AUSTRALIA & NEW ZEALAND BANKING GROUP LTD
Form 20-F
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2006

US Form 20-F

Annual Report

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

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 20-F

o Registration Statement pursuant to Section 12(b)
or 12(g) of the Securities Exchange Act of 1934

OR

x Annual Report pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended September 30, 2006

OR

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from to

Commission file number: 0-18262

OR

o Shell Company Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report:

For the transition period from to .

Australia and New Zealand Banking Group Limited

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Victoria, Australia

(Jurisdiction of incorporation or organization)

100 Queen Street, Melbourne, VICTORIA, 3000, AUSTRALIA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

N/A

American Depositary Shares each representing five ordinary shares	New York Stock Exchange
American Depositary Receipts each representing four Preference shares	New York Stock Exchange
Securities registered or to be registered pursuant to Section 12 (g) of the Act.	None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.	None

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this is an annual report or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

US$1,000 Preference Shares (US Trust Securities)	1,100,000	fully paid
Ordinary Shares	1,836,572,115	fully paid
$100 Preference Shares (ANZ StEPS)	10,000,000	fully paid
1,000 Preference Shares (Euro Trust Securities)	500,000	fully paid

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

If this is an annual report, indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

(Applicable only to issuers involved in bankruptcy proceedings during the last five years)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

Yes o No o

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Forward-Looking Statements

This Annual Report contains 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. These statements can be identified by the use of forward-looking terminology such as may , will , expect , anticipate , estimate , continue , plan , intend , believe or other similar words. These statements discuss future expectations concerning results of operations or of financial condition or provide other forward-looking information. 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 the control of Australia and New Zealand Banking Group Limited (the Company), together with its subsidiaries (ANZ , us , we , our , or the Group), which may cause actual results to materially from those expressed in the forward-looking statements contained in this Annual Report. Given these risks, uncertainties and other factors, you should not place an undue reliance on any forward-looking statements, which speaks only as of the date made.

For example, the economic and financial forecasts contained in this Annual Report will be affected by movements in exchange rates and interest rates, which may vary significantly from current levels, as well as by general economic conditions in each of ANZ s major markets. Such variations may materially impact ANZ s financial condition and results of operations. The implementation of control systems and programs will be dependent on such factors as ANZ s ability to acquire or develop necessary technology and its ability to attract and retain qualified personnel. The plans, strategies and objectives of management will be subject to, among other things, government regulation, which may change at any time and over which ANZ has no control. In addition, ANZ will continue to be affected by general economic conditions in capital markets, the competitive environment in each of its markets and political and regulatory policies. There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this Annual Report. See Risk Factors on page 4.

Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Financial Data

The summary consolidated balance sheet as of September 30, 2006 and 2005 and income statement data for the fiscal years ended September 30, 2006 and 2005 have been derived from the Group s 2006 audited financial statements (the Financial Report). The Financial Report has been audited by our independent auditors.

The consolidated financial statements of the Group are prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), which differs in some respects from Generally Accepted Accounting Principles in the United States (US GAAP).

As discussed in Note 1 of the Financial Report, the Group revised its accounting policies on October 1, 2005 to enable the preparation of financial statements that comply with AIFRS. An explanation of how the transition from previous Australian GAAP to AIFRS has impacted the Group s reported financial position, financial performance and cash flow is set out in Note 51 of the Financial Report.

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

The difference between our 2005 AIFRS information (where comparatives affected by these three standards are not restated) and comparative information for 2005 as if these three standards had been applied has been quantified in order to make ANZ s 2005 information more comparable with reported 2006 AIFRS results and is referred to as the AIFRS 2005 Adjustments .

Amounts reported in US dollars have been translated at the September 29, 2006 Noon Buying Rate in New York City, which was US$0.7461 = A$1.00.

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Years ended September 30	2006 USD$M	2006 $M	2005 $M
Summary of Consolidated Statement of Income (1)			
AIFRS			
Interest income	16,639	22,301	17,719
Interest expense	(11,459)	(15,358)	(11,901)
Net interest income	5,180	6,943	5,818
Profit from disposal of investments			
Other operating income	2,394	3,209	3,578
Operating income	7,574	10,152	9,396
Operating expenses	(3,381)	(4,531)	(4,418)
Profit before provision for credit impairment charges and income tax	4,193	5,621	4,978
Provision for credit impairment charge (2)	(304)	(407)	(580)
Profit before income tax	**3,889**	**5,214**	**4,398**
Income tax expense	(1,136)	(1,522)	(1,220)
Profit for the year	2,753	3,692	3,178
Net profit attributable to minority interests	(3)	(4)	(3)
Profit attributable to shareholders of the Company	**2,750**	**3,688**	**3,175**
Total adjustments attributable to shareholders of the company recognized directly into equity	(135)	(181)	(418)
Total changes in equity other than those resulting from transactions with shareholders as owners	2,615	3,507	2,757
Non-interest income as a % of operating income (3)	32%	32%	38%
Dividends (4)	1,543	2,068	1,877
Per fully paid ordinary share:			
Net profit after income tax per share (cents) (5)	149	200	170
Diluted net income per share (cents)	145	194	164
Dividends	$ 0.93	$ 1.25	$ 1.10
Dividends		USD0.93	USD0.84
Dividends per ADR		USD4.65	USD4.20
Continuing Operations (AIFRS):			
Total income from operations	19,033	25,510	21,297
Less: Impact of discontinuing operations			
Total income from continuing operations	19,033	25,510	21,297
Total operating profit after income tax	2,750	3,688	3,175
Less: Impact of discontinuing operations			
Profit after income tax from continuing operations	2,750	3,688	3,175
Profit after income tax per fully paid ordinary share (cents) (5)	149	200	170

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(1) In millions, except per share amount, per American Depositary Receipt (ADR) amount and ratios.

(2) The provision for credit impairment charge represents the individual and collective provision charge (refer page 35).

(3) Operating income is the sum of net interest income and non-interest income.

(4) Excludes preference share dividends and dividends taken under the bonus option plan. The final dividend for 2006 of $1,267 million (2005: $1,078 million) has not been provided for at September 30, due to a change in Australian Accounting Standards on recognition of dividends effective from 2003.

(5) Amounts are based on weighted average number of ordinary shares outstanding, 2006: 1,830.3 million (2005: 1,823.7 million). Weighted average number of ordinary shares outstanding has been adjusted for rights issue. Net profit after income tax excludes preference share dividends of 2006: $27 million (2005: $84 million).

Years ended September 30	2006	2006	2005	2004	2003	2002

	USD$M	$M	$M	$M	$M	$M
Summary of Consolidated Statement of Income (1)						
Adjusted in accordance with US GAAP (2):						
Net interest income	5,631	7,547	7,793	5,101	4,263	4,001
Provision for credit impairment charge (3)	(308)	(413)	(316)	(632)	(614)	(860)
Net income before taxes	3,868	5,184	4,429	3,916	3,294	2,993
Net income after income tax	2,728	3,657	3,173	2,788	2,380	2,097
Net income after income tax per share (cents) (4)	149	200	174	155	144	127

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(1) In millions, except per share amount, per ADR amount and ratios.

(2) As detailed in Note 53 to the Financial Report, during 2005 and 2006 the Group undertook a review of its US GAAP reporting which identified several interpretational differences in ANZ s application of US GAAP. These differences, which impact the current and prior years, have been adjusted for when identified in 2005 and 2006 as they were not material either individually or in the aggregate.

(3) The provision for credit impairment charge represents the individual and collective provision charge (refer page 35). The 2005 US GAAP charge includes an adjustment to the estimate of the collective provision for US GAAP purposes of $6 million (2005: $264 million). Refer Note 53 of the Financial Report.

(4) Amounts are based on weighted average number of ordinary shares outstanding, 2006: 1,830.3 million, 2005: 1,823.7 million, 2004: 1,774.1 million, 2003: 1,577.8 million, 2002: 1,559.8 million. Weighted average number of ordinary shares outstanding has been adjusted for the rights issue completed in 2003. Operating profit after income tax excludes preference share dividends of 2006: $27 million, 2005: $84 million, 2004: $98 million, 2003: $102 million, 2002: $117 million.

Years ended September 30	2006 USD$M	2006 $M	2005 $ M
Summary of Consolidated Balance Sheets			
AIFRS			
Shareholders equity (1)	14,826	19,872	19,511
Subordinated debt	8,301	11,126	9,137
Bonds and notes	37,342	50,050	39,073
Deposits and other borrowings	152,797	204,794	190,322
Gross loans, advances and acceptances (net of unearned income) (2)	202,246	271,071	248,379
Individual provision for credit impairment	(213)	(286)	(273)
Collective provision for credit impairment	(1,447)	(1,940)	(2,167)
Net loans, advances and acceptances	200,586	268,845	245,939
Total assets	250,519	335,771	300,885
Net assets	14,852	19,906	19,538
Risk weighted assets	179,227	240,219	219,573
Summary of Consolidated Ratios			
AIFRS			
Net profit after income tax (3) as a percentage of:			
Average total assets		1.1%	1.1%
Average shareholders equity (1)		20.7%	18.3%
Dividends (4) to ordinary shareholders as a percentage of operating profit after income tax		62.6%	65.0%
Average shareholders equity as a percentage of average total assets (5)		5.5%	6.0%
Capital Adequacy ratios:			
Tier 1		6.8%	6.9%
Tier 2		4.2%	3.9%
Deductions (6)		(0.4)%	(0.3)%
Total		10.6%	10.5%
Number of shares on issue (million)		1,837	1,826

(1) Excludes outside equity interest.

(2) Our balance sheet shows loans and advances net of the individual and collective provisions. For ease of presentation the gross amount is shown here.

(3) Includes significant items of $93 million for the fiscal year ended September 30, 2006 (2005: $14 million) detailed on page 26.

(4) Includes proposed final dividend of $1,267 million for the fiscal year ended September 30, 2006 but not provided at September 30, 2006 (2005: $1,078 million proposed but not provided at September 30, 2005) and excludes dividends taken under the bonus option plan.

(5) Excludes preference shares.

(6) Deductions are taken for strategic holdings of other banks capital instruments and investments in entities engaged in life insurance, funds management and securitization activities of $1,073 million (2005: $784 million).

Years ended September 30	2006 USD$M	2006 $M	2005 $ M	2004 $ M	2003 $ M	2002 $ M
Summary of Consolidated Balance Sheets						
Adjusted in accordance with US GAAP (1)						
Shareholders equity (2)	14,483	19,412	17,880	16,917	12,820	12,139
Total assets	249,666	334,628	299,183	262,024	195,230	183,035
Net profit after income tax as a percentage of:						
Average total assets		1.1%	1.1%	1.1%	1.2%	1.2%
Net profit after income tax as a percentage of:						
Average shareholders equity		20.6%	18.7%	17.9%	20.8%	20.9%

Dividends (3) to ordinary shareholders as a percentage of operating income after income tax (3)	62.6%	63.3%	66.6%	63.3%	64.4%
Average shareholders equity (4) as a percentage of average total assets	5.5%	6.0%	6.2%	5.6%	5.3%

(1) As detailed in Note 53 to the Financial Report, during 2005 and 2006 the Group undertook a review of its US GAAP reporting which identified several interpretational differences in ANZ s application of US GAAP. These differences, which affect both current and prior years, have been adjusted for when identified in 2005 and 2006, as they were not material either individually or in the aggregate or in isolation.

(2) Excludes outside equity interest.

(3) Includes proposed final dividend of $1,267 million for the fiscal year ended September 30, 2006 but not provided at September 30, 2006 following a change in Accounting Standards on recognition of dividends from 2003. Adjusted for preference share dividends.

(4) Excludes preference shares.

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Years ended September 30	2006 USD $M	2006 $ M	2005 $ M
Summary of credit quality data			
Gross impaired loans (1)			
Subject to provision for credit impairment	472	633	511
Without provision for credit impairment	21	28	131
Total impaired loans	**493**	**661**	**642**
Provision for credit impairment			
Individual provision (loans)	208	279	256
Individual provision (off balance sheet commitments)	5	7	17
Collective provision	1,447	1,940	2,167
Total provision	**1,660**	**2,226**	**2,440**
Gross loans, advances and acceptances (2)			
Gross loans and advances (2) (3)	192,222	257,636	234,930
Acceptances	10,024	13,435	13,449
Total gross loans, advances and acceptances	**202,246**	**271,071**	**248,379**
Gross impaired loans as a percentage of gross loans and advances		0.3 %	0.3 %
Gross impaired loans as a percentage of gross loans, advances and acceptances		0.2 %	0.3 %
Individual provision for credit impairment as a percentage of gross impaired loans (1):			
Subject to allowance		44.1 %	50.1 %
Total impaired loans		42.2 %	39.9 %
Total provision for credit impairment as a percentage of:			
Gross loans and advances (2)		0.9 %	1.0 %
Gross loans, advances and acceptances (2)		0.8 %	1.0 %
Risk weighted assets		0.9 %	1.1 %

(1) Excludes off-balance sheet commitments that have been classified as unproductive of $30 million (2005: $26 million) net of a provision of $7 million (2005: $17 million) and restructured loans nil (2005: $28 million).

(2) Net of unearned income.

(3) The consolidated balance sheet shows loans and advances net of the individual and collective provisions. For ease of presentation the gross amount is shown here.

Risk Factors

Changes in general business and economic conditions may adversely impact ANZ s results

As the majority of our business is conducted in Australia and New Zealand, ANZ s performance is influenced by the level and cyclical nature of business activity in these countries, which, in turn are affected by both domestic and international economic and political events.

These events and conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, relative changes in foreign exchange rates and the strength of the Australian and New Zealand economies. For example, a general economic downturn, a correction in the housing market, an increase in unemployment or other events that negatively impact household and/or corporate incomes could decrease the demand for ANZ s loan and non-loan products and services and increase the number of customers who fail to pay interest or repay principal on their loans. Australian and New Zealand economic conditions may also be affected by geo-political instability, including, among other factors, actual or potential conflict and terrorism. ANZ s future performance may also be affected by the economic conditions of other regions in which operations are conducted.

In addition, an appreciation in the Australian or New Zealand dollar relative to other currencies could negatively impact Australian or New Zealand agricultural exports and international tourism. Climatological events such as droughts, geological events such as volcanic activity or other extrinsic events such as a bird flu pandemic could have a negative effect on the ability of our customers to pay interest or repay principal on their loans.

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Changes in monetary policies may adversely impact ANZ s results

The Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) regulate the supply of money and credit in Australia and New Zealand (respectively). Their policies help determine the cost of funds to ANZ for lending and investing and the return that the Group will earn on those loans and investments. Both of these impact ANZ s net interest margin and can materially affect the value of financial instruments held by ANZ, such as debt securities. The policies of the RBA and the RBNZ can also affect ANZ s borrowers, potentially increasing the risk that they may fail to repay their loans.

Regulatory changes may adversely impact ANZ s results

The Group includes regulated entities that are deposit-taking institutions, which are regulated in Australia, New Zealand and in the other countries (including the United Kingdom and the United States of America) in which ANZ has operations, trades or raises funds or in respect of which ANZ has some other connection. This regulation varies from country to country but generally is designed to protect depositors and the banking system as a whole, not holders of ANZ s securities.

