]

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*\*Everyday Banking incl. Transaction Accounts and Progress Saver,  
excl. Visa Debit*

**Mortgages: Good performance driven by solid FUM growth and favourable margin environment**

**Mortgage growth continues at solid rate  
(FUM A\$b excl securitised assets)**

[CHART]

**Balanced contribution from distribution network  
(% flows)**

[CHART]

**ANZ Retail\* growing well above system,  
Origin run-off impacting total growth  
(APRA Oct 05 Feb-06)**

[CHART]

**1H06 margins# benefited from basis risk,  
partially offset by competition**

[CHART]

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\*Source APRA incl ADIs only. ANZ Retail includes all channels except Origin #Margin before broker commissions

**Banking Products: good growth in all products driving market share gains**

**Account numbers continue to grow solidly**

[CHART]

**Good FUM growth in all products (A\$b)**

[CHART]

**Majority of new accounts part of Everyday Banking package (% of new accounts)**

[CHART]

**Solid growth in all Savings products (Savings a/c FUM A\$b)**

[CHART]

---

\*includes Transaction and Progress Saver accounts, excl Visa Debit



**Consumer Finance: Solid FUM growth, losses in line with long term trends**

**Increased low rate flows  
assisting FUM growth (\$m)**

[CHART]

**Growth in Low Rate cards moderating after strong launch  
(% growth of new accounts)**

[CHART]

**Proprietary and Low Rate income\*\* and loss margin stable  
(index Jan-05 Income = 100)**

[CHART]

**Income and loss margin steady for Loyalty products  
(index Jan-05 Income = 100)**

[CHART]

---

*\* Low Rate includes White Label \*\*excludes Annual Fees*

**Investment & Insurance: Direct Businesses building momentum**

**Direct Businesses**

**Strong Growth in all Direct  
Businesses (1H06 NPAT growth)**

[CHART]

**driven by solid FUM growth**

[CHART]

**Indirect Businesses**

**One Answer & Employer Super driving  
INGA FUM growth (Mar-06 A\$b)**

[CHART]

**ANZ Financial Planners continue to perform well (% flows)**

[CHART]

**Institutional\*:** Solid lending growth, driven by buoyant market; High market liquidity still impacting margins

**Specialist product businesses continuing to perform well (1H06 NPAT growth)**

[CHART]

**Investment centred on growth business (FTE growth 1H06)**

[CHART]

**Strong market driven RWA growth (hoh RWA growth\*)**

[CHART]

**Reducing credit spreads continue to impact Institutional margins**

[CHART]

---

*\*continuing businesses*

**New Zealand: Good underlying momentum in both retail businesses**

**Strong underlying business momentum in both retail brands (NZ\$ profit before provisions\*)**

[CHART]

**NBNZ maintains customer satisfaction lead, ANZ improving#**

[CHART]

**Solid asset growth in both brands, good deposit growth in ANZ brand (1H06 FUM growth annualised (NZ\$))**

[CHART]

**Migration largely from Savings Accounts into ANZ Online Saver (Deposit FUM NZ\$m)**

[CHART]

---

*\*1H06 results adjusted for net Commerce Commission costs (NZ\$5m for each Bank) and costs of domestic systems relocation in ANZ (NZ\$5m)*

*# Source: ACNielsen© Consumer Finance Monitor; rolling 4 quarter average percentage of customers rating their main bank as Excellent or Very good in response to the question How would you rate your (main) provider of financial services on its overall service?*

New Zealand: Institutional and Corporate performing well, Rural impacted by competition and seasonality

**Strong growth in Institutional\* and Corporate;  
Rural impacted by competition and  
seasonality  
(NZ\$ profit before provisions)**

[CHART]

**Corporate: Continued strong volume  
growth, credit quality remains sound**

[CHART]

**% 1H06 Inst. PBP**

[CHART]

**Institutional\*: Result driven by Markets  
performance given increased NZ\$  
volatility and strong sales volumes  
(1H06 profit before provisions growth (NZ\$))**

[CHART]

**Rural: Ongoing solid FUM growth  
offset by margin contraction**

[CHART]

---

*\*Continuing Businesses*

*\*\*Specific Provisions pre AIFRS*

**Corporate: Solid FUM growth partially offset by increased competition**

**Strong Lending and Deposit growth  
in all business (average FUM growth)**

**Net Lending Assets**

[CHART]

**Deposits**

[CHART]

**Investment in Small Business  
paying dividends**

All Key Customer Metrics improved\*

[CHART]

**Private Equity pipeline  
continues to build**

[CHART]

**Increasing competition  
impacting Net Interest Margin**

[CHART]