The Australian Government and its agencies, including the Australian Prudential Regulation Authority (APRA), the RBA, and other financial industry regulatory bodies have supervisory oversight of ANZ. The New Zealand Government and its agencies, including the RBNZ, have supervisory oversight of ANZ s New Zealand business. The Group is also regulated by United States governmental agencies, including the Federal Reserve Board, the US Department of Treasury and the Office of the Comptroller of the Currency, and United Kingdom agencies, including the Financial Services Authority, and other financial industry regulatory bodies in those countries and in other countries in which the Group has operations, trades or raises funds or in respect of which the Group has some other connection. A failure to comply with any laws, regulations or policies in any of those jurisdictions could result in sanctions by these or other regulatory agencies and cause damage to the reputation of ANZ which could affect the ANZ substantially. To the extent that these regulatory and consent requirements and any other regulatory requirements limit the operations and flexibility of ANZ, they could adversely affect the profitability and prospects of ANZ.

In addition, these regulatory agencies frequently review banking laws, regulations and policies for possible changes. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could affect ANZ substantially. These may include changing required levels of bank liquidity and capital adequacy, limiting the types of financial services and products that can be offered and/or increasing the ability of non-banks to offer competing financial services and products, as well as changes to prudential regulatory requirements.

Competition may adversely impact ANZ s results, especially in Australia and New Zealand

The financial services sector in which ANZ operates is highly competitive and could become even more so, particularly in those segments which are perceived as providing higher growth prospects. Factors contributing to this include industry deregulation, mergers and acquisitions, changes in customers needs and preferences, entry of new participants, development of new distribution and service methods and increased diversification of products by competitors. For example, changes in the financial services sector have made it possible for non-bank financial institutions to offer products and services traditionally provided by banks, such as automatic payment systems, mortgages and credit cards. In addition, banks in different jurisdictions are subject to different levels of regulation and some may have lower cost structures.

The effect of competitive market conditions may have a material adverse effect on ANZ s financial performance and position, especially in Australia and New Zealand. For example, increasing competition for customers can lead to a compression in our net interest margin, or increased advertising and related expenses to attract and retain customers.

Application of and changes to accounting policies may adversely impact ANZ s results

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations. Our management must exercise judgement in selecting and applying many of these accounting policies and methods so that not only do they comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report our financial position and results of operations. However, these accounting policies may be applied inaccurately resulting in a misstatement of our financial position and results of operations.

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with generally accepted accounting principles and be reasonable under the circumstances yet might result in us reporting materially different outcomes than would have been reported under another alternative.

For reporting periods commencing October 1, 2005, the Group is required to prepare financial statements using Australian Equivalents to International Financial Reporting Standards (AIFRS), issued by the Australian Accounting Standards Board.

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AIFRS includes changes to loan loss provisioning and other accounting standards. These changes can be expected to result in increased volatility of earnings.

As our business is conducted in several different currencies, mainly the Australian and New Zealand dollars, our business may be largely affected by a change in the currency exchange rates. Additionally, as the annual report is prepared and stated in Australian dollars, any appreciation in the Australian dollar against other currencies in which we earn revenues (particularly the New Zealand dollar) may adversely affect our reported earnings.

ANZ is subject to credit risk, which may adversely impact ANZ s results

As a financial institution, ANZ is exposed to the risks associated with extending credit to other parties. Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region, could cause customers to experience an adverse financial situation, thereby exposing ANZ to the increased risk that those customers will fail to meet their obligations in accordance with agreed terms. In addition, in assessing whether to extend credit or enter into other transactions with customers, ANZ relies on information provided by or on behalf of customers, including financial statements and other financial information. ANZ may also rely on the representations of customers as to the accuracy and completeness of that information and with respect to financial statements, on reports of independent auditors. ANZ s financial performance could be negatively impacted to the extent that it relies on information that is inaccurate or materially misleading.

Due to the potential for loss arising from the failure of customers to meet their contractual obligations, ANZ holds provisions to cover credit impairment. The amount of these provisions is determined by assessing, based on current information, the extent of impairment inherent within the current lending portfolio. However, if the information upon which the assessment is made proves to be inaccurate, the provisions made for credit impairment may be inappropriate, which could have a material effect on ANZ s financial performance.

Where there is objective evidence that a loss event has occurred just prior to balance date that is not reflected in the Risk Grading Framework, ANZ may adjust the provision for credit impairment to allow for the estimated impact of the loss event. Scenario modeling will be used to support experienced judgment in estimating the adjustment required. The collective provision for credit impairment currently includes a scenario modeling adjustment to allow for continued uncertainty and expected levels of default due to sustained materially higher oil prices. Further information in respect of the estimation and unwind of the impact of higher oil prices is provided in the Critical Estimates and Judgements in Applying Accounting Policies section.

A weakening of the real estate markets in Australia or New Zealand may adversely affect ANZ s results

Residential and rural property lending, together with property finance, including real estate development and investment property finance, constitute important business to ANZ. As of September 30, 2006, residential loans represented approximately 53% of our total loans. A decrease in property valuations could decrease the amount of new mortgages ANZ is able to write or increase the losses ANZ may experience from existing mortgages, which, in either case, could materially and adversely impact ANZ s financial condition and result of operations.

ANZ is subject to operational risk, which may adversely impact the Group s results

Operational risk refers to risks arising from day-to-day operational activities which may result in direct or indirect loss. These losses may result from both internal and external events.

Operational risk includes: process error, fraud, systems failure and breach of regulation or legislation; failure of security, physical protection and recovery systems; customer services, staff skills and performance; and product development, delivery and maintenance.

Similarly, there are operational risks in the management, design and implementation of major projects.

ANZ is also exposed to failings by third party providers, including outsourcing, to natural disasters, political, security and social events and to failings in the financial services sector.

ANZ is subject to market risk (including foreign exchange risk) and liquidity risk, which may adversely impact the Group s results

Market risk relates to the risk of loss arising from changes in interest rates, foreign exchange rates, prices of commodities, debt securities and other financial contracts, including derivatives. Losses arising from these risks may have a material adverse effect on ANZ. ANZ is also exposed to liquidity risk, which is the risk that ANZ has insufficient funds and is unable to meet its payment obligations as they fall due, including obligations to repay deposits and maturing wholesale debt.

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Failure of information technology systems could significantly interrupt ANZ s business.

ANZ is highly dependent on information systems and technology and there is a risk that these, or the services they use or are dependent on, might fail. Most of ANZ s daily operations are computer based. Information technology systems are essential to maintaining effective communications with customers. The exposure to systems risks includes: complete or partial failure of information technology systems; inadequacy of internal or third party information technology systems due to, among other things, failure to keep pace with industry developments; and capacity of the existing systems to effectively accommodate planned growth and integrate existing and future acquisitions and alliances. Any failure in these systems could result in business interruption, the loss of customers, damaged reputation and weakening of ANZ s competitive position and could adversely impact ANZ s business and have a material adverse effect on ANZ s financial condition and loss of operations.

Litigation and contingent liabilities may adversely impact our results

ANZ may from time to time be subject to material litigation and other contingent liabilities, which, if they crystallize, may adversely impact our results. Details regarding ANZ s contingent liabilities are contained in Note 45 of the 2006 Financial Report. There is a risk that these contingencies may be larger than anticipated or that additional litigation or other contingent liabilities will arise.

Acquisition risk may adversely impact ANZ s results

ANZ regularly examines a range of corporate opportunities including material acquisitions and dispositions, with a view to determining whether those opportunities will enhance its financial performance and position. Any corporate opportunity that is pursued could, for a variety of reasons, turn out to have a material adverse effect on the Group. The successful implementation of the ANZ corporate strategy will depend on a range of factors including potential funding strategies and challenges associated with integrating and adding value to an acquired business.

The operating performance or capital structure may also be affected by these corporate opportunities and there is a risk that ANZ s credit rating may be placed on credit watch or downgraded if these opportunities are pursued.

Currency of Presentation, Exchange Rates and Certain Definitions

Currency of Presentation

The Company, together with its subsidiaries, publishes consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to US$, USD and US dollars are to United States dollars and references to $, AU and A$ are to Australian dollars. For the convenience of the reader, this Annual Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of USD0.7461 = $1.00, the Noon Buying Rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on September 29, 2006.

Exchange Rates

For each of the periods indicated, the high, low, average and period-end Noon Buying Rates for Australian dollars were:

		USD per $1.00			
Year ended September 30,		**High**	**Low**	**Average**	**Close**
2002		0.5748	0.4923	0.5329	0.5429
2003		0.6823	0.5422	0.6131	0.6797
2004		0.7979	0.6814	0.7287	0.7244
2005		0.7974	0.7207	0.7685	0.7643
2006		0.7781	0.7056	0.7473	0.7461
Monthly periods	June 2006	0.7527	0.7284	0.7399	0.7423
	July 2006	0.7664	0.7407	0.7528	0.7664
	August 2006	0.7699	0.7568	0.7631	0.7630
	September 2006	0.7704	0.7461	0.7459	0.7461
	October 2006	0.7743	0.7434	0.7544	0.7743
	November 2006	0.7896	0.7629	0.7727	0.7896

The average for annual periods is calculated from the Noon Buying Rate on the last day of each month during the period.

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On December 14, 2006, the Noon Buying Rate was US $0.7894 per $1.00.

In the fiscal year ended September 30, 2006, 34% (2005: 35%) of our operating income was derived from New Zealand and overseas operations and was denominated principally in New Zealand dollars (NZ$ or NZD), US dollars (US$ or USD), British pounds sterling (£ or GBP) ar European Monetary Union Euro (of EUR). Movements in foreign currencies against the Australian dollar can therefore affect ANZ s earnings through the re-translation of overseas profits to Australian dollars. Based on exchange rates applied to convert overseas profits and losses from September 2002 to September 2006, the Australian dollar moved against these currencies as follows (refer also Note 50 to the Financial Report):

Years ended September 30	**2006**	**2005**	**2004**	**2003**	**2002**
EURO	+1 %	+1 %	+6 %	-3 %	-1 %
GBP	0 %	+2 %	+6 %	+6 %	0 %
NZD	+5 %	-4 %	+1 %	-7 %	-4 %
USD	-2 %	+5 %	+19 %	+15 %	+2 %

We monitor our exposure to revenues, expenses and invested capital denominated in currencies other than Australian dollars. These currency exposures are hedged in accordance with established hedging policies.

Certain Definitions

Our fiscal year ends on September 30. As used throughout this Annual Report, unless otherwise stated or the context otherwise requires, the fiscal year ended September 30, 2006, and other fiscal years are referred to in a corresponding manner.

Our audited financial results are found in our 2006 Financial Report.

Our Pacific Banking practice includes operations in 11 countries in the South Pacific region; America Samoa, Cook Islands, Fiji, Kiribati, New Caledonia, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga and Vanuatu.

Results are analyzed by three geographic regions; Australia, New Zealand and Overseas. The Overseas region consists of countries other than Australia and New Zealand.

The difference between our 2005 AIFRS information (where comparatives affected by these three standards are not restated) and comparative information for 2005 as if these three standards had been applied has been quantified in order to make ANZ s 2005 information more comparable with reported 2006 AIFRS results and is referred to as the AIFRS 2005 Adjustments .

Item 4: Information on the Company

Overview

ANZ is one of the four major banking groups headquartered in Australia. Our Australian operations began in 1835 and our New Zealand operations began in 1840. We are a public limited company incorporated in the State of Victoria, Australia, which is our main domicile, and have our principal executive office located at 100 Queen Street, Melbourne, Victoria, 3000, Australia. Our telephone number is (61) (3) 9273 5555.

Based on publicly available information as at September 30, 2006, we ranked third among Australian banking groups in terms of total assets ($336 billion), shareholders equity ($19.9 billion) and market capitalization ($49 billion), which ranked us as the fourth largest company listed on the Australian Stock Exchange Limited. ANZ currently has a credit rating of AA- with Standard and Poor s, and Aa3 with Moody s. On November 8, 2006, Standard & Poor s announced that they had placed ANZ s rating on CreditWatch with positive implications.

We provide a broad range of banking and financial products and services to retail, small business, corporate and institutional clients. ANZ s business is not materially impacted by seasonal trends. We conduct our operations primarily in Australia and New Zealand (approximately 94% of our total assets at September 30, 2006 are related to these operations). The remainder of our operations are conducted across the Asia Pacific regions, and in a number of other countries including the United Kingdom and the United States. At September 30, 2006, we had 1,265 branches and other points of representation worldwide (excluding ATMs).

ANZ s strategy is executed through a management structure focused on specialization with specialist business units clustered around customers to form our key divisions.

Australia and New Zealand Banking Group Limited was registered in the State of Victoria, Australia on July 14, 1977 as a public company limited by shares.

Principal Activities of Divisions

Personal

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

- Regional, Rural and Small Business Banking - Provides a full range of banking services to personal, small business and agribusiness customers across rural and regional Australia, and to metropolitan-based small businesses in Australia with funds under management (FUM) up to A$50,000.

- Banking Products - Provides deposit accounts and transaction accounts. In addition, the business manages ANZ Australia s direct channels covering Phone Banking and Internet Banking.

- Mortgages - Provides housing finance to consumers in Australia for both owner occupied and investment purposes.

- Consumer Finance - Provides consumer and commercial credit cards, epayment products, personal loans, merchant payment facilities in Australia and ATM facilities.

- Investments and Insurance Comprises ANZ s financial planning, margin lending and trustee businesses as well as the equity accounted earnings from E*Trade Australia, an online broking business.

- Esanda - Provides motor vehicle and equipment finance, operating leases and investment products.

- Pacific Banking - Provides retail and corporate banking services to customers in the South Pacific region. ANZ has operated in the Pacific since 1880. Since then, ANZ has extended its operations throughout the region including: American Samoa, Cook Islands, Fiji, Kiribati, New Caledonia, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga and Vanuatu.

Institutional

Institutional is a division encompassing businesses that provide a full range of financial services to ANZ s largest corporate and institutional customers in all geographies.

- Institutional & Corporate Relationships - Manages customer relationships and develops financial services solutions and strategies for business clients with FUM in excess of A$50,000, for corporate clients with FUM in excess of A$10 million and for institutional clients with FUM in excess of A$150 million in Australia and New Zealand and for global corporate clients with whom ANZ has an existing customer relationship, in the United Kingdom, United States and Asia.

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- Debt and Transaction Services Combines managing Institutional and Corporate s customers balance sheet with a particular focus on credit quality, diversification and maximizing risk adjusted returns with providing cash management, trade finance, international payments, clearing and custodian services principally to institutional and corporate customers.

- Markets - Provides foreign exchange and commodity trading sales-related services to corporate and institutional clients globally. In addition, the business provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally.

- Corporate & Structured Financing - Provides complex financing and advisory services, structured financial products, leasing, private equity finance, project finance, leveraged finance and infrastructure investment products to ANZ Australia s customers.

New Zealand Businesses

The following businesses are collectively called New Zealand Businesses:

- ANZ Retail, operating under the ANZ brand in New Zealand, provides a full range of financial services and products (including core banking products such as deposit and cheque accounts, lending products and insurance products) to personal and small business banking customers. Small business banking serves owner-managed and small sized enterprises with annual revenue of less than NZ$5 million.

- NBNZ Retail, operating under The National Bank brand in New Zealand, provides a full range of financial services and products (including core banking products such as deposit and cheque accounts, lending products and insurance products) to personal and small business banking customers. Small business banking services owner-managed and small sized enterprises with annual revenue of less than NZ$5 million.

- Rural Banking in New Zealand provides a full range of banking services to rural and agribusiness customers through both ANZ and The National Bank brands.

- Corporate and Commercial Banking in New Zealand incorporates ANZ and The National Bank brands and serves the needs of medium-to-large businesses with annual revenues from NZ$2 million to NZ$150 million. Services provided by the business include lending, deposit and transactional facilities, capital market, foreign exchange, international trade, private equity finance and leveraged finance solutions.

- UDC is principally involved in the financing and leasing of equipment, plant and machinery for small and medium size businesses. The business also supports a network of motor vehicle dealerships as a channel for consumer car financing products.

Partnerships and Private Bank

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

- ING Australia (INGA) includes the equity accounted earnings from ANZ s 49% stake in INGA, a joint venture between ANZ and ING.

- International Partnerships - ANZ continues to develop a portfolio of strategic partnerships in Asia. ANZ currently has partnerships in Indonesia with PT Panin Bank, in the Philippines with Metrobank, in Cambodia with the Royal Group, in China with Tianjin City Commercial Bank and in Vietnam with Sacombank. These partnerships are focused on leveraging ANZ capabilities into faster growing personal and small business banking markets through the established client bases of the local partners.

- Private Bank is a business unit within ANZ specializing in assisting high income and high net worth individuals and families to manage, grow and preserve their family assets. Private Bank comprises of approximately 260 staff to serve around 8,000 high net worth clients in Australia.

Group Center

ANZ Australia s Group Center division includes Operations, Technology and Shared Services, Group People Capital and Breakout, Group Strategic Development, Group Financial Management, Group Risk Management, Group Corporate Affairs, Corporate Communications and Internal Audit. It also includes Group Treasury, which is the banker for all of the Group s businesses. It is charged with providing cash flow support, ensuring liquidity and providing capital to the businesses.

Organization Structure Changes

The Group from time to time modifies the organization of its businesses to enhance the focus on delivery of specialized products or services to customers. The significant changes since September 30, 2005 were:

- A simplified divisional structure was implemented in May 2006:

- Personal: Esanda, Small Business and the South Pacific banking have been added to the division. INGA s operating results are now included in Partnerships & Private Bank.

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- Institutional: Corporate Banking, Business Banking and Personal & Private Banking Asia (including the Asian branch network) are now part of the Institutional division. In addition, Trade and Transaction Services and the Debt Products Group have been combined into Debt and Transaction Services. The component of Treasury activities in respect of managing interest rate mismatch is now included in Markets.

- New Zealand: UDC is now included in New Zealand Businesses.

- Partnerships & Private Bank: Includes ANZ s partnerships and investments, including ING Australia, ANZ s investments in Asia, and Private Bank.

- Group Center: Treasury mismatch activities are now included in Institutional, and INGA s capital investment earnings in Partnerships & Private Bank.

- Non-Continuing Business:

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

In addition, there were a number of minor restatements as a result of customer segmentation, changes to internal transfer pricing methodologies and the realignment of support functions.

Capital Expenditure and Divestitures

There has been no material capital expenditure in the last 3 fiscal years, nor have there been material divestitures over this time. There is no material capital expenditure intended, excepting ANZ s development of what is expected to be Australia s largest office building in the Docklands area in Melbourne.

Subsidiaries, Associates and Joint Venture

ANZ has many subsidiaries and associates. More detailed information regarding material subsidiaries, associates and joint ventures is contained in Exhibit 8 and Notes 40, 41 and 42 to the Financial Report.

Property

ANZ has a holding of freehold and leasehold land and buildings (largely within Australia) for our business purposes. These premises, which include branches, administration centers and residential accommodation for employees had a carrying value at September 30, 2006 of $437 million. There have not been material acquisitions or divestitures of property, plant and equipment over the past three years. Details of movements and balances are included in Note 22 to the Financial Report.

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

Research and Development, Patents, Licenses

Not applicable.

Our Strategic Direction

Our Aspiration

ANZ s aspiration is to be Australasia s leading, most respected and fastest growing major bank. To achieve this goal, we aim to be a very different bank .

Our Values

Underpinning the way ANZ operates are our core values:

- Put our customers first
- Perform and grow to create value for our shareholders
- Lead and inspire each other
- Earn the trust of the community
- Breakout, be bold and have the courage to be different.

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Our Strategic Priorities

Our aspiration translates into a clear set of priorities for the Group:

- Invest in rapidly growing segments that seek to create revenue growth. Our financial performance in the past year was characterized by strong revenue growth and continued investment. We will continue to focus on generating superior revenue growth through proactively defending existing clients, attacking adjacent markets by leveraging tried and tested capabilities, positioning for next growth wave segments, and acquiring selectively where it is value-enhancing and timing is right.

- Embrace an aggressive internal transformation agenda that seeks to lower cost-to-income. ANZ aims to be lean, agile, sharp, and externally focused with a view to reducing cost-to-income by growing revenues faster than costs, as well as by targeting further cost reductions. We have a program to achieve this, including utilization of dynamic capital and expense allocation processes, leveraging our Bangalore operations and technology campus in India and rolling out an end-to-end process re-engineering capability.

Our Platform for Growth

ANZ has built a powerful platform for growth in the following five key areas:

- Over the past few years, we have strengthened our position in core businesses and increased share. We have grown to approximately 85% of the size of our largest domestic competitor by market capitalization, compared with 50% six years ago. We have the second largest personal customer base across Australia and New Zealand, and the largest customer base in Asia Pacific of our domestic peers. Personal customer satisfaction at 75.5% is the highest of our major domestic peers and we have continued to invest in our frontline employees with an increase of over 3,500 employees in the past 24 months.

- ANZ has reduced its cost-to-income ratio from 65.8% to 44.6% over the last 10 years. The efficiencies we have realized have helped us fund the investment required to generate future revenue growth, and deliver consistent results in an increasingly competitive margin environment. In the near term, we expect Australia will continue to drive our growth, with good momentum in our major divisions. In the medium term we expect New Zealand will deliver improved returns, and over the longer term Asia will become increasingly meaningful.

- ANZ has repositioned its portfolio to be sustainable and low-risk. The last few years have seen a focus on absorbing external governance and regulatory changes, including the Sarbanes-Oxley Act of 2002, Basel II and AIFRS. We are well capitalized, reserved and have more than halved our provision for credit impairment to average net lending assets ratio to just 13 basis points in 2006 from 34 basis points in 2003 through a program of structural de-risking.

- ANZ has built a performance and results culture based on a set of shared values. Our management team is well-respected and has a record of pursuing a consistent agenda and achieving set targets.

- ANZ s aim to deliver sustainable value recognizes that companies do not serve shareholders exclusively, but others as well. Our approach is a commitment to building relationships of trust, respect and integrity with all our stakeholders over the long term. ANZ released its first Corporate Social Responsibility report in 2005, which detailed our commitment to engaging with our customers, staff and the communities in which we operate.

These key areas have set the foundation for achieving our aspiration. They also place us in a good position to allow ANZ to deliver sustainable performance and value over the long term.

Generating Sustainable Momentum

To realize our aspiration, we need to create an organization that is both different and sustainable. This is not something that can be achieved overnight or with a simple statement of intent. It requires sustained commitment, persistence and investment over a number of years.

Our first major step was to create a portfolio of specialist businesses. Specialization has not only enhanced our customer value propositions, it has also brought a sharper financial focus through greater accountability, and has contributed to a greater sense of ownership and commitment from our people. This has already contributed to improved customer satisfaction across many business units, and in turn, improved results. We are now focused on overlaying a strong customer segment focus while retaining the benefits of specialization.

In 1999, we established Breakout, a program of cultural change and it continues today. This program is designed to transform ANZ s culture from the traditional, bureaucratic banking culture into a modern vibrant organization where our people are passionate and inspired and ANZ s values are the basis for all activity and decisions. Over 26,000 people within ANZ have been through our Breakout program in its various phases, with each phase tackling a different priority or issue. Initially, much of the program was aimed at increasing accountability, freedom and openness and developing a common set of values. The current theme is working at enhancing teamwork and collaboration across the organization. This year, Breakout was extended to 6,000 customer facing staff. Breakout reflects an attitude towards our people as an investment rather than a resource, and we are starting to realize the returns of this investment, with staff engagement ahead of major domestic bank peers at 60%.

At ANZ, staff are actively involved in creating their own personal development plans. Innovative programs are in place to identify, nurture and fast-track high-potential people from graduate through to senior executive level. For example, our Future Leaders program aims to support first time managers of people in developing the capabilities required to effectively manage and lead staff. This program represents a significant cultural change in the learning process by combining web-based learning, simulations and on-line collaboration with face-to-face workshops.

ANZ is committed to enhancing the well-being and prosperity of the communities where our people live and work, and where our business operates. As a bank, we aim to be leaders in addressing the major social issues that involve the financial services industry - in particular financial literacy and financial inclusion. Our programs also provide opportunities for our staff to support causes that are important to them. Our focus is on developing innovative programs, with clear aims, and real outcomes, that make a lasting difference to people s lives - particularly amongst the most vulnerable. Our award winning financial literacy and inclusion program, Saver Plus helped more than 700 families in 2006 throughout Victoria, New South Wales and South East Queensland improve their financial knowledge, build long term savings habits and save for their children s education. Our goal is to contribute $3 million to the end of 2008 and reach an additional 5,400 families. In addition, we aim to reach 100,000 people over the next 5 years with our Money Minded adult financial education program which seeks to help individuals make better judgements and more informed decisions about their money.

In fiscal year ended September 30, 2006, 11% of Australian staff contributed part of their pay through our workplace giving program, which was matched dollar-for-dollar by ANZ, totalling over $530,000. ANZ also offers paid volunteer leave to help staff build stronger, healthier, and more sustainable communities. In the past 12 months, ANZ staff contributed more than 50,000 hours to community organisations.

While ANZ has been reporting on our community and environmental activities for some time, in December 2006 we published our second stand alone Corporate Responsibility report covering our performance and outcomes across economic, social and environmental criteria and is structured around our values.

Building a Future

Specialization creates a more agile operation, enabling ANZ to respond to the opportunities presented within each business segment. We are committed to leveraging our specialised business model by overlaying it with a product neutral customer segment focus in the frontline.

In our Australian retail banking businesses, trained and committed staff acting as advocates for ANZ are essential to the health of our relationships with customers and the broader community. Our new retail proposition to customers is based on a commitment to convenience and simplicity, with a strong central customer proposition that aims to differentiate ANZ in a crowded marketplace. In the past year we have opened 25 new branches, and continued to simplify our products and fee structures substantially to make banking easier for our customers. To raise awareness of these products, we utilise a number of marketing channels from traditional advertising on print, radio and television through to promotions on our website. Customers may also receive direct mail printed materials. We have also rolled out iKnow, a customer profiling system that provides our sales staff with the information and functionality that they need to effectively interact with our customers.

Our Institutional businesses across Australasia and Asia are focused on institutional banking, trade and project finance, and financial markets. Within Europe and North America this focus is aimed at our network customers who operate in Australasia and Asia. Institutional is in a stage of reinvigorating its business following a number of years of relatively flat earnings and asset growth, as a consequence of a comprehensive de-risking program. The focus of the business is now on further initiatives to deliver revenue growth, combined with disciplined use of capital and continuing strong risk management. For instance, we are strategically investing in improving our technology to make banking more convenient and flexible for our Corporate and Institutional customers.

ANZ National Bank is the largest provider of banking services in New Zealand following the amalgamation of NBNZ in June 2004, and currently occupies the number one position in all major market segments. The New Zealand business continues to demonstrate healthy growth in a highly competitive market as we continue to leverage the advantages of our two-brand strategy. Having defended the customer base and built financial performance during the NBNZ integration, management has now shifted its focus toward leveraging market position and scale to grow our market share and to differentiate further by implementing a specialised customer business model and distinctive business structure. This will involve focusing on growth segments, in particular Auckland and the tertiary market, and growing in Consumer Finance and Private Banking where we are currently underweight.

Our Asia Pacific strategy is focused on consumer banking in the region, along with supporting our Institutional clients as they invest and trade in the region. In building our Asian partnerships, our preference is to work with local partners with domestic customer franchises where we can add our own distinct capabilities to theirs. Over time we would like to pursue further initiatives, while continuing to reflect the need to maintain a conservative risk profile. We remain the largest bank in the South Pacific with over 40% market share (outside the French and American Pacific).

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We will consider enhancing our capabilities, growth opportunities, scale benefits and other synergies through selective acquisitions. Any significant acquisition must be aligned with our vision for ANZ and must be value-creating. Our acquisition discipline was highlighted by the NBNZ transaction, which was EPS accretive in the first year of ownership. We will also enter commercial arrangements and partnerships where these provide a strategic fit with our existing businesses.

Recent Developments

On September 1, 2006, the Group announced that it had agreed to sell Esanda Fleetpartners in Australia and New Zealand to Nikko Principal Investments Australia, the Australian private equity arm of Nikko Cordial Corporation for approximately $380 million. The profit after tax on sale is anticipated to be approximately $130 million. This sale was completed during October 2006. Esanda Fleetpartners contributed approximately $20 million to the Group s net profit after tax for the year ended September 30, 2006.

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

On November 21, 2006, ANZ announced that it acquired 19.9% interest in Shanghai Rural Commercial Bank for US $252 million.

On November 30, 2006 ANZ signed a conditional Heads of Agreements regarding an $833 million acquisition of 24.9% interest in Malaysia s AMMB Holdings Berhad.

On December 5, 2006, ANZ s Board of Directors voted to extend the contract of the current CEO, John McFarlane, through to the end of calendar year 2007.

There have been no other significant events from September 30, 2006 to the date of this report.

Assets and Gross Revenue by Line of Business

Years ended September 30	**2006 $M**			**2005 $M**		
Gross Revenue (1)						
Personal	10,544	41	%	9,161	43	%
Institutional	8,583	34	%	6,213	29	%
New Zealand Businesses	5,902	23	%	5,321	25	%
Other (2)	481	2	%	602	3	%
Total Gross Revenue	25,510	100	%	21,297	100	%

Years ended September 30	**2006 $M**			**2005 $M**		
Line of Business						
External Assets (1)						
Personal	136,730	41	%	122,372	41	%
Institutional	119,104	35	%	105,455	35	%
New Zealand Businesses	66,064	20	%	61,980	20	%
Other (2)	13,873	4	%	11,078	4	%
Total Assets	335,771	100	%	300,885	100	%

(1) Gross revenue comprises interest income, non-interest income and share of equity accounted investments (refer Note 2 of the Financial Report).

(2) Includes Partnerships & Private Bank, Treasury, Operations, Technology & Shared Services, Corporate Center, Risk Management and Group Financial Management and Significant Items. Also includes the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.

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Assets and Gross Revenue by Region

Years ended September 30	**2006 $ M**	**%**	**2005 $ M**	**%**
Region (1)				
Assets				
Australia	230,898	69 %	202,778	67 %
New Zealand	83,067	25 %	78,655	26 %
Overseas Markets	21,806	6 %	19,452	7 %
	335,771	100 %	300,885	100 %
Gross Revenue (2)				
Australia	16,861	66 %	13,804	65 %
New Zealand	6,962	27 %	6,210	29 %
Overseas Markets	1,687	7 %	1,283	6 %
	25,510	100 %	21,297	100 %
Net profit before tax				
Australia	3,472	66 %	2,950	67 %
New Zealand	1,241	24 %	1,000	23 %
Overseas Markets	501	10 %	448	10 %
	5,214	100 %	4,398	100 %

(1) For discussion of operating results by region see Operating and Financial Review and Prospects - Results by Region .