---

\*TNS Business Finance Monitor Mar-06 v Oct-04

**Esanda and UDC: impacted by high oil prices and structural changes in NZ business**

**Lending growth in Australia partly offset by decline in NZ**

Solid growth in Australia

NZ book growth impacted by restructure

Steps in place to stabilise NZ asset levels to return to growth in 2007

New Business Margin continued to decline in 1H06

Actions taken in 2<sup>nd</sup> quarter have seen improvement in margin

Net Lending Assets (\$bn) & New Business Margin (Indexed)

[CHART]

**1H06 result impacted by lower used vehicle prices**

Since January 2004 used vehicle prices in Australia have been declining due in part to rising oil prices

Lower used vehicle prices have impacted Esanda by:

Higher trading losses on End of Lease vehicles

Lower value on realised security when accounts default impacting Credit Loss Provision

Impact of oil price on used car values

[CHART]

**New strategy to revitalise the business and achieve growth**

**Sharpen and Simplify Finance Company focus**

**Improve sales channel coverage**

**Upgrade finance company products**

**Faster & more efficient processes**

**Improve execution capabilities**

**Dynamic energetic culture**

[LOGO]

*Source: ABS, Australian Automobile Association*



Asia: Asian Network performing well, supported by Card JV s, Panin JV impacted by tough economic environment

<b>ANZ Network</b>		<b>Retail Partnerships</b>
<b>Growing revenues faster than expenses (1H06 v 1H05)</b>		<b>Panin earnings impacted by difficult economic environment partly offset by provisioning</b>
[CHART]		[CHART]
<b>assisted by significant improvements in staff engagement</b>		<b>Solid growth in card numbers in both ANZ Panin and Metrobank partnerships</b>
<b>Total Asia</b>	<b>Asian Network</b>	
[CHART]	[CHART]	[CHART]

**Pacific: Solid FUM growth and customer acquisition continues to drive momentum**

**Strong NPAT growth**

[CHART]

**Profit growth driven by continued momentum in major markets (1H06 NPAT growth)**

[CHART]

**driven by continued solid lending growth despite deposit growth moderating in 1H06, following strong 2H05**

[CHART]

**Continued customer account growth across the region**

[CHART]

**Strong progress on our Corporate Responsibility agenda**

2005

[CHART]

Community Involvement No.3 value evident in ANZ's culture according to our staff (Profit and Customer Focus number 1 & 2 respectively)

22% improvement in performance on 2005 Dow Jones Sustainability Index

Member of FTSE4Good Global Index

AA on Reputex Social Responsibility ratings

Significant improvement on 2005 Corporate Responsibility Index

Environmental management presents greatest opportunity for improvement

Interim Corporate Responsibility Report released today

**Strong progress on our Corporate Responsibility agenda**

*Putting our customers first*

ANZ has the most satisfied retail customers of the four major banks and St George according to Roy Morgan research. Customer satisfaction continues to improve - from 76.6% in September 2005 to 78.2% in February 2006.

We have been managing and measuring our performance on each of the promises in our Customer Charter for five years now. The Charter was updated in November 2005 to include new responsible lending commitments and, since then, we have met or exceeded all but one of the revised performance indicators. Our monthly tracking reported three customer complaints about privacy, which have since been investigated and addressed.

We have opened 11 new branches and installed 160 new ATMs across Australia in the past six months. Our new branches are located in Thirroul and Scone, NSW; Clarkson, Livingston, Melville and Falcon Dawesville, WA; Diamond Creek and Wyndham Village, Victoria; Chancellor Park and Miami in Qld and Gungahlin, ACT.

*Leading and inspiring our people*

Employee engagement remains steady at 60%. Our engagement score remains the highest of all major corporations in Australia and ahead of the banking and financial services sector benchmark. Within these results, engagement in our Personal Division increased from 64 to 66%.

Our Breakout program has been in place for six years now as part of our long-term commitment to creating a values-driven culture. This year, a major focus for the program is involving our people who serve our customers. Almost 3,000 employees from our Personal Division have completed the Breakout to the Frontline program since its commencement, including 2,025 participants in the past six months. A further 150 additional workshops are scheduled throughout the remainder of the year

We achieved our goal to have 20% female representation in executive positions and completed our first organisation-wide Diversity survey.

Our Lost Time Injury Frequency Rate (LTIFR) has declined from 4.2 in October 2005 to 4 and employee turnover remains steady at 11.6%.

*Earning community trust*

We are expanding our Saver Plus financial literacy and matched savings program to include 18 sites nationally and 6,000 families over the next three years. The program will be implemented in partnership with The Smith Family, Brotherhood of St Laurence, Benevolent Society and Berry Street Victoria and six sites in Victoria, which will be delivered in partnership with the State Government.

More than 4,150 people have participated in our MoneyMinded financial education program through group workshops and one-to-one meetings with financial counsellors and community educators across Australia. We have also launched MoneyMinded on-line, a non-branded, interactive financial education website for our employees, customers and the community.

The MoneyBusiness financial literacy and inclusion program with Indigenous communities is in progress in six remote sites in the Northern Territory and Western Australia. This pilot program is being conducted in partnership with FaCSIA and community organisations such as Mission Australia (Katherine), Galiwinku Community Incorporated (Galiwinku), Geraldton Resource Centre (Geraldton), Kununurra Waringarri Aboriginal Corp (Kununnurra) and Centacare (Tennant Creek). Eighteen local staff have been appointed from within Indigenous communities to manage the program.

*Integrating environmental and social considerations into our business practices*

We have developed and implemented our Environmental Management System, which will be independently verified by September 2006. A range of initiatives has commenced to assist in reducing our overall footprint including specific work at key commercial sites and branches to improve energy and operational efficiencies.

Our Sustainable Procurement Policy, Sustainable Clauses and the Sustainability Self-Assessment Tool have been integrated into the templates for all new tenders and new and existing contracts with key strategic suppliers.

Following the pilot phase of ANZ's environmental and social issues screening process, full implementation has been agreed and initiated across our Institutional & Corporate lending activities. At 31 March 2006, 25% of Institutional divisions new transactions and annual reviews have been screened, along with a complete assessment of both Institutional and Corporate's lending portfolios.



## Summary of forecasts Australia

	2005	2006	2007
<b>GDP</b>	2.3	2.8	3.8
<b>Inflation</b>	2.6	3.0	2.9
<b>Unemployment</b>	5.0	5.4	5.2
<b>Cash rate</b>	5.5	5.5	5.75
<b>10 year bonds</b>	5.4	5.4	5.3
<b>\$A/\$US</b>	0.76	0.69	0.67
<b>Credit</b>	13.4	12.4	10.2
<b>- Housing</b>	13.3	12.6	11.3
<b>- Business</b>	13.8	13.1	9.1
<b>- Other</b>	12.8	8.2	7.6

*All Forecasts for Sept bank year*



## Summary of forecasts New Zealand

	2005	2006	2007
<b>GDP</b>	2.6	1.4	2.1
<b>Inflation</b>	3.4	2.9	2.6
<b>Unemployment</b>	3.7	3.9	4.3
<b>Cash rate</b>	6.75	7.00	5.50
<b>10 year bonds</b>	5.7	6.0	6.0
<b>\$NZ/\$US</b>	0.70	0.60	0.54
<b>Credit</b>	15.2	11.3	8.9
<b>- Housing</b>	16.1	12.3	9.0
<b>- Business (incl rural)</b>	18.3	9.7	9.0
<b>- Other (personal)</b>	7.5	7.0	7.2

*All Forecasts for Sept bank year*

The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

For further information visit

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**HIGHLIGHTS**

**Media Release**

For Release: 27 April 2006

**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>

**Earnings per share**

<b>EPS 98.4 cents</b>	<b>up 18%</b>
<b>Cash* EPS 94.0 cents</b>	<b>up 10%</b>

**Dividend**

<b>Interim dividend 56 cents</b>	<b>up 10%</b>
----------------------------------	---------------

**Ratios**

**Return on equity 20.9% (18.3%)**

**Adjusted common equity ratio stable at 5.0%**

**Business comment**

**Strong performance in Personal Banking, record lead in customer satisfaction**

**Good momentum in New Zealand and Institutional**

**Continued frontline investment with 1,231 additional FTE**

**Provision for credit impairment at cyclical low**

**Growth and Transformation program on track**

**Revenue\* growth 8%** (target range 7% - 9%)

**Cost-Income\* ratio 45.8%** (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)

Australia and New Zealand Banking Group Limited (ANZ) today announced a record profit after tax of \$1,811 million for the half-year ended 31 March 2006, up 16%. The headline result included a number of one-off gains including the National Housing Bank (NHB) insurance settlement and, adjusting for these, cash\* earnings per share were up 10%.

The Interim Dividend was increased by 10% to 56 cents.

ANZ Chief Executive Officer Mr John McFarlane said: This is a good result based on a strong underlying business performance.

Revenue growth at 8% is the highest it has been in recent years and solidly within our target range of 7-9%. The cost to income ratio is down 1%, with expenses contained within our target range. Credit quality remains at its best level in more than a decade and at a cyclical low. While we remain vigilant to potential risks, we are yet to see any material credit issues emerging.

In recent years we set out to make ANZ a very different bank. Against the trend we invested to create a real difference that others would find hard to replicate.

We began a journey to create a distinctive culture and we have achieved high levels of staff engagement. We added around 4,000 people to serve our customers while others were cutting staff. We opened and refurbished, and restaffed our branches while others were closing. We invested in Asia at a time the market considered it unfashionable.