(2) Gross revenue comprises interest income and non-interest income and share of equity accounted investments (refer Note 3 of the Financial Report).

Supervision and Regulation

Australia

Effective from July 1, 1998, Australian Prudential Regulation Authority (APRA) assumed responsibility for the prudential and regulatory supervision of Australian Authorised Deposit taking Institutions (ADIs), which covers banks, credit unions, building societies; insurance companies; and superannuation funds. Prior to July 1, 1998, the Australian banking industry was regulated by the RBA. The RBA has retained overall responsibility for monetary policy, financial system stability and payments system regulation. APRA draws authority from the Australian Prudential Regulation Authority Act 1998.

APRA requires ADIs to meet certain prudential standards that are covered in a range of APRA Prudential Standards (APS). These include standards in relation to:

- Capital adequacy and asset risk weighting
- Credit risk including portfolio and large exposure reporting
- Market risk
- Liquidity management
- Funds management and securitization
- General insurance
- Risk management of associations with related entities

- Management of credit card risk
- Management of outsourced business arrangements
- Business Continuity Management
- Audit and related arrangements
- Governance framework
- Fit and proper requirements

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APRA discharges its responsibilities in part by requiring ADIs subject to its supervision to regularly provide it with reports, which set forth a broad range of information, including financial and statistical data relating to their financial position and information in respect of prudential and other matters. APRA gives special attention to capital adequacy, liquidity, earnings, loan loss experience, concentration of risks, the maturity profile of assets and liabilities, exposures to related entities, funds management and securitization activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition or becomes unable to meet its obligations or suspends payment.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective on site visits and formal meetings with the ADI s senior management and external auditors. APRA has also formalized a consultative relationship with each ADI s external auditors with the agreement of the ADIs. The external auditors provide additional assurance to APRA that the ADI has observed all prudential standards, and that statutory and other banking requirements are being met. External auditors also undertake targeted reviews of specific risk management areas as selected at the annual meeting between the ADI, its external auditors and APRA. In addition, each ADI s Chief Executive Officer attests to, and the Board endorses, the adequacy and operating effectiveness of the ADI s risk management systems to control exposures and limit risks to prudent levels.

APRA imposes guidelines for the capital adequacy of ADIs as an essential part of its prudential supervision of ADIs and has adopted capital adequacy guidelines closely following the risk-weighted approach proposed by the Committee on Banking Regulation and Supervision of the Bank for International Settlements (the Basel Committee). Under the existing APRA guidelines, balance sheet assets and off-balance sheet exposures are assessed according to broad categories of relative credit risk, based largely on the nature of the asset or counterparty. Off-balance sheet exposures are taken into account by applying different categories of credit conversion factors to arrive at credit equivalent amounts, which are then weighted in the same manner as balance sheet assets according to the counterparty. APRA also requires ADIs to measure and apply capital charges in respect of their market risks arising from their trading and commodity positions in a manner which is broadly consistent with the January 1996 Basel Committee amendment to its Capital Accord. In measuring their market risks, ADIs have a choice of two methods. The first alternative is to measure risks in a standardized manner defined by APRA. The second alternative allows ADIs to utilize their internal risk measurement systems subject to APRA approval. ANZ applies the second approach.

To ensure that ADIs are adequately capitalized on both a stand-alone and group basis, APRA adopts a tiered approach to the measurement of an ADI s capital adequacy by assessing the ADI s financial strength at three levels:

Level 1 - the ADI on a stand-alone basis i.e. the company;

Level 2 - the consolidated banking group; and

Level 3 - the conglomerate group at the widest level.

ANZ is a Level 1 and 2 reporter and measures capital adequacy monthly on a stand-alone and consolidated banking group basis. ANZ is not required to report on a Level 3 basis.

Capital, for APRA supervisory purposes, is classified into two tiers, referred to as Tier 1 and Tier 2. APRA requires all ADI s to maintain a minimum ratio of total capital to risk-weighted assets, at least half of which must be maintained in the form of Tier 1 capital, with the remainder being in Tier 2 capital. APRA will consider other risk factors that have not been incorporated or accounted for quantitatively in the framework when assessing the overall capital adequacy of an ADI. Where it is judged appropriate, APRA may require individual ADI s to maintain a minimum total capital ratio above 8 per cent, with at least half of the ratio being in the form of Tier 1 capital.

On May 31, 2006, APRA released updated APS and associated guidance notes dealing with the measurement of capital adequacy following the adoption of AIFRS by ADIs. The revised APS became effective on July 1, 2006 and (i) changed the definition of Tier 1 capital, (ii) included new Tier 1 capital deductions, (iii) changed the eligibility for hybrid capital instruments which can qualify as Tier 1 capital, and (iv) included new limits on the proportion of Tier 1 capital which can be funded from hybrid capital instruments. Transitional rules were provided for some elements of the changes.

The material changes arising from the revised APS applying from July 1, 2006 are as follows:

- A sub-category of Tier 1 capital called Fundamental Tier 1 capital has been introduced which essentially represents shareholders equity, but excludes Hybrid Tier 1 capital instruments which have been called Residual Tier 1 capital .

- A new class of Hybrid Tier 1 capital, being Non-innovative Residual Tier 1 capital has been introduced. The APS identify Non-innovative Residual Tier 1 capital as non-cumulative irredeemable preference shares issued directly by the ADI without innovative capital features;

- The Innovative Tier 1 capital classification now includes any issue that has an incentive for the issuer to call, such as a step-up feature or an option to convert into a variable number of ordinary shares, or an instrument issued through a special purpose vehicle, or any Tier 1 instrument not representing shares ;

- ADIs are now required to make new deductions for capitalized software and additional deductions for net deferred tax assets from Tier 1 capital.

- Various other changes to adjust capital where APRA determines it appropriate to take into account the impact on the capital base following the adoption of AIFRS accounting standards by the ADI in preparing its financial statements.

APRA has granted ANZ transitional relief until December 31, 2007 to offset the impact of AIFRS and these APS changes on the capital base until such time as Basel II prudential standards become effective (i.e January 1, 2008). The amount of transitional relief granted to ANZ was A$716 million for Tier 1 capital and an additional A$17 million for Tier 2 capital.

The material changes arising from the revised APS applying from January 1, 2008 are as follows:

- A limit on Residual Tier 1 capital of 25% of Tier 1 capital after deductions (net Tier 1 capital);
- A limit on Innovative Residual Tier 1 capital of 15% of net Tier 1 capital;
- A limit on Non-innovative Residual Tier 1 capital of 10% of net Tier 1 capital; and
- The provision of transitional rules until January 1, 2010 if an ADI cannot comply with the limit on Non-innovative Residual Tier 1 capital as at January 1, 2008 based upon its Hybrid Tier 1 capital position as at August 31, 2005 (subject to certain conditions being met).

It is currently anticipated that all of ANZ s existing Hybrid Tier 1 capital issuances will continue to be classified as Innovative Tier 1 capital and that ANZ is likely to be above the new 15% limit at January 1, 2008. ANZ will be requesting that APRA apply transition rules through to January 1, 2010.

Net Tier 1 capital is shareholders equity adjusted to include deferred capitalised income (subject to an eligibility criteria) and Hybrid Tier 1 capital instruments and exclude: hedging and asset revaluation reserves; retained earnings and reserves of subsidiaries and associates that are not consolidated for capital adequacy purposes (principally subsidiaries and associates in the life insurance and funds management industry); expected dividends from current year earnings; and deductions that include unamortised goodwill and other intangibles, capitalised software, capitalised expenses and net deferred tax assets (aggregate of net amounts due to individual taxing authorities). Between July 2006 and January 2008, Tier 1 can include transitional AIFRS capital relief agreed with APRA. Residual Tier 1 capital includes capital instruments which are of a permanent and unrestricted commitment of funds, are available to absorb losses, have no fixed servicing obligations and are subordinated to the interests of depositors and other creditors.

Tier 2 capital is divided into Upper and Lower Tier 2, with Lower Tier 2 restricted to 50% of net Tier 1 capital. Upper Tier 2 includes: asset revaluation reserves (limited to 45% of the gross amount); post acquisition earnings and reserves of associates (limited to 45%); collective reserve for credit losses (net of tax, subject to limits); perpetual cumulative subordinated instruments; and Residual Tier 1 capital in excess of the limits allowed under the standard. Lower Tier 2 capital is dated cumulative subordinated instruments.

APRA requires there to be deducted from an ADI s total regulatory capital: investments in non-consolidated subsidiaries for capital adequacy purposes (excluding that portion that has been deducted from Tier 1 capital); strategic cross-ADI shareholdings; any non-repayable loan advanced by an ADI under APRA s certified industry support arrangements; and any undertaking by an ADI to absorb designated first level of losses on claims supported by it.

An ADI must gain APRA s approval for any reduction in capital including calling any dated capital instrument before its contractual maturity date or repurchasing any undated capital instrument. An ADI must also gain APRA s approval for paying out a periodic coupon on a Tier 1 instrument where the accumulated Tier 1 coupon payments exceed profits in the last two publicly available half years results.

An ADI should consult with APRA before establishing or acquiring a subsidiary (other than an entity which is to be used purely as a special purpose financing vehicle for the ADI) and committing to any proposal to acquire (whether directly or indirectly) more than 10% of equity interest in an entity which operates in the field of finance. In addition, an ADI should consult with APRA before taking up an equity interest in an entity arising from the work-out of a problem exposure where this exceeds 0.25% of the ADI s Level 2 Tier 1 capital or will result in the ADI acquiring (whether directly or indirectly) more than 10% of equity interest in the entity or will result in the ADI s aggregate investment in non-subsidiary entities which are not operating in the field of finance exceeding 5% of the ADI s Level 2 Tier 1 capital.

In addition to the prudential capital oversight that APRA conducts over ANZ and its branch operations, ANZ s major banking subsidiary operations are overseen by the local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve and the UK Financial Services Authority who may impose minimum capitalization levels on those operations.

A bank may not enter into any agreement or arrangement for the sale or disposal of its business or carry on business in partnership with another bank without the consent of the Treasurer of the Commonwealth of Australia (the Treasurer). Although the RBA has the authority, with the approval of the Treasurer, to set interest rates paid or charged by banks, this authority is not currently exercised.

Liquidity is controlled by individual agreements with each ADI, which take into consideration the specific operations of each organization. APRA requires that ADIs have a comprehensive liquidity policy statement that defines the guidelines and systems for managing domestic and foreign currency liquidity, including a formal contingency plan for dealing with a liquidity crisis. The Board of Directors must approve this statement. An ADI s liquidity management strategy should cater for a range of potential conditions and APRA requires an ADI s liquidity risk to be assessed under two specific scenarios. The first scenario is known as the going-concern , and refers to the normal behavior of cash flows in the ordinary course of business and forms the day-to-day focus of an ADI s liquidity management. The second scenario, known as the name crisis , models the behavior of cash flows where there is a problem (real or perceived) which may include, but not limited to, operational issues, doubts about the solvency of an ADI or adverse rating changes. APRA requires an ADI to have sufficient liquidity to remain cash flow positive for at least 5 business days during this short-term crisis scenario.

APRA requires ADIs to report large credit exposures to an individual counterparty or a group of related counterparties at Level 1 and Level 2. An ADI must consult with APRA before committing to any exposure (includes claims and commitments recorded on and off balance sheet) to any individual counterparty or group of related counterparties which will exceed 10% (subject to exceptions) of the capital base at Level 1 and Level 2. ADIs are required to report quarterly to APRA the largest 10 exposures and all those exceeding, or equal to, 10% of Level 1 and Level 2 capital base.

At September 30, 2006, at the consolidated level, ANZ reported the following 10 large exposures:

- One Bank - S&P rating A, Moody s rating A2
- Three Government Bodies - S&P rating AAA, Moody s rating Aaa
- Two Banks - S&P rating AA-, Moody s rating Aa3
- Two Corporates - S&P rating A+, Moody s rating A1
- One Corporate - Not externally rated
- One Corporate - S&P rating A+, Moody s rating Aa3

Basel II

The common framework for determining the appropriate quantum of bank regulatory capital is set by the Basel Committee , a sub-committee of the Bank for International Settlements, and a new framework has been developed over the past seven years that is commonly known as Basel II . A key objective of Basel II is to improve stability of the global financial system by encouraging improved risk management practices and requiring banks to hold levels of regulatory capital commensurate with their risk profile. In particular, Basel II will introduce a more risk-sensitive and detailed regulatory capital regime for credit risk and will introduce for the first time an explicit regulatory capital charge for operational risk. A final version of the new Accord was released in June 2004, and APRA has continued with releases of its version of the Accord through the publication of draft prudential standards in Australia.

A major innovation of the new Accord is that Basel II allows ADIs of varying sophistication in their risk management practices to enter the new regulatory capital framework at one of three levels, with incentives embedded (by way of reduced regulatory capital requirements) to attract ADIs with more sophisticated risk measurement and management approaches to reach the more advanced levels. ADIs will need to choose their approach and be accredited at a level of compliance in each of credit and operational risk. Market risk remains largely unchanged from the current Accord, following its revision in 1996. ANZ is already accredited for the most sophisticated approach to market risk.

ANZ is pursuing accreditation under the most advanced approaches for both credit and operational risk, in line with the Group s vision of risk management as a strategic asset and source of competitive advantage. It has projects underway to address all of the necessary requirements for accreditation at the most advanced levels for both areas under Basel II, some of which are complete and others nearing completion. Key structural elements of ANZ s framework, such as a credit risk rating system that measures default probabilities and likely losses in the event of default, and a framework for operational risk measurement and capital allocation, are in place, remaining largely unchanged from ANZ s existing approaches. ANZ is working closely with its supervisory bodies where it is seeking to operate within the new framework, submitting accreditation applications to APRA in 2005 and the Reserve Bank of New Zealand in July 2006.

New Zealand

For the purposes of these conditions of registration, the term banking group means ANZ National Bank Limited s financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

The Reserve Bank of New Zealand Act 1989 (the Act) requires the Reserve Bank of New Zealand (RBNZ) to exercise its powers of registration of banks and prudential supervision of registered banks for the purposes of:

- promoting the maintenance of a sound and efficient financial system, or
- avoiding significant damage to the financial system that could result from the failure of a registered bank.

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The RBNZ s supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole, and not preventing individual bank failures or protecting creditors. As a consequence the RBNZ places considerable emphasis on a requirement that the banks disclose, on a quarterly basis, information on financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility - the directors and management.

The main elements of the RBNZ s supervisory role are:

- to require all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration.

- to monitor each registered bank s financial condition and compliance with conditions of registration, principally on the basis of published quarterly disclosure statements.

- to consult with the senior management of registered banks.

- to use crisis management powers available to it under the Act to intervene where a bank distress or failure situation threatens the soundness of the financial system.

The disclosure statements that are required to be issued quarterly by registered banks contain comprehensive corporate details and full financial statements. They are subject to full external audit at the end of each financial year and a limited scope independent review at the end of each financial half year. Each bank director is required to sign his or her bank s disclosure statements and to make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank s disclosure statement contains information that is held to be false or misleading.

The RBNZ currently also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the quarterly disclosure statements.

In addition, the RBNZ has wide reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data and forecasts be audited.

It also possesses a number of crisis management powers. Those powers include recommending that a bank s registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consult with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management.