This has been the right agenda but it has been tougher than we anticipated. Only now is the difference starting to be tangible, and beginning to change the face of banking in Australia and New Zealand.

This result is good progress but still leaves a great deal to be done. We need to work hard in the years ahead to build the momentum in our Personal, Institutional and New Zealand divisions, to improve our cost-income ratio and advance our strategic agenda. Continuing to make ANZ a very different bank remains the core of our agenda, Mr McFarlane said.

### **Divisional Performance**

**Personal** continues to deliver very strong growth, with earnings up 16%. We continued our investment in future growth with the addition of 545 staff, 22 new branches, and 362 ATMs since the March 2005 half. All individual personal businesses recorded double-digit earnings growth, with Mortgages up 21% and Investment & Insurance Products up 18%. Personal also saw continued improvements in staff engagement and in customer satisfaction, where we now have a distinct lead over our peers.

**Institutional** grew 8% over the same period last year, adjusting for discontinued businesses exited to reduce risk. Institutional has invested in its businesses throughout the year, through the retention and recruitment of high quality staff, and has restructured its business model to recognise the changing requirements of our customer base. This has helped secure very high revenue growth of 12%. The performances of Trade and Transaction Services, Markets, Corporate and Structured Finance, and New Zealand were particularly strong.

---

\* 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)

**New Zealand Businesses** (which excludes Institutional) were up 14% on the same period last year in NZ dollar terms. On a full geographic basis New Zealand was up 16%. This was assisted by lower credit provision charges and, adjusting for this, profit before provisions was up 3% and up 5% on the previous half. The business is showing promising momentum, with robust credit growth and improved credit quality. Interest margin decline moderated and we are starting to see cost synergies flow from integration.

**Corporate** was up 16%, with improved credit quality offsetting the impact of increased competitive intensity. Lending and deposit growth were both up 11%. Expenses grew 8% from a 5% growth in staff numbers and the impact of annual salary increases, as we continued to invest in expanding our customer proposition. We expect expense growth to moderate in the second half, and income growth to improve as we generate returns from our earlier investment.

**Asia Pacific** was up 18%. Very strong growth in the Pacific and the network business in Asia were partly offset by lower equity accounted earnings in Panin Bank. Costs associated with developing our partnership business contributed to overall costs increasing 23%. Our Asian cards business had a 47% growth in earnings over the previous half. We advanced our strategic agenda in Asia, with the planned acquisition of a 19.9% stake in Tianjin City Commercial Bank. Discussions on other expansion options continued.

**Esanda** is receiving increased management attention and was the only division to have a disappointing half. Earnings were down 20% on the same period last year due to lower margins, the impact of higher petrol prices, higher credit losses from declining security values, and mark-to-market write-downs of residual asset values. UDC continues to be weak, although new management is focused on turning this around. Performance in the second half is expected to improve.

#### **Looking forward**

Commenting on the outlook for ANZ, Mr McFarlane said: With a strong first half behind us and good momentum going into the second half, we are increasingly confident about the year as a whole. 2006 is expected to be a good year for ANZ.

We are now seeing returns from the investment we made in recent years and this is likely to result in revenue growth above the mid-point of our medium term 7-9% target range in 2006. Expense growth is under control and likely to be towards the bottom end of our 5-7% target range for the year. While the credit environment remains benign, we envisage a modest increase in credit costs in the second half from a very low base.

Over the past nine years, shareholders have seen good financial returns, and we are continuing to invest to underpin our future. Our agenda is to make ANZ a very different bank. This is now showing through in our relationships with our customers, our people, the community and our shareholders, Mr McFarlane said.

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Head of Investor Relations  
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Email: higgins@anz.com



**Australia and New Zealand**

**Banking Group Limited**

**ABN 11 005 357 522**

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

**Half Year**

**31 March 2006**

This Financial Report on the consolidated Group contains the information required by Appendix 4D of the Australian Stock Exchange Listing Rules, should be read in conjunction with the September 2005 Concise Annual and Financial Reports, and is lodged with the Australian Stock Exchange under listing rule 4.2A

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

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

**Report for the half year ended 31 March 2006**

		A\$million
<b>Group operating revenue</b>	8%* to	<b>4,963</b>
<b>Operating profit after tax attributable to shareholders</b>	16%* to	<b>1,811</b>
<b>Proposed interim dividend per ordinary share, fully franked at 30% tax rate</b>		<b>56 cents</b>
2005 interim dividend per ordinary share, fully franked at 30% tax rate		51 cents
<b>Record date for the proposed interim dividend</b>		19 May 2006
The proposed interim dividend will be payable to shareholders registered in the books of the Company at close of business on 19 May 2006. Transfers must be lodged before 5:00 pm on that day to participate.		
<b>Payment date for the proposed interim dividend</b>		3 July 2006