The registration of ANZ National as a registered bank is subject to the following conditions:

1. That ANZ National Group complies with the following requirements at all times:

- Capital of ANZ National Group is not less than 8% of risk weighted exposures

- Tier one capital of ANZ National Group is not less than 4% of risk weighted exposures

- Capital of ANZ National Group is not less than NZD$15 million

2. That ANZ National (the Bank) complies with the following requirements at all times:

- Capital of ANZ National is not less than 8% of risk weighted exposures

- Tier one capital of ANZ National is not less than 4% of risk weighted exposures

- Capital of ANZ National is not less than NZD$15 million

For the purposes of this condition of registration, capital, Tier one capital and risk weighted exposures are calculated in accordance with the RBNZ document entitled Capital Adequacy Framework (BS2) dated March 2005.

In its disclosure statements under the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks) Order 2005, ANZ National must include all of the information relating to the capital position of both ANZ National and the banking group which would be required if the second schedule of that Order was replaced by the second schedule of the Registered Bank Disclosure Statement (Full and Half-Year - New Zealand Incorporated Registered Banks) Order 2005 in respect of the relevant quarter.

3. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

4. That the banking group s insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:

- Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is not applied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

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- In measuring the size of the banking group s insurance business:

(a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:

- the total consolidated assets of the group headed by that entity

- or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity

(b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business

(c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993

(d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

5. That aggregate credit exposures (of a non-capital nature and net of individual provision for credit impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating	**Connected exposure limited (% of the banking group s Tier 1 capital)**
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of individual provision for credit impairment) to non ANZ National connected persons shall not exceed 15 per cent of the banking group s Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the RBNZ document entitled Connected Exposure Policy (BS8), dated March 2005.

6. That exposures to connected persons are not on more favorable terms (e.g., as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

7. That the board of ANZ National contains at least two independent directors and that alternates for those directors, if any, are also independent. In this context an independent director (or alternate) is a director (or alternate) who is not an employee of ANZ National, and who is not a director, trustee, or employee of any holding company (as that term is defined in section 5 of the Companies Act 1993) of ANZ National, or any other entity capable of controlling or significantly influencing ANZ National.

8. That the chairperson of ANZ National s board is not an employee of ANZ National.

9. That ANZ National s constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. ANZ National).

10. That a substantial proportion of ANZ National s business is conducted in and from New Zealand.

11. That none of the following actions may be taken except with the consent of the RBNZ:

(i) any transfer to another person or entity (other than ANZ National or any member of the banking group which is incorporated in, and operating in, New Zealand) of all or a material part of any business (which term shall include the customers of the business) carried on by ANZ National (or any member of the banking group); and

(ii) any transfer or change by which all or a material part of the management, operational capacity or systems of ANZ National (or any member of the banking group) is transferred to, or is to be performed by, another person or entity other than ANZ National (or any member of the banking group which is incorporated in, and operating in, New Zealand); and

(iii) any action affecting, or other change in, the arrangements by which any function relating to any business carried on by ANZ National (or any member of the banking group) is performed, which has or may have the effect that all or a material part of any such function will be performed by another person or entity other than ANZ National (or any member of the banking group which is incorporated in, and operating in, New Zealand); and

(iv) any action that prohibits, prevents or restricts the authority or ability of the board of ANZ National or any statutory manager of ANZ National (or the board of any member of the banking group or any statutory manager of any member of the banking group) to have unambiguous legal authority and practical ability to control and operate any business or activity of ANZ National (or any member of the banking group).

12. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of ANZ National unless:

(i) the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee, and

(ii) the RBNZ has advised that it has no objection to that appointment.

13. (i) That the management of ANZ National by its chief executive officer shall be carried out solely under the direction and supervision of the board of directors of ANZ National.

(ii) That the employment contract of the chief executive officer of ANZ National shall be with ANZ National. The chief executive officer s responsibilities shall be owed solely to ANZ National and the terms and conditions of the chief executive officer s employment agreement shall be determined by, and any decision relating to the employment or termination of employment of the chief executive officer shall be made by, the board of directors of ANZ National.

(iii) That all staff employed by ANZ National shall have their remuneration determined by (or under the delegated authority of) the chief executive officer of ANZ National and be accountable (directly or indirectly) solely to the chief executive officer of ANZ National.

14. (i) That no later than December 31, 2005 ANZ National shall locate and continue to operate in New Zealand the whole of ANZ National s domestic system and the board of directors of ANZ National will have unambiguous legal and practical ability to control the management and operation of the domestic system on a stand alone basis in, and resourced wholly within, New Zealand.

(ii) That in respect of the international system the board of directors of ANZ National will, no later than June 30, 2007, have unambiguous legal and practical ability to control the management and operation of the international system on a stand alone basis.

For the purposes of these conditions of registration, the term banking group means ANZ National Bank Limited s financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

For the purposes of these conditions of registration the term domestic system means all property, assets, systems and resources (including in particular (but without limitation) the management, administrative and information technology systems) owned, operated, or used, by ANZ National supporting, relating to, or connected with:

(a) the New Zealand dollar accounts and channels servicing the consumer banking market (but potentially also other customer segments); and

(b) the general ledger covering subsidiary ledgers for (a) above, together with a daily updated summary of the subsidiary ledgers running on the international system; and

(c) any other functions, operations or business of, or carried on by, ANZ National (now or at any time in the future) that are not included in, or form part of, the international system,

(d) other than property, assets, systems and resources that are not material to the domestic system, both individually and in aggregate.

For the purposes of these conditions of registration the term international system means those systems of ANZ National generally having one or more of the following characteristics:

(a) supports foreign currency accounts/transactions;

(b) supports cross border trade, payments and other transactions;

(c) supports businesses that operate in global markets;

(d) supports accounts and transactions undertaken by institutions, corporates and banks;

(e) used to manage large, volatile risk businesses which operate on a global basis;

(f) used to service customers who conduct accounts and transactions with ANZ National in multiple countries; and/or

(g) used by the non ANZ National subsidiary companies.

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United States

A major focus of US governmental policies affecting financial institutions in recent years has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the Patriot Act) substantially broadened the scope of US anti-money laundering laws by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The US Treasury Department has issued a number of regulations implementing various requirements of the Patriot Act that apply to US financial institutions, such as ANZ s New York Branch, US bank subsidiary and US broker-dealer subsidiary.

Those regulations impose obligations on US financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identify of their customers. In addition, the US bank regulatory agencies are imposing heightened standards, and US law enforcement authorities have been taking a more active role. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

Following the passage of the Gramm-Leach-Bliley Act (GLB , also known as the Financial Modernization Act), ANZ successfully sought certification as a Financial Holding Company (FHC) by the Federal Reserve Board. A FHC is allowed to engage, or acquire companies engaged, in the United States in activities that are determined by the Federal Reserve Board and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the Federal Reserve Board to be complementary to financial activities.

Under GLB, an FHC is subject to restrictions if it is determined that the FHC, or any of its US subsidiary depository institutions, is not well managed or well capitalized or if any of its US subsidiary depository institutions ceases to achieve at least a satisfactory rating under the US Community Reinvestment Act of 1977. In addition, under the GLB, the Federal Reserve Board is the umbrella supervisor with jurisdiction over FHCs.

The Office of the Comptroller of the Currency (Comptroller) regulates federal branches of non-US banks in the United States. Therefore, ANZ s New York Branch is subject to supervision, examination and regulation by the Comptroller under the International Banking Act of 1978 (the IBA) and under regulations adopted pursuant to the IBA. The IBA provides, among other things, that a federal branch of a non-US bank can exercise the same rights and privileges that are available to national banks. In addition, the exercise of any such right or privilege must be subject to the same duties, restrictions, penalties, liabilities, conditions and limitations that apply to national banks at the same location. The federal branch must maintain its accounts and records separate from those of the non-US bank and must comply with such additional requirements as may be prescribed by the Comptroller.

Under the IBA, a federal branch of a non-US bank is subject to the receivership provisions to the same extent as a national bank. The Comptroller may take possession of the business and property of a federal branch. Accordingly, the Comptroller has at its disposal a wide range of supervisory and enforcement tools for addressing violations of laws and regulations and breaches of safety and soundness, which can be used against federal branches. The Comptroller may remove federal branch management and assess civil money penalties. In certain circumstances, the Comptroller may also terminate a federal branch license at its own initiative or at the recommendation of the Federal Reserve Board. Also under the IBA, a non-US bank is subject to certain restrictions with respect to opening new US domestic deposit-taking branches and establishing new US subsidiary banks in states outside of its home-state , which in ANZ s case is New York.

ANZ operates in the United States and has a branch in New York and subsidiaries in 26 countries, including ANZ National and ANZNIL in New Zealand and a US bank subsidiary in America Samoa. In recent years, regulators of financial institutions operating in the US have been increasing their focus on certain financial transactions, including combating money laundering and terrorist financing on compliance with economic sanctions. US regulations applicable to operations of financial institutions impose obligations on those financial institutions and their subsidiaries to maintain appropriate policies, procedures and controls to detect, prevent and report such transactions. Failure by any financial institution to maintain and implement adequate policies and procedures in any of these areas could have legal, cost and reputational consequences for those financial institutions. ANZ has been conducting a broad-based review of its policies, practices and procedures generally and of certain specific transactions for compliance with those regulations and has notified, and is continuing to consult with, the relevant regulators with respect to the current status of this review. ANZ is not able to predict what consequences, if any, may arise out of this review.

Other countries

Local banking operations in all of the Group s offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators.

Competition

The Australian banking system is highly competitive. In September 2006, the four major banking groups in Australia (being ANZ, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation), held approximately 66% of the total Australian assets of banks that carry on business in Australia. Each of these four banking groups operates a nationwide branch network and, at September 30, 2006, they collectively operated approximately 65% of the total number of bank branches in Australia. The operations of the smaller regional banks are typically limited to servicing customers in a particular state or region, and until recently had a particular emphasis on residential mortgage lending.

The deregulation of the Australian financial system during the early 1980s led to a proliferation of financial institutions that compete in selected markets with the four major banks. Non-bank financial intermediaries such as building societies and credit unions compete principally in the areas of accepting deposits and residential mortgage lending, mainly for owner-occupied housing. Some large building societies were granted banking authorizations under the Banking Act 1959. Specialist non-bank residential mortgage lenders and direct (non-branch) banking operations have become more prominent in recent years.

Competition is particularly intense in the housing lending market, which was initially driven by the rise of mortgage originators, and then growth in the mortgage broker industry. More recently, competition has been driven by some of the major banking groups.

The retail deposit market in Australia is also the focus of increased competition. The recent introduction into the market of a number of high rate cash management accounts by each of the major banks and large offshore institutions including Citibank and HBOS, combined with ING s long standing online product, has created a higher degree of competitive intensity. We believe a strong focus on meeting non-price needs will help protect earnings in this segment.

Our Consumer Finance business offers credit card products and personal loans in Australia. In a highly competitive market ANZ holds a strong position, accounting for around 19% of all credit card spending in Australia. The key impact on this business has been the introduction of low rate credit cards into the market.

ANZ s Esanda and UDC businesses offer a range of personal finance products in Australia and New Zealand. The businesses hold leading market positions in motor vehicle and equipment finance. The highly competitive nature of this business in both countries has seen a period of rationalization in recent years that has resulted in a number of our peers divesting their personal finance operations to non-banking institutions. In this regard, on September 1, 2006, ANZ Australia announced that its wholly owned subsidiary, Esanda Finance Corporation Limited, had agreed to sell its fleet leasing and management business in Australia and New Zealand, FleetPartners, to Nikko Principal Investment Australia.

Institutional offers a wide range of financial market services to our large corporate and institutional customer base including foreign exchange, derivative and fixed interest activities, project and structured finance, corporate finance (mergers and acquisitions, and other advisory), primary markets origination and syndication and leasing finance. Competitors gain recognition through the quality of their client base, perceived skill sets, reputation and brands. In domestic markets, Institutional s competitors are generally either international investment banks operating in niche markets, the boutique operations of large multi-national banking conglomerates or domestic investment banks with a focus on niche areas. Institutional s key competitive strength is its focused geographic and sector experience, league table rankings and its established client base. This business has experienced declining margins, driven primarily by the decline in global credit spreads.

In the middle market segment within Institutional, we have started to see the impact of lower credit spreads move down from top end institutional clients.

The funds management industry is an area of strong competition amongst the four major Australian banks and Australia s insurance companies. Competition has increased as the Australian Government has encouraged long-term saving through superannuation by means of taxation concessions and the imposition of a mandatory superannuation guarantee levy on employers. In May 2002, ANZ commenced operations of the joint venture with the ING Australia Group to create a larger and more competitive organization in wealth management. In September 2005, ANZ National Bank Limited sold its funds management and insurance businesses to a joint venture with the ING Group in New Zealand.

On October 24, 2003, ANZ announced that it had purchased NBNZ from Lloyds TSB Group plc. Combined with ANZ s existing New Zealand operations the amalgamated entity holds an approximate 35% market share, and is the leading player in all market segments of the New Zealand banking market. ANZ National Bank s principal competitors are the three other major Australian owned banks, ASB Bank Limited (ASB Bank), Bank of New Zealand (BNZ) and Westpac Banking Corporation (Westpac). The New Zealand government-owned Kiwibank is a smaller institution but has gained significant customer consideration and demonstrated strong growth in the retail banking market in the last two years.

Australian-owned banks accounted for approximately 88% of total registered bank assets in New Zealand. All of these banks operate nation-wide branch networks.

A key area of competition has been in the New Zealand home loan market. A price lead mortgage campaign, initiated by a major competitor in 2004 to gain major share, resulted in an intense mortgage price war. Strong pricing competition and a migration of home lending from floating rate to fixed rate loans led to a decline in margins. This decline has moderated in 2006.

The New Zealand deposit market has also seen increased competition with the proliferation of high-interest on-line savings accounts. This also has led to a reduction in overall margins, although off-set by continued strong growth in volumes.

Competition exists in the New Zealand business segments from the major Australian banks and other international banks including Citigroup, The Hong Kong and Shanghai Banking Corporation, Deutsche Bank in the institutional market and Rabobank New Zealand Limited (Rabobank) in the rural market.

Item 5: Operating and Financial Review and Prospects

Results for 2006

The following discussion is based on the Financial Statements and accompanying Notes as prepared under AIFRS and set out in the Financial Report.

The analysis that follows discusses results after income tax unless otherwise stated.

Overview

ANZ is a leading Australian commercial bank serving approximately 5 million customers in Australia, New Zealand and the Pacific. It also has a presence in Asia, and the major financial markets in the United Kingdom and the United States.

ANZ operates a series of specialist businesses in key segments; Personal, Institutional and Partnerships and Private Bank, and its major geographic business in New Zealand.

ANZ s strategy is to develop a diverse portfolio of specialized businesses, which allows businesses to get closer to customers, to understand their real needs and deliver more valuable products and services. To support its specialisation strategy, ANZ has had a consistent focus on key areas: the quality of its people; its culture; and creating low risk, sustainable businesses. Over the last several years this has involved:

- Shifting away from the dependence on higher risk businesses (including those in international emerging markets), towards lower risk, more sustainable consumer businesses in our domestic markets (Australia and New Zealand).

- Transforming ANZ s cost structure through investing in technology and enabling our processes to become leaner and more competitive. For the fiscal year ended September 30, 2006, ANZ had a cost-to-income ratio of 44.6%.

- Recognizing ANZ s long term competitive strength rests with its people and investing in revitalizing ANZ s culture.

- Focusing on strong revenue growth through substantial investment, both in our existing businesses and through acquisitions.