\* Compared to March 2005

This Financial Report on the consolidated Group contains the information required by Appendix 4D of the Australian Stock Exchange Listing Rules, should be read in conjunction with the September 2005 Concise Annual and Financial Reports, and is lodged with the Australian Stock Exchange under listing rule 4.2A

**Highlights**

All figures compared to March 2005 half year unless otherwise indicated

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<b>EPS 98.4 cents</b>	<b>up 18%</b>

**Cash\* EPS 94.0 cents** **up 10%**

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**Interim dividend 56 cents** **up 10%**

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**Adjusted common equity ratio stable at 5.0%**

**Business comment**

**Strong performance in Personal Banking, record lead in customer satisfaction**

**Good momentum in New Zealand and Institutional**

**Continued frontline investment with 1,231 additional FTE**

**Provision for credit impairment at cyclical low**

**Growth and Transformation program on track**

**Revenue\* growth 8%** (target range of 7% - 9%)

**Cost-Income\* ratio 45.8%** (1.0% improvement)

---

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*AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED*

*ABN 11 005 357 522*

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

Half year ended 31 March 2006

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

All amounts are in Australian dollars unless otherwise stated. The Company has a formally constituted Audit Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 27 April 2006.

When used in this Results Announcement the words estimate , project , intend , anticipate , believe , expect , should and similar expressions relate to ANZ and its management, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute forward-looking statements for the purposes of the United States Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

---

**HIGHLIGHTS**

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\* 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)

**New Zealand Businesses** (which excludes Institutional) were up 14% on the same period last year in NZ dollar terms. On a full geographic basis New Zealand was up 16%. This was assisted by lower credit provision charges and, adjusting for this, profit before provisions was up 3% and up 5% on the previous half. The business is showing promising momentum, with robust credit growth and improved credit quality. Interest margin decline moderated and we are starting to see cost synergies flow from integration.

**Corporate** was up 16%, with improved credit quality offsetting the impact of increased competitive intensity. Lending and deposit growth were both up 11%. Expenses grew 8% from a 5% growth in staff numbers and the impact of annual salary increases, as we continued to invest in expanding our customer proposition. We expect expense growth to moderate in the second half, and income growth to improve as we generate returns from our earlier investment.

**Asia Pacific** was up 18%. Very strong growth in the Pacific and the network business in Asia were partly offset by lower equity accounted earnings in Panin Bank. Costs associated with developing our partnership business contributed to overall costs increasing 23%. Our Asian cards business had a 47% growth in earnings over the previous half. We advanced our strategic agenda in Asia, with the planned acquisition of a 19.9% stake in Tianjin City Commercial Bank. Discussions on other expansion options continued.

**Esanda** is receiving increased management attention and was the only division to have a disappointing half. Earnings were down 20% on the same period last year due to lower margins, the impact of higher petrol prices, higher credit losses from declining security values, and mark-to-market write-downs of residual asset values. UDC continues to be weak, although new management is focused on turning this around. Performance in the second half is expected to improve.

#### **Looking forward**

Commenting on the outlook for ANZ, Mr McFarlane said: With a strong first half behind us and good momentum going into the second half, we are increasingly confident about the year as a whole. 2006 is expected to be a good year for ANZ.

We are now seeing returns from the investment we made in recent years and this is likely to result in revenue growth above the mid-point of our medium term 7-9% target range in 2006. Expense growth is under control and likely to be towards the bottom end of our 5-7% target range for the year. While the credit environment remains benign, we envisage a modest increase in credit costs in the second half from a very low base.

Over the past nine years, shareholders have seen good financial returns, and we are continuing to invest to underpin our future. Our agenda is to make ANZ a very different bank. This is now showing through in our relationships with our customers, our people, the community and our shareholders, Mr McFarlane said.

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**FINANCIAL HIGHLIGHTS****Net 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	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 \$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>	<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(1)	N/A	(46)	15	n/a	n/a
<b>Profit on a fully comparable AIFRS basis(1)</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 \$M	Half year Sep 05 \$M	Half year Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
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<b>Profit on a fully comparable AIFRS basis(1)</b>	<b>1,811</b>	1,574	1,570	15%	15%
<b>Non-core items</b>					
<b>Significant items(2)</b>					
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
<b>Total significant items(2)</b>	<b>93</b>	14		large	n/a
Fair value hedge gains/losses(3)	13	12	19	8%	-32%
NBNZ incremental integration costs after tax(2),(4)	(26)	(35)	(17)	-26%	53%
<b>Total non-core items</b>	<b>80</b>	(9)	2	large	large
<b>Cash profit</b>	<b>1,731</b>	1,583	1,568	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 13 to 15), 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 13)