ANZ is focused on creating sustainable value for its shareholders. Much of this involves building on the competitive advantages that exist in our specialist businesses and continually evaluating opportunities to expand in Australia, New Zealand, and elsewhere in Asia and the Pacific.

For the fiscal year ended September 30, 2006, 34% of our operating income was derived from countries outside Australia compared to 35% in the year ending September 30, 2005. Movements in foreign currencies against the Australian dollar, especially the New Zealand dollar, will therefore affect our earnings through the translation of overseas profits to Australian dollars.

We face substantial competition in all our markets, particularly Australia and New Zealand. Competition affects ANZ s profitability in terms of reduced interest rate spreads and the volume of new lending and deposits.

Our operations are impacted by government actions, such as exchange controls and changes to taxation and government regulations in the countries in which we operate. Our operations in most countries depend on the continuing availability of banking licenses issued by applicable governments. In Australia, in addition to the competition rules overseen by the Australian Competition and Consumer Commission (ACCC), the Commonwealth Government of Australia prohibits any merger between any of the four largest Australian banks. There is no change anticipated to this prohibition in the near term.

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Finally, our operations are also constrained by community pressures, most notably in Australia and New Zealand, in keeping fee income, interest rate increases and branch rationalization to acceptable levels.

Changes in Accounting Policy

On October 1, 2005, the Group commenced application of AIFRS, covering all financial systems and records. The Group reported for the first time in compliance with AIFRS for the half year ending March 31, 2006. Discussion of the impacts of AIFRS have been outlined in Note 51 of the 2006 Financial Report.

Operating Results

ANZ s results for the past two years are summarized below and are discussed under the headings of Analysis of Major Income and Expense Items , Results by Line of Business and Results by Region , which follow.

Years ended September 30	**2006 $ M**	**2005 $ M**
AIFRS (1)		
Net interest income	6,943	5,818
Provision for credit impairment charge	(407)	(580)
Net interest income after provision for credit impairment charge	6,536	5,238
Other operating income	3,209	3,578
Net operating income	9,745	8,816
Operating expenses	(4,531)	(4,418)
Profit before income tax	5,214	4,398
Income tax expense	(1,522)	(1,220)
Profit after income tax	3,692	3,178
Net profit attributable to minority interests	(4)	(3)
Net profit attributable to shareholders of the company	3,688	3,175
US GAAP (2)		
Operating profit attributable to ANZ shareholders	3,657	3,173

(1) Unless otherwise specified, comparative numbers are based on statutory requirements.

(2) As detailed in Note 53 to the Financial Report, during 2005 and 2006 the Group undertook a review of its US GAAP reporting which identified several interpretational differences in ANZ s application of US GAAP. These differences, which impact the current and prior years, have been adjusted for when identified in 2005 and 2006 as they are not material in aggregate or isolation.

Basic earnings per ordinary share increased 18% (30 cents) to 200 cents for the year ended 2006 based on statutory net profit. Return on average ordinary shareholders equity increased to 20.7%.

AIFRS 2005 Adjustments

The Group implemented accounting policies in accordance with AIFRS on October 1, 2004, except for those relating to financial instruments and insurance contracts, which were implemented on October 1, 2005. The 2005 comparatives for these standards have not been restated in the Financial Report.

All AIFRS accounting standards were required to be applied for accounting periods beginning on or after January 1, 2005. For ANZ this resulted in a date of adoption of October 1, 2005. Under AASB 1 there was also a requirement to restate prior year comparatives in accordance with AIFRS standards. However, AASB 1 included an exemption for the restatement of prior year comparatives in relation to AASB 4, AASB 132 and AASB 139. The provision of comparatives is not the same as early adoption. All AIFRS accounting standards include a requirement that they are not to be applied to annual reporting periods beginning before January 1, 2005, this therefore does not allow for early adoption.

ANZ did not elect to provide prior year comparatives for AASB 4, AASB 132 and AASB 139 in the 2006 statutory results. This was largely due to the fact that hedging systems were not in place until October 1, 2005. The hedging requirements in AASB 139 require full documentation and prospective effectiveness testing of all items to be accounted for as a hedge under AASB 139, therefore the adjustments resulting from these hedging requirements from October 1, 2004 were not able to be quantified. All other adjustments made to meet the requirements of AASB 4, AASB 132 and AASB 139 were quantified and captured in the general ledger from 1 October 2004. These adjustments, which are referred to as the AIFRS 2005 Adjustments in this Annual Report, have been included in the analysis of comparatives used in the commentary on the 2006 statutory results. ANZ believes that this provides useful information to investors because it presents the 2005 operating results consistent with the way the business is managed and is a more comparable base for the users of the financial statements.

Additional information concerning the impact of the transition to AIFRS is set out in Note 51 to the 2006 Financial Report.

The following table reconciles the comparative statutory numbers with equivalent figures on a comparable AIFRS basis, including the impact of AASB 139: Financial Instruments: Recognition and Measurement .

	Full Year Sep 05 $M			AIFRS Standard
Net interest income (statutory basis)	**5,818**			
Fees recognised as an adjustment to yield	622			AASB 139
Reclassified hybrid financial instruments	(66	)		AASB 132
Other	(3	)	**553**	AASB 139/132
Net interest income (comparable AIFRS basis)	**6,371**			
Provision for credit impairment charge (statutory basis)	**(580**	)		
Movement in credit impairment provision	15			AASB 139
Provision for credit impairment charge (comparable AIFRS basis)	**(565**	)		
Net interest income after provision for credit impairment charge (statutory basis)	**5,238**			
Total AIFRS adjustments	568			
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**5,806**			
Other operating income (statutory basis)	**3,578**			
Fees recognised as an adjustment to yield	(632	)		AASB 139
Derivatives and hedging	44			AASB 139
Other	3		**(585)**	AASB 139
Other operating income (comparable AIFRS basis)	**2,993**			
Operating expenses (statutory basis)	**(4,418**	)		
Other				N/A
Operating expenses (comparable AIFRS basis)	**(4,418**	)		
Profit before income tax (statutory basis)	**4,398**			
Total AIFRS profit before income tax adjustments	(17	)		
Profit before income tax (comparable AIFRS basis)	**4,381**			
Income tax expense and minority interests (statutory basis)	**(1,223**	)		
Tax on AIFRS adjustments	(14	)		AASB 139/132
Income tax expense and minority interests (comparable AIFRS basis)	**(1,237**	)		
Net profit (statutory basis)	**3,175**			
AIFRS net profit adjustments	(31	)		
Net profit (comparable AIFRS basis)	**3,144**			

Analysis of Significant Items

Management believes that the exclusion of significant items provides investors with a measure to compare the underlying performance of the operating business without the distortion of one-off gains and losses. Each significant item is non-recurring and therefore is not expected to affect the future financial performance of the Group.

The table below shows details of significant items for 2006 and 2005 (after tax).

	2006 $M	2005 $M
Significant Items		
Settlement of ANZ National Bank claims	14	
Settlement of NHB Insurance claim	79	
Gain on sale of NBNZ Life		14
Total	93	14

2006

Settlement of ANZ National Bank Claims

Following the purchase of National Bank of New Zealand Limited on December 1, 2003, a dispute arose with Lloyds TSB in relation to the accounting treatment in the Completion Accounts of the provision for retirement gratuities. The dispute was referred to arbitration and, as a result, ANZ National Bank received $14 million in March 2006 ($14 million after tax) in final settlement.

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Settlement of NHB Insurance Claim

During the year ANZ settled its $130 million claim against a number of reinsurers in relation to the National Housing Bank (NHB) matter. ANZ has reported the $113 million ($79 million after tax) cost recovery as a significant item in 2006. $1 million was received in 2005 and not treated as significant as it was immaterial.

2005

Gain on sale of NBNZ Life

On September 30, 2005 ANZ National sold the NBNZ Life and Funds Management businesses into a joint venture with the ING Group in New Zealand. A profit after tax on sale of $14 million was recognized, which is considered to be non recurring, as it resulted from the disposal of a business. This profit is not recognized for US GAAP purposes as the transaction involved transferring ownership of controlled entities in exchange for a non controlling ownership interest in the joint venture.

Operating Results adjusted for AIFRS 2005 Adjustments and Significant Items

Net profit after tax after adjusting for AIFRS 2005 Adjustments and significant items increased $465 million (15%) from $3,130 million for the year ended September 30, 2005 to $3,595 million for the year ended September 30, 2006.

Years ended September 30	2006 $ M	2005 $ M
Net profit attributable to shareholders of the company	3,688	3,175
AIFRS 2005 adjustments	n/a	(31)
Significant items	(93)	(14)
Net profit attributable to shareholders of the company adjusted for AIFRS 2005 adjustments and significant items	3,595	3,130
Comprising:		
Net interest income	6,943	6,371
Provision for credit impairment charge	(407)	(565)
Net interest income after provision for credit impairment charge	6,536	5,806
Other operating income	3,195	2,979
Net operating income	9,731	8,785
Operating expenses	(4,644)	(4,418)
Profit before income tax	5,087	4,367
Income tax expense	(1,488)	(1,234)
Profit after income tax	3,599	3,133
Net profit attributable to minority interests	(4)	(3)
Net profit attributable to shareholders of the company adjusted for AIFRS 2005 Adjustments and significant items	3,595	3,130

Net Profit and Loss

ANZ recorded an increase in profit after income tax of $513 million (16%) from $3,175 million for the year ended September 30, 2005 to $3,688 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $31 million after tax and significant items (2006: $93 million, 2005: $14 million), profit after tax increased $465 million (15%) from $3,130 million for the year ended September 30, 2005 to $3,595 million for the year ended September 30, 2006. Key factors influencing this increase were:

- Net interest income increased $1,125 million (19%) from $5,818 million for the year ended September 30, 2005 to $6,943 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $553 million, net interest income increased $572 million from $6,371 million for the year ended September 30, 2005 to $6,943 million for the year ended September 30, 2006. Net interest income was driven by lending growth in Mortgages and Institutional, and deposit growth in Personal and Institutional. Volume growth was partly offset by a decline in margin (a 1 basis point increase prior to AIFRS adjustments).

- Other operating income decreased $369 million (10%) from $3,578 million for the year ended September 30, 2005 to $3,209 million for the year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. Adjusting for AIFRS 2005 Adjustments of $585 million and significant items of $14 million, (2005: $14 million), other operating income increased $216 million from $2,979 million for the year ended September 30, 2005 to $3,195 million for the year ended September 30, 2006. This increase was mainly due to growth in fees driven by volume growth and increased profit on trading instruments.

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- Operating expenses increased by $113 million (3%) from $4,418 million for the year ended September 30, 2005 to $4,531 million for the year ended September 30, 2006. Adjusting for significant items (2006: $113 million, 2005: nil), operating expenses increased $226 million from $4,418 million for the year ended September 30, 2005 to $4,644 million for the year ended September 30, 2006. This increase was driven by salary increases and a 4% increase in staff numbers with investment in growth initiatives, opening of new branches and an increased marketing spend.

- Asset quality continued to improve:

- net individual provision for credit impairment charge reduced, principally due to increased recoveries and write backs in Institutional, and lower single name provisions in New Zealand.

- collective provision for credit impairment charge reduced. This reduction was driven mainly by a decline in the scenario impact provision taken in 2005.

- net impaired loans reduced slightly.

Analysis of Major Income and Expense Items

Net Interest Income

The following table analyzes net interest income, interest spread and net interest average margin for Australia, New Zealand and overseas markets. Interest income figures included as part of spread and margin calculations are presented on a tax-equivalent basis.

Years ended September 30	2006 $M	2005 $M
Interest income	22,301	17,719
Interest expense	(15,358)	(11,901)
Net interest income	6,943	5,818
Average interest earning assets	300,179	253,183

Interest spreads and net interest average margin	2006	2005
Australia	%	%
Gross interest spread adjusted to include interest foregone	1.95	1.87
Interest foregone on impaired assets (1)	(0.01)	(0.01)
Net interest spread (2)	1.94	1.86
Interest attributable to net non-interest bearing items	0.38	0.43
Average net interest margin (3)- Australia	2.32	2.29
New Zealand		
Gross interest spread adjustments to include interest foregone	1.74	1.86
Interest foregone on impaired assets (1)	(0.01)	(0.01)
Net interest spread (2)	1.73	1.85
Interest attributable to net non-interest bearing items	0.59	0.51
Average net interest margin (3)- New Zealand	2.32	2.36
Overseas markets		
Gross interest spread adjusted to include interest foregone	1.02	1.04
Interest foregone on impaired assets (1)	(0.02)	(0.02)
Net interest spread (2)	1.00	1.02
Interest attributable to net non-interest bearing items	0.41	0.48
Average net interest margin (3)- Overseas markets	1.41	1.50
Group		
Gross interest spread adjusted to include interest foregone	1.87	1.83
Interest foregone on impaired assets (1)	(0.01)	(0.01)
Net interest spread (2)	1.86	1.82
Interest attributable to net non-interest bearing items	0.45	0.48
Average net interest margin (3)-Group	2.31	2.30

Years ended September 30	2006 $M	2005 $M
Adjusted for AIFRS 2005 Adjustments		
Interest income	22,301	19,074
Interest expense	(15,358)	(12,703)
Net interest income (4)	6,943	6,371
Average interest earning assets (5)	300,179	265,981

Years ended September 30	2006 %	2005 %
Interest spreads and net average margin		
Adjusted for AIFRS 2005 Adjustments		
Group		
Gross interest spread adjusted to include interest foregone	1.87	1.97
Interest forgone on impaired assets (1)	(0.01)	(0.01)
Net interest spread (2)	1.86	1.96

Interest attributable to net non-interest bearing items	0.45	0.44
Net interest average margin	2.31	2.40

(1) Refer Note 15 of the Financial Report.

(2) Average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities.

(3) Net interest income as a percentage on average interest earning assets.

(4) Includes AIFRS 2005 Adjustments primarily due to fees recognized as an adjustment to yield (AASB 39) and reclassified hybrid financial instruments (AASB 132).

(5) Includes AIFRS 2005 Adjustments primarily due to the reclassification of acceptances from non interest bearing to interest bearing under AASB 139.

Years ended September 30	**2006**	**2005**
Average rates		
Average Australian reference lending rate charged by ANZ	9.5 %	9.2 %
Average Australian variable housing loan rate charged by ANZ	7.5 %	6.7 %
Average Australian 90 day fixed term deposit rate (1)	4.0 %	3.6 %
US average prime rate (2)	7.6 %	5.7 %

(1) Source: Reserve Bank of Australia.

(2) Source: Datastream .

Net interest income increased $1,125 million (19%) from $5,818 million for the year ended September 30, 2005 to $6,943 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $553 million (refer page 26), net interest income increased $572 million (9%) from $6,371 million for the year ended September 30, 2005 to $6,943 million for the year ended September 30, 2006.

Volume

Average interest earning assets increased $47 billion (19%) from $253.2 billion for the year ended September 30, 2005 to $300.2 billion for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $12.8 billion (includes $13.6 billion within other interest earning assets offset by other minor adjustments of $0.8 billion), average interest earning assets increased $34.2 billion (13%) from $266.0 billion for the year ended September 30, 2005 to $300.2 billion for the year ended September 30, 2006.

- Average net advances increased by $22.8 billion (10%) from $233.8 billion for the year ended September 30, 2005 to $256.6 billion for the year ended September 30, 2006.