(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 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 13)

## Analysis of Cash(1) 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>Cash(1) profit</b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>	<b>9%</b>	<b>10%</b>

## 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 ordinary share (cents)</b>					
Basic	98.4	86.3	83.2	14%	18%
Diluted	96.1	84.3	80.6	14%	19%
Cash(1) (basic adjusted for non-core items)	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 13 to 15), 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 13)

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 13)

## Balance Sheet

	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 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>



## 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>Cash(1) profit</b>	<b>1,731</b>	<b>1,583</b>	<b>1,568</b>
<b>EVA<sup>TM</sup> (2)</b>	<b>1,013</b>	<b>991</b>	<b>920</b>
<b>Profitability ratios</b>			
Return on:			
Average ordinary shareholders equity(3),(4)	20.9%	18.3%	18.3%
Average ordinary shareholders equity(3),(4) (cash(1) earnings basis)	20.0%	19.0%	19.0%
Average assets	1.15%	1.10%	1.14%
Average risk weighted assets(4)	1.60%	1.50%	1.54%
Average risk weighted assets(4) (cash(1) earnings basis)	1.53%	1.47%	1.55%
Total income(4)	14.5%	14.1%	15.0%
Net interest margin	2.29%	2.26%	2.36%
Net interest margin (cash(1) 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 (cash(1) earnings basis)	45.8%	46.5%	46.8%
Operating expenses to average assets (cash(1) 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(5)	56.9%	68.4%	61.3%
Cash(1) ordinary share dividend payout ratio(5)	59.6%	68.6%	59.5%
<b>Preference share dividend</b>			
Dividend paid (\$M)(6)	12	46	38
Dividend paid (\$M)(7) (on fully comparable AIFRS basis)	12	12	6

(1) Adjusted for AIFRS 2005 adjustments and non-core items. Refer footnote 1 page 6

(2) EVA<sup>TM</sup> refers to Economic Value Added, a measure of shareholder value. See page 23 for a reconciliation of EVA<sup>TM</sup> to reported net profit and a discussion of EVA<sup>TM</sup> and an explanation of its usefulness as a performance measure

(3) Average ordinary shareholders equity excludes minority interest

- (4) *Excludes preference share dividend*
- (5) *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*
- (6) *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*
- (7) *Represents dividends paid on Euro Hybrid*

	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(1) per ordinary share (\$)	8.00	7.77	7.38	3%	8%
Net tangible assets(1) 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(2)	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(3) on fully comparable AIFRS basis (\$M)	1,903	1,879	1,768	1%	8%
Collective/general provision(3) 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(4) (\$M)	(305)	(256)	(314)	19%	-3%
Net impaired loans	421	386	326	9%	29%
Individual provision(3) 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(5)	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 30 for a reconciliation to Tier 1 capital

(3) Refer footnote 1 page 6

(4) Excludes individual provision on unproductive facilities

(5) Includes minority interest



**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 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>Cash(1) profit</b>	1,731	1,583	1,568	9%	10%
AIFRS 2005 adjustments <sup>1</sup> and non-core items <sup>(1)</sup>	80	37	(13)	large	large
<b>Net profit</b>	1,811	1,620	1,555	12%	16%

(1) Refer footnote 1 page 6

**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	35	428	26%	-90%
	255,238	244,612	232,481	4%	10%
AIFRS 2005 adjustments <sup>(2)</sup>	N/A	1,327	835	n/a	n/a
<b>Net loans and advances including acceptances</b>	255,238	245,939	233,316	4%	9%

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

(2) Refer pages 13 to 15 for explanation of AIFRS 2005 adjustments

**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(1)	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	31,367	29,802	8%	14%
Non-continuing businesses		36	647	-100%	-100%
	196,850	190,256	185,097	3%	6%
AIFRS 2005 adjustments(2)	N/A	65	81	n/a	n/a
<b>Deposits and other borrowings</b>	196,850	190,322	185,177	3%	6%

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

(2) *Refer pages 13 to 15 for explanation of AIFRS 2005 adjustments*

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**CHIEF FINANCIAL OFFICER'S REVIEW****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(1) and non-core items(1) referred to on pages 13 to 15, cash(1) 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(1) 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(1)	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(1)	(80)	9	(2)	large	large
<b>Cash(1) profit</b>	<b>1,731</b>	1,583	1,568	9%	10%

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

**Profit growth**

Cash profit increased 9% to \$1,731 million. Core(1) 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.

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*(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 13), 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 13)*

*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 13)*

## Profit drivers

Profit after tax increased 12% over the September 2005 half year. Cash(1) profit increased 9% over the September 2005 half. For a discussion of the impact of non-core items and AIFRS 2005 adjustments refer pages 13 to 15.