Growth in Australia was attributable to: Personal (Mortgages); and Institutional Australia (Corporate Banking, Business Banking, Debt Products Group and Non-continuing Businesses). Average net advances increased in New Zealand and Overseas Markets.

- Other interest earning assets increased $24.2 billion (125%) from $19.4 billion for the year ended September 30, 2005 to $43.6 billion for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $13.6 billion relating to the reclassification of acceptances from non-interest bearing to interest bearing under AASB 139 Financial Instruments, other interest earning assets increased $10.6 billion (32%) from $33.0 billion for the year ended September 30, 2005 to $43.6 billion for the year ended September 30, 2006, driven by higher levels of liquid assets, trading securities, available-for-sale assets and interbank lending.

Average deposits and other borrowings increased $17.1 billion (9%) from $182.7 billion for the year ended September 30, 2005 to $199.8 billion for the year ended September 30, 2006.

Growth in Australia was attributable to Personal (Banking Products and Esanda), Institutional Australia (Corporate Banking, Business Banking and Trade and Transaction Services Australia) and Treasury. Average deposits and other borrowings decreased in New Zealand with growth in core deposits offset by a decrease in Treasury Certificates of Deposits and Commercial Paper due to a switch to longer term funding. Average deposits and other borrowings grew in Overseas Markets.

Margin

Net interest average margin was up 1 basis point to 2.31% for the year ended September 30, 2006 from 2.30% for the year ended September 30, 2005; however, net interest margin adjusted for AIFRS 2005 Adjustments declined by 9 basis points from the 2005 year from 2.40% for the year ended September 30, 2005 to 2.31% for the year ended September 30, 2006:

- Funding mix (-5 basis points)

Margins were down due to the substitution of wholesale funding for customer deposits (2 basis points) and a decrease in net non-interest bearing items (3 basis points).

- Asset mix (-3 basis points)

Reduction in margin was due to an increase in the proportion of lower yielding liquid assets and trading securities in Group Treasury and Institutional (3 basis points), with offsetting impacts between changes in the proportion of higher yielding Esanda and Mortgage lending.

- Competition (-8 basis points)

Competitive pressures reduced margins, mainly in Australian and New Zealand Mortgages (3 basis points) and Institutional lending (1 basis point) with slight margin reductions in Corporate and Business Banking and Rural portfolios (1 basis point). In addition, customer migration to lower yielding credit cards reduced the net interest margin (1 basis points), together with migration into high yielding customer deposits principally in New Zealand (2 basis points).

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- Wholesale rates (+3 basis points)

Wholesale rate movements benefited margins with less basis risk in variable rate mortgages and credit cards together with increased earnings on the investment of capital and rate insensitive deposits (3 basis points).

- Other items (+14 basis points) include:

- higher earnings from foreign exchange revenue hedging (+2 basis points or $58 million)

- release of a provision relating to prior year income in Institutional (+1 basis point)

- reduced effective yield fee income (-2 basis points)

- other impacts include lower funding costs associated with unrealized trading gains, interest received on tax refunds, increase in the proportion of credit cards earning interest and a reduction in the proportion of retail broker payments (+3 basis points)

- 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 the inclusion of acceptances in average interest earning assets.

Other Operating Income

Years ended September 30	**2006 $M**	**2005 $M**
Fee income		
Lending	430	1,043
Other	1,715	1,568
Total fee income	2,145	2,611
Foreign exchange earnings	447	454
Profit on trading instruments	209	134
Other income	394	365
Significant items (1)	14	14
Total other operating income	3,209	3,578

(1) Comprises $14 million after tax settlement of ANZ National Bank claims in the fiscal year ended September 30, 2006 and $14 million after tax gain on sale of NBNZ Life in the fiscal year ended September 30, 2005.

Non-interest income decreased $369 million (10%) from $3,578 million for the year ended September 30, 2005 to $3,209 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $585 million and significant items of $14 million (2005: $14 million), other operating income increased $216 million (7%) from $2,979 million for the year ended September 30, 2005 to $3,195 million for the year ended September 30, 2006 (refer page 27).

Fee Income

Fee income decreased $466 million (18%) from $2,611 million for the year ended September 30, 2005 to $2,145 million for the year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. Adjusting for AIFRS 2005 Adjustments of $632 million (reflecting fees recognized as an adjustment to yield), fee income increased $166 million (8%) from $1,979 million for the year ended September 30, 2005 to $2,145 million for the year ended September 30, 2006. This increase was a result of:

- Lending fee income decreased $613 million (59%) from $1,043 million for year ended September 30, 2005 to $430 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of +$638 million, lending fee income increased $25 million (6%) from $405 million for year ended September 30, 2005 to $430 million for year ended September 30, 2006, largely in Personal (where Mortgages increased, driven by asset lending growth) and Banking Products (which increased as a result of growth in the number of transaction accounts). New Zealand increased $5 million largely in NBNZ Retail. Trade and Transaction Services increased, due to increased volumes in International Trade Finance, partially offset by a reduction in Debt Product Group due to lower loan administration fees.

- Non-lending fee income increased $147 million from $1,568 million for year ended September 30, 2005 to $1,715 million for year ended September 30, 2006 (9%). Adjusting for AIFRS 2005 Adjustments of $6 million, non lending fee income increased $141 million (9%) from $1,574 million for year ended September 30, 2005 to $1,715 million for year ended September 30, 2006:

- Personal increased due to Consumer Finance (principally due to volume growth), Investment and Insurance Products (from income generated by financial planners), Banking Products driven by new product initiatives, together with strong new transaction deposit growth) and Esanda (due to higher predetermination fee income).

- Institutional increased through Trade and Transaction Services (due to business growth from new channels and the custody business) and Markets (due to debt capital market deals).

- Partnerships & Private Bank increased due to cards issued in Indonesia.

- New Zealand decreased, with growth across card and transaction fees offset by exchange rate movements.

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Foreign Exchange Earnings

Foreign exchange earnings decreased $7 million (2%) from $454 million for the year ended September 30, 2005 to $447 million for the year ended September 30, 2006 mainly in Institutional Markets due to lower foreign exchange swap and spot earnings, offset by increased profit on trading instruments. This was partially offset in Markets in New Zealand (with gains in spot and foreign exchange forward products associated with NZD and interest rate volatility) and in Trade and Transaction Services (as a result of continuing growth, particularly from international payments revenue).

Profit and Loss on Trading Instruments

Profit on trading instruments increased $75 million (56%) from $134 million for the year ended September 30, 2005 to $209 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $2 million, profit on trading instruments increased $77 million (58%) from $132 million for the year ended September 30, 2005 to $209 million for the year ended September 30, 2006.

Institutional increased with Markets increasing driven by strong growth in Australia and New Zealand associated with increased activity and positioning to take advantage of interest rate and currency volatility. In addition, Markets increased due to the profit offsetting the foreign exchange loss referred to above. Included in the Markets increase was a reduction due to unrealized losses in Australia and New Zealand, which were offset by the funding benefit from realized cash flows included in net interest income. Debt Product Group decreased due to costs incurred in managing the portfolio. In addition, the 2005 year included costs from the hedge of capital investment earnings in INGA with implementation of AIFRS 2005 accounting policies on hedge accounting from October 1, 2005.

Other Income

Other operating income increased $29 million (8%) from $365 million for the year ended September 30, 2005 to $394 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $49 million, other operating income decreased $20 million (5%) from $414 million for the year ended September 30, 2005 to $394 million for the year ended September 30, 2006:

- Partnerships & Private Bank decreased, reflecting the impact of the expiration of transitional tax relief and lower capital investment earnings on the INGA result, as well as lower PT Panin equity accounted earnings.

- New Zealand decreased as UDC losses on sale of operating lease vehicles and lower profits from ING NZ more than offset the profit on the sale of MasterCard shares.

- Personal increased in Mortgages from higher sales volumes and associated LMI policy premiums. Increases in Consumer Finance (due to the sale of MasterCard shares) were offset by a reduction in Esanda, mainly as a result of the impact from the fall in secondhand car prices.

- Non-continuing businesses increased mainly as a result of a gain from settlement of warranties relating to the sale of the London based project finance business and a gain on sale of power assets.

- Institutional increased due to an increase in Corporate and Structured Financing from the gain on sale of power assets.

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

- ineffectiveness of designated accounting cash flow and fair value hedges; and

- approved classes of derivatives, not designated in accounting hedge relationships, but that are considered to be economic hedges.

During 2006, ANZ has recorded a profit of $49 million before tax (2005: $44 million) relating to ineffective hedging.

Movements in average exchange rates over the September 2005 year decreased total non-interest income by $28 million.

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Non-Interest Expenses

Years ended September 30	2006 $M	2005 $M
Personnel expenses	2,729	2,529
Premises expenses	414	394
Computer expenses	549	558
Other expenses	901	885
Restructuring	51	52
Settlement of NHB Insurance claim	(113)	
Non-interest expenses	**4,531**	**4,418**

Non-interest expenses increased $113 million (3%) from $4,418 million for the year ended September 30, 2005 to $4,531 million for the year ended September 30, 2006. Adjusting for significant items (settlement of NHB insurance claim), non-interest expenses increased $226 million (5%) from $4,418 million for the year ended September 30, 2005 to $4,644 million for the year ended September 30, 2006.

Personnel Expenses

Personnel expenses increased $200 million (8%) from $2,529 million for the year ended September 30, 2005 to $2,729 million for the year ended September 30, 2006 as a result of annual salary increases and a 4% increase in staff numbers partly offset by lower NBNZ incremental integration costs. The increase in staff numbers occured mainly in the following business units:

- Personal staff numbers increased 6%. Consumer Finance increased 8% to deal with increased volumes and cards initiatives. Branch Network staff numbers increased 6% due to the opening of 25 new branches (under the Credit Branch Investment Program) coupled with extending opening hours at an additional 86 branches. Mortgages increased 8% due to increased volumes. Investment and Insurance Products increased 16% over the year due mainly to recruitment of financial planners.

- Institutional staff numbers increased 7% due to a 24% increase in Markets, primarily reflecting the strategy to drive business growth and increased staff for IT projects. Trade and Transaction Services increased 8% reflecting investment in business platforms and short-term parallel runs of a new operations site.

- Partnership & Private Bank increased 29% driven mainly by the expansion program in Cambodia and increasing specialist staff to follow the growth agenda in Private Banking.

Premises Expenses

Premises costs increased $20 million (5%) (2006: $414 million, 2005: $394 million) reflecting additional space requirements and opening of 25 new branches. There was also a $6 million increase in the cost of security services.

Computer Expenses

Computer expenses decreased $9 million (2006: $549 million, 2005: $558 million). Depreciation charges in Operations, Technology and Shared Services and Personal were lower principally as a result of asset write-downs in 2005 and assets fully depreciating. Offsetting this were increases in Mortgages due to re-assessment of software projects, Trade and Transaction Services and Markets due to investment in new platforms, and Consumer Finance due to additional ATM and merchant terminals.

Other Expenses

Other expenses declined by $16 million (2%) from $885 million for the year ended September 30, 2005 to $901 million for the year ended September 30, 2006:

- Travel expenses increased $16 million with small increases spread across most business units.
- Advertising spending increased $14 million including expenditure on the ANZ NOW and ATM advertising campaigns and Consumer Finance expenditure due to the launch of new products including Visa Debit Card.
- NBNZ incremental integration costs reduced by $14 million.

Restructuring Expenses

Restructuring expenses of $51 million were recognized in 2006 compared to $52 million in 2005. The expense in 2006 mainly represented termination costs associated with business initiatives (including projects to capture operational efficiencies) and reductions in resourcing of activities (where ANZ is downsizing in conjunction with ANZ s business strategies).

The total restructuring provision as at September 30, 2006 was distributed as follows:

Restructuring Provision

	Termination and Staff Benefits $M	Excess Premises $M	Other Contract Termination and Associated Costs $M	Total $M
Carrying amount at beginning of the year October 1, 2005	68	6	3	77
Provision made during year / Expense for the year	41		10	51
Payments made during the year	(33)	(2)	(8)	(43)
Release of provisions (1)	(4)	(2)	(5)	(11)
Carrying amount at end of year - September 30, 2006	72	2		74

Years ended September 30	2006 $M	2005 $M
Termination and staff benefits	72	68
Excess premises	2	6
Other contract termination and associated costs		3
Total	74	77

(1) Includes foreign currency movements of $1 million.

All restructuring costs are expensed and recorded as operating expenses.

Details of Major Projects (including expected total spend and spend to date)

	Expected Total Spend $M	Spend to date $M
ANZ National integration: Integration of ANZ Bank and NBNZ (restructuring component)	12	12
Institutional Financial Services business unit restructure	27	22
Operations, Technology and Shared Services restructure	33	9
London Property	8	
Total	**80**	**43**

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. This program is now complete.

Pension Payments

Pension payments are the principal post-retirement benefit. Other post-retirement benefits (which chiefly comprise reduced fees on bank accounts) are not material. Health care is provided to Australian citizens by the government. Accordingly, ANZ does not provide post-retirement health insurance in Australia. Some post-retirement health care is provided in Japan and the United Kingdom.

Under previous Australian GAAP, the Group accounted for the defined benefit pension schemes and health schemes on a cash basis.

Under AIFRS the Group is required to recognize surpluses (assets) and/or deficits (liabilities) that arise within these schemes in the Balance Sheet. The Group elected to apply the option under AIFRS to recognize actuarial gains and losses associated with these schemes in the Balance Sheet (i.e. the direct to retained earnings approach). The non-cash expense (representing the notional cost of the benefits accruing to members in respect of service provided over the reporting period) is charged to the Income Statement.

Provision for Credit Impairment Charge

	Provision for Credit Impairment Charge 2006 $M	Net Individual Provision for Credit Impairment 2006 $M	Provision for Credit Impairment Charge 2005 $M	Net Individual Provision for Credit Impairment 2005 $M
Personal	341	261	351	223
Institutional	58	49	136	62
New Zealand Business	5	19	158	101
Partnerships & Private Bank	25	23	17	12
Other	(22)	(14)	(82)	(41)
	407	338	580	357

Under AIFRS, the provision for credit impairment charge represents management s best estimate of impairment loss. The estimated loss is calculated as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the asset s original effective interest rate.

The provision for credit impairment charge consists of two components: the net individual provision for credit impairment charge (referred to as the specific or allocated component under previous Australian GAAP); and the collective provision for credit impairment charge (referred to as the general or unallocated component under previous Australian GAAP).

Credit impairment provisions are raised when there is objective evidence of impairment. Impairment is assessed individually for financial assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those loans not individually known to be impaired.

Under AIFRS, a discounted cash flow methodology is used to calculate the net individual provision for credit impairment charge and this is consistent with US GAAP. In comparative financial periods a discounted cash flow methodology was not required under previous Australian GAAP; however, no adjustment was made for US GAAP purposes as the impact of discounting was not material.

Under AIFRS, the collective provision for credit impairment charge is calculated for financial assets for which there is an incurred loss but the financial assets have not been individually identified as impaired.

The collective provision for credit impairment charge is calculated as the change in the collective provision for credit impairment during the reporting period. The collective provision for credit impairment at the end of the reporting period reflects the impact on estimated future cash flows for loans probable to be impaired and will become observable over an emergence period. The emergence period represents the time from when a loss event occurs until the Group assesses the loan for individual impairment and raises a provision. The impact on estimated future cash flows is calculated based on historical loss experience for assets with credit characteristics similar to those in the collective pool.