Significant influences on profit are shown below. Explanations are on cash profit adjusted for AIFRS 2005 adjustments and non-core items:

### **Net interest 14% - Adjusted for AIFRS 2005 adjustments and non-core items(1) 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 14% - Adjusted for AIFRS 2005 adjustments and non-core items(1) 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 4% - Adjusted for AIFRS 2005 adjustments and non-core items(1) 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 24% - Adjusted for AIFRS 2005 adjustments and non-core items(1) 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 18% - Adjusted for AIFRS 2005 adjustments and non-core items(1) 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 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.

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(1) *Refer footnote 1 on page 11*

**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.

**Non-core items**

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	Movt Mar 06 v. Sep 05 %	Movt 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 \$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.

## Summary of major AIFRS impacts

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

	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 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(1)	318	313	309	2%	3%
Reclassified hybrid financial instruments(2)	(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(3)	18	17	27	6%	-33%
Notional goodwill amortisation in joint ventures and associates(4)	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(5)	90	92	87	-2%	3%
Share based payments expense(6)	(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>

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- (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) *Restatement of credit loss provisions from an expected economic loss basis to an incurred basis*

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 \$M	Half year Mar 05 \$M
<b>Net interest income (statutory basis)</b>	<b>2,953</b>	<b>2,865</b>
Fees recognised as an adjustment to yield(1)	313	309
Reclassified hybrid financial instruments(2)	(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(1)	(326)	(309)
Derivatives and hedging(3)	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(4)	(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*

**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(1))	3,368	3,231	3,140	4%	7%
Average interest earning assets(2) (\$M) (adjusted for AIFRS 2005 adjustments(1))	294,364	274,309	257,606	7%	14%
Net interest margin (adjusted for AIFRS 2005 adjustments(1))	2.29	2.36	2.46	-3%	-7%

(1) Refer footnote 1 on page 11

(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. Average balance sheets adjusted for AIFRS 2005 adjustments are included as Supplementary Information on pages 118 to 121

**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, core net interest was 4% (\$137 million) higher than the September 2005 half.

**Volume**

Average interest earning assets increased 13%. 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.

### **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%. 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.

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.

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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)

**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(1)	N/A	301	283	n/a	n/a
Fair value hedging gains	18	17	27	6%	-33%
Significant items(1)	14	14		0%	n/a
Total other income	1,595	1,861	1,717	-14%	-7%

(1) Refer footnote 1 on page 11

**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 13 to 15 for details). The following explanations are based on core other operating income:

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.

### **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 13 to 15 for details). The following explanations exclude AIFRS 2005 adjustments and non-core items:

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

## 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(1)	39	53	25	-26%	56%
Significant items - settlement of NHB insurance claim	(113)			n/a	n/a
<b>Total operating expenses</b>	2,185	2,266	2,152	-4%	2%
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).

### 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 13 for details of non-core items). The following explanations exclude 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.

### **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 13 for details). The following explanations exclude non-core items:

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 profit(1)	716	636	611	13%	17%
Effective tax rate (cash profit(1))	29.2%	28.6%	28.0%		

(1) Refer footnote 1 on page 11

### 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.

**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(1) (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(2) (\$M)	(80)	9	(2)	large	large
AIFRS 2005 Adjustments(2) (\$M)	N/A	(46)	15	n/a	n/a
Cash Profit (\$M)	1,731	1,583	1,568	9%	10%
Preference share adjustments(3) (\$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 11

(3) The EPS calculation excludes the Euro preference shares

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%)

**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>					
Net profit after tax (\$M)	1,811	1,620	1,555	12%	16%
Non-core items(1) and AIFRS 2005 adjustments					
(\$M)	(80)	(37)	13	large	large
Cash(1) profit (\$M)	1,731	1,583	1,568	9%	10%
<b>Dividend payout ratio of cash(1) profit (%)</b>	<b>59.6%</b>	<b>68.6%</b>	<b>59.5%</b>	<b>13%</b>	<b>0%</b>

(1) Refer footnote 1 on page 11

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 EVA<sup>TM</sup> (Economic Value Added) growth relative to prior periods. EVA<sup>TM</sup> 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(1)	(80)	(37)	13	large	large
Cash Profit	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>EVA<sup>TM</sup></b>	<b>1,013</b>	<b>991</b>	<b>920</b>	<b>2%</b>	<b>10%</b>

(1) Refer footnote 1 on page 11

EVA<sup>TM</sup> is a measure of risk adjusted accounting profit used for evaluating business unit performance and is a 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.

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.

**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 provision charge</b>	<b>188</b>	<b>206</b>	<b>151</b>	<b>-9%</b>	<b>25%</b>
AIFRS 2005 adjustments(1)	N/A			n/a	n/a
<b>Individual/specific provision charge</b>	<b>188</b>	<b>206</b>	<b>151</b>	<b>-9%</b>	<b>25%</b>

**Collective (general) provision charge**

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%

<b>Collective provision charge</b>	36	119	89	-70%	-60%
AIFRS 2005 adjustments(1)	N/A	(29)	44	n/a	n/a
<b>Collective (general) provision charge</b>	36	90	133	-60%	-73%

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(1) Refer footnote 1 on page 11

#### **Collective (general) provision balance**

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.

	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%
<b>Core provision for credit impairment charge</b>	<b>224</b>	<b>325</b>	<b>240</b>	<b>-31%</b>	<b>-7%</b>
AIFRS 2005 adjustments(1)		(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>

(1) Refer footnote 1 page 11

#### Economic loss provisions (ELP)

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(1)</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>	334	296	284
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(1) *ELP rate = Annualised economic loss provisioning divided by average net lending assets*

**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 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<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>

**Net impaired loans**

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 \$M	As at Sep 05 \$M	As at Mar 05 \$M	Movt Mar 06 v. Sep 05 %	Movt Mar 06 v. Mar 05 %
<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%
AIFRS 2005 adjustments		(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>		



**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 \$M	High for period Mar 06 \$M	Low for period Mar 06 \$M	Ave for period Mar 06 \$M	As at Sep 05 \$M	High for period Sep 05(1) \$M	Low for period Sep 05(1) \$M	Ave for period Sep 05(1) \$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 \$M	High for period Mar 06 \$M	Low for period Mar 06 \$M	Ave for period Mar 06 \$M	As at Sep 05 \$M	High for period Sep 05(1) \$M	Low for period Sep 05(1) \$M	Ave for period Sep 05(1) \$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(2)

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	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(1)	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.

## 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** 20% (*Excl Exchange Rates* 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** 31% (*Excl Exchange Rates* 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** 101% (*Excl Exchange Rates* 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** 39% (*Excl Exchange Rates* 40%)

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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** 32% (*Excl Exchange Rates* 31%, *excl Exchange Rates and AIFRS 2005 Adjustment* 18%)

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** 4% (*Excl Exchange Rates* 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

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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 2% (Excl Exchange Rates 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 12% (Excl Exchange Rates 10%)**

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



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 11% (Excl Exchange Rates 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 3% (Excl Exchange Rates 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** 27% (*Excl Exchange Rates* 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** 45% (*Excl Exchange Rates* 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** 20% (*Excl Exchange Rates* 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** 22% (*Excl Exchange Rates* 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.

**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

**ACE Ratio**

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**

	<b>ANZ StEPS</b>	<b>US Stapled Trust Security</b>	<b>Euro Hybrid</b>
Amount (in issue currency)	\$1,000 million	USD1,100 million	500 million
Accounting classification	Debt	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% Tranche 2 Coupon: 5.36%	Euribor +0.66%

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.

### **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 ADIs 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 ADI s 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.

**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).

**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.

	Note	Half year Mar 0 6 \$M	Half year Sep 0 5 \$M	Half year Mar 0 5 \$M	Movt Mar 0 6 v . Sep 05 %	Movt Mar 0 6 v . Mar 05 %
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%

Funds management growth (Retail & mezzanine)		Mar 0 6	In flows	Out-flows	Other Flows	Sep 0 5
OneAnswer	8	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

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- (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 13). 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) *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*

**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.

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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)

	Mar 06	Mar 05	Mvmt
ANZ Financial Planners	348	305	14%
Retire Invest	214	214	0%
Tandem	84	79	6%
Millenium 3	446	350	27%
ING Financial Planners	21	2	large
Other			
Total	1,113	950	17%

### Sales by Channel

(12 months)

	Retail Funds Management		Life Insurance	
	Mar 06	Mar 05	Mar 06	Mar 05
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%

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

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.

### **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:

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	Deferred Acquisition Costs(1)				Deferred Income	
	Mar 06 \$M	Sep 05 \$M	Mar 05 \$M	Mar 06 \$M	Sep 05 \$M	Mar 05 \$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(2)	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 \$M	Capitalised Costs(1) \$M	Amortisation Costs \$M	Capitalised Costs(1) \$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(2)	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*



**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>Cash(1) profit</b>	1,731	1,583	1,568	9%	10%
AIFRS 2005 adjustments and non-core items(1)	80	37	(13)	large	large
<b>Net profit</b>	1,811	1,620	1,555	12%	16%

**Profit and Loss (prior period figures adjusted to remove the impact of exchange rate movements(2))**

	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 items)(1),(2)</b>	1,731	1,588	1,571	9%	11%
AIFRS 2005 adjustments(1) and non-core items(2)	80	37	(13)	large	large
<b>Net profit</b>	1,811	1,625	1,558	12	