The provision for credit impairment charge is calculated by identifying objective evidence of impairment. In assessing the impacts of adopting AIFRS standards and preparing for Basel accreditation, the Group performed a detailed analysis of historical incurred losses in both the retail loan portfolio and the wholesale loan portfolio. This analysis identified the events that triggered the losses in these portfolios and resulted in an estimate of the average period between the time when the loss events occurred until the Group assessed the loans for individual impairment and made a provision for credit impairment. The Group considers this period to be the emergence period. The emergence period for retail portfolios was determined based on historical economic modeling. The emergence period for wholesale portfolios was determined based on a defaulted loan file review. Under previous Australian GAAP, incurred losses were estimated by calculating an average annual loss over the economic cycle for the remaining term of the loan or portfolio of loans. Use of defined emergence periods result in a more accurate estimate of incurred losses. Under AIFRS, the Group has also refined certain risk parameters used to estimate the impact on estimated future cash flows. Further detail in respect to the emergence period and the refinement of risk parameters is provided in the Critical Estimates and Judgements in Applying Accounting Policies (refer page 73).

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For the year ended September 30, 2006, the provision for credit impairment charge calculated in accordance with AIFRS was $407 million. For the year ended September 30, 2005, the provision for credit impairment charge was $580 million. Adjusting for AIFRS 2005 Adjustments of $15 million, the provision for credit impairment charge was $565 million (refer page 26).

The net individual provision for credit impairment charge decreased $19 million (5%) from $357 million for the year ended September 30, 2005 to $338 million for the year ended September 30, 2005. This reduction is a factor of lower large single name losses in New Zealand, coupled with strong recoveries and write backs in Institutional. This was partially offset by growth and moderately higher risk in Personal, lower recoveries and write backs in the non-continuing businesses and the emergence of individual provisions from scenario impacts.

The collective provision for credit impairment charge decreased $154 million (69%) from $223 million for the year ended September 30, 2005 to $69 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $15 million (refer page 26), the charge decreased $139 million. This reduction was driven by the unwind of the provision raised in 2005 to allow for continued uncertainty and expected levels of default due to sustained materially higher oil prices. During 2006, $77 million of this provision was unwound to offset the emergence of related individual and collective provisions from this scenario impact. The provision will be progressively reduced as the impact of higher oil prices is reflected in the portfolio. Further information in repect of the estimation and unwind of the impact of higher oil prices is provided in the Critical Estimates and Judements in Applying Accounting Policies section . The collective provision for credit impairment charge also reflects strong asset growth, changes in portfolio risk and a reduced benefit from non-continuing businesses (following the sale of offshore project finance assets).

Further information in respect of the Group s provision for credit impairment methodology under AIFRS and the associated assumptions is provided in the Critical Estimates and Judgements in Applying Accounting Policies section (refer page 73).

Income Tax Expense

Years ended September 30	**2006 $M**	**2005 $M**
Total income tax expense including significant items	1,522	1,220
Effective tax rate	29 %	28 %
Australian corporate tax rate	30 %	30 %

The Group s income tax expense increased by $302 million (25%) from $1,220 million for the year ended September 30, 2005 to $1,522 million for the year ended September 30, 2006 resulting in an effective tax rate of 29.2% (an increase from 27.7% at September 30, 2005). The increase mainly reflects the run-off of structured finance transactions. The year to September 30, 2005 year included the non-taxable profit on sale of NBNZ Life and Funds Management Businesses.

Adjusting for AIFRS 2005 Adjustments of $14 million, income tax expense increased by $288 million, resulting in an increased effective tax rate of 29.2% (up from 28.2% at September 30, 2005). This increase mainly reflects the run-off of structured financing transactions and the non-taxable profit on sale of NBNZ Life and Funds Management Businesses in 2005.

Results by Line of Business

Years ended September 30	2006 $M	2005 $M
Personal	1,256	1,095
Institutional	1,396	1,213
New Zealand Businesses	683	639
Partnerships & Private Bank	169	170
Non-continuing Business	38	55
Group Center (1)	53	(11)
Profit excluding significant items	**3,595**	**3,161**
Significant items (2)	93	14
Net profit attributable to shareholders of the company	3,688	3,175

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(1) Group Center includes adjustments for hedge ineffectiveness and ANZ National Bank incremental integration costs

(2) Significant items are detailed on page 26.

During the year ended September 30, 2006 ANZ managed its business activities along the following lines of business: Personal, Institutional, New Zealand Businesses, Partnerships and Private Bank and Group Center.

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Personal

	2006 $M	2005 $M
Net interest income	3,013	2,590
Other operating income	1,187	1,124
Operating income	4,200	3,714
Operating expenses	(2,069)	(1,890)
Profit before credit impairment and income tax	2,131	1,824
Provision for credit impairment	(341)	(261)
Profit before income tax	1,790	1,563
Income tax expense and minority interest	(534)	(468)
Net profit	1,256	1,095

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**2,590**	
Fees recognised as an adjustment to yield	101	
Other	5	106
Net interest income (comparable AIFRS basis)	**2,696**	
Provision for credit impairment charge (statutory basis)	**(261)**	
Movement in credit impairment provision	(90)	
Provision for credit impairment charge (comparable AIFRS basis)	**(351)**	
Net interest income after provision for credit impairment charge (statutory basis)	**2,329**	
Total AIFRS adjustments	16	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**2,345**	
Other operating income (statutory basis)	**1,124**	
Fees recognised as an adjustment to yield	(111)	
Other	6	(105)
Other operating income (comparable AIFRS basis)	**1,019**	
Operating expenses (statutory basis)	**(1,890)**	
Other		
Operating expenses (comparable AIFRS basis)	**(1,890)**	
Profit before income tax (statutory basis)	**1,563**	
Total in AIFRS profit before income tax adjustments	(89)	
Profit before income tax (comparable AIFRS basis)	**1,474**	
Income tax expense and minority interests (statutory basis)	**(468)**	
Tax on AIFRS adjustments	27	
Income tax expense and minority interests (comparable AIFRS basis)	**(441)**	
Net profit (statutory basis)	**1,095**	
AIFRS net profit adjustments	(62)	
Net profit (comparable AIFRS basis)	**1,033**	

Personal comprises Products, Banking Products, Mortgages, Consumer Finance, Investment and Insurance Products, Esanda, Pacific, Regional and Rural and Small Business Banking and other (including the Branch network, marketing and support costs).

Net profit increased $161 million (15%) from $1,095 million for the year ended September 30, 2005 to $1,256 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $62 million after tax, profit after tax increased $223 million (22%) from $1,033 million to $1,256 million. This increase was driven by strong lending and deposit growth across the business, while margin compression was contained at 1 basis point across the division. Market share was maintained in retail mortgages and we grew share in retail deposits and personal lending.

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We continued to increase our retail footprint through the addition of 25 more branches and the expansion of our ATM network as well as growth in our specialist sales force. We are making good progress in establishing a strong brand proposition based on delivering More Convenient Banking , and we continue to lead our major peers in customer satisfaction.

Balance sheet growth drove double-digit earnings increases in Mortgages, Consumer Finance, Banking Products and Small Business Banking, while Regional & Rural Banking earnings benefited from a benign credit environment. Investment and Insurance Products experienced strong growth driven by our financial planning business. Pacific earnings grew 67% from good lending growth and low provision for credit impairment. Esanda rebounded, growing by 11% as revenue improved in the second half.

Significant factors affecting the result were:

- Overall net interest income increased $423 million (16%) from $2,590 million for year ended September 30, 2005 to $3,013 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $106 million, net interest income increased $317 million (12%) from $2,696 million for year ended September 30, 2005 to $3,013 million for year ended September 30, 2006. Mortgages, Regional & Rural Banking and Small Business Banking net interest income grew in line with balance sheet growth as margins were held. Consumer Finance net interest income increased, with strong balance sheet growth skewed towards lower margin products. Banking Products net interest income increased, with good deposit growth offset by ongoing migration to lower margin products. Pacific net interest income grew, in line with strong balance sheet growth. Esanda net interest income increased.

- Other operating income increased $63 million (6%) from $1,124 million for year ended September 30, 2005 to $1,187 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $105 million, other operating income increased $168 million (16%) from $1,019 million for year ended September 30, 2005 to $1,187 million for year ended September 30, 2006. Mortgages grew other income, on the back of strong sales and lending volumes, and fee initiatives to match competitors. Consumer Finance grew through stronger issuing and lending fees, and a $9 million profit from the sale of shares received from the MasterCard Initial Public Offering in the second half. Banking Products grew other income from higher sales of transaction accounts. Financial planning income was up as more planners generated higher sales volumes. Small Business Banking, Pacific and Regional & Rural Banking grew other income, while Esanda contracted other income by 1% due to a $6 million impact from a fall in second hand car prices.

- Operating expenses increased. Investment continued in expanding the footprint through the addition of 25 more branches, a further 330 ATMs and significant additions to our frontline staff. Operating expenses also increased due to higher marketing and projects spend and annual salary rises.

- Overall provision for credit impairment charge increased $80 million (31%) from $261 million for year ended September 30, 2005 to $341 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $90 million, provision for credit impairment reduced by $10 million (3%) from $351 million for year ended September 30, 2005 to $341 million for year ended September 30, 2006; individual provisions were higher, primarily in our credit card business, reflecting growth in the size of the book (particularly in low rate cards, which have a marginally higher risk profile).

New Zealand

	2006 $M	2005 $M
Net interest income	1,519	1,498
Other operating income	481	538
Operating income	2,000	2,036
Operating expenses	(986)	(993)
Profit before credit impairment and income tax	1,014	1,043
Provision for credit impairment	(6)	(103)
Profit before income tax	1,008	940
Income tax expense and minority interest	(325)	(301)
Net profit	683	639

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**1,498**	
Fees recognised as an adjustment to yield	32	
Other	(6)	26
Net interest income (comparable AIFRS basis)	**1,524**	
Provision for credit impairment charge (statutory basis)	**(103)**	
Movement in credit impairment provision	(55)	
Provision for credit impairment charge (comparable AIFRS basis)	**(158)**	
Net interest income after provision for credit impairment charge (statutory basis)	**1,395**	
Total AIFRS adjustments	(29)	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**1,366**	
Other operating income (statutory basis)	**538**	
Fees recognised as an adjustment to yield	(32)	
Other	(9)	(41)
Other operating income (comparable AIFRS basis)	**497**	
Operating expenses (statutory basis)	**(993)**	
Other		
Operating expenses (comparable AIFRS basis)	**(993)**	
Profit before income tax (statutory basis)	**940**	
Total in AIFRS profit before income tax adjustments	(70)	
Profit before income tax (comparable AIFRS basis)	**870**	
Income tax expense and minority interests (statutory basis)	**(301)**	
Tax on AIFRS adjustments	23	
Income tax expense and minority interests (comparable AIFRS basis)	**(278)**	
Net profit (statutory basis)	**639**	
AIFRS net profit adjustments	(47)	
Net profit (comparable AIFRS basis)	**592**	

New Zealand Businesses comprises ANZ Retail, NBNZ Retail, Corporate Banking, Rural Banking, UDC and Central Support.

Net profit increased $44 million (7%) from $639 million for the year ended September 30, 2005 to $683 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $47 million after tax, net profit increased $91 million (15%) from $592 million for the year ended September 30, 2005 to $683 million for the year ended September 30, 2006. The devaluation of the NZD exchange rate has impacted these results, with the average NZD exchange rate reducing by 5.4% during the year. Excluding exchange rate impacts (and on a comparable AIFRS basis), the increase in profit after tax was 22%. This result was assisted by a reduction in credit impairment expense.

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Overall, the business is showing promising momentum and has a clear strategy to build on this momentum. The business continues to experience robust lending growth, good credit quality, and the level of interest margin decline has moderated.

Growth in profit before credit impairment and income tax was strong in The National Bank Retail (due to other income growth), Corporate & Commercial Banking and Rural Banking (due to strong lending growth). ANZ Retail improved marginally, with growth constrained in other operating income and expenses impacted by the additional costs of operating domestic systems in New Zealand. UDC s results were disappointing, with fierce competition and sales force restructuring adversely impacting growth. A number of actions are underway in UDC to return the business to profitable growth.

The results of the Retail Banks include the cost for compensation to customers relating to a Commerce Commission action on disclosure of optional issuer fees and income recognized as a result of the MasterCard Initial Public Offer.

Key influences on the result include the following:

- Net interest income increased $21 million (1%) from $1,498 million for year ended September 30, 2005 to $1,519 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $26 million and the impact of exchange rate fluctuations, net interest income increased by 8%. Lending volumes increased, driven by growth in ANZ Retail, The National Bank Retail, Corporate & Commercial Banking and Rural. This was partly offset by a reduction in UDC due to fierce competition and sales force restructuring. Deposit volumes increased with strong growth in Corporate & Commercial Banking, ANZ Retail, The National Bank Retail and Rural Banking offset by a reduction in Treasury deposits (driven by a shift to longer term wholesale funding). Net interest margin fell, driven by competition and product mix changes; the mix factors included customer migration from variable rate to fixed rate mortgages, increased requirement for wholesale funding, and growth in lower margin at call products (including ANZ On-line Call) and term deposit products. ANZ Retail and The National Bank Retail net interest margins shrank. These declines occurred primarily in the first half.

- Other operating income decreased $57 million (11%) from $538 million for year ended September 30, 2005 to $481 million for year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. After adjusting for AIFRS 2005 Adjustments of $41 million and the impact of exchange rate fluctuations, other operating income increased 6%. This was largely due to other income in The National Bank Retail, with growth across lending, card and transactional fees as well as commission income. UDC other income reduced, with performance impacted by the transition to a restructured sales team and strong competitive pressures.

- Operating expenses increased. Increases in frontline and customer support staff, salary increases, the cost of the New Zealand Commerce Commission settlement ($9 million), and the cost of operating domestic systems in New Zealand ($9 million) were partly offset by a 6% reduction in support staff and control of discretionary expenditure.

- Provision for credit impairment charge decreased $97 million from $103 million for year ended September 30, 2005 to $6 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $55 million less the impact of exchange rate fluctuations, provision for credit impairment decreased by $144 million. This was driven by both lower collective and individual provision charges, following a combination of increased lending volumes being offset by individual provisions raised for corporate accounts and exposures to the apple and pear export industry in 2005, an improved credit risk profile (an increased proportion of low risk residential and rural lending). Net impaired loans reduced, with credit conditions remaining generally benign.

Institutional

	2006 $M	2005 $M
Net interest income	2,069	1,390
Other operating income	1,260	1,685
Operating income	3,329	3,075
Operating expenses	(1,283)	(1,154)
Profit before credit impairment and income tax	2,046	1,921
Provision for credit impairment	(58)	(195)
Profit before income tax	1,988	1,726
Income tax expense and minority interest	(592)	(513)
Net profit	1,396	1,213

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**1,390**	
Fees recognised as an adjustment to yield	481	
Other	2	483
Net interest income (comparable AIFRS basis)	**1,873**	
Provision for credit impairment charge (statutory basis)	**(195)**	
Movement in credit impairment provision	59	
Provision for credit impairment charge (comparable AIFRS basis)	**(136)**	
Net interest income after provision for credit impairment charge (statutory basis)	**1,195**	
Total AIFRS adjustments	542	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**1,737**	
Other operating income (statutory basis)	**1,685**	
Fees recognised as an adjustment to yield	(481)	
Other operating income (comparable AIFRS basis)	**1,204**	
Operating expenses (statutory basis)	**(1,154)**	
Other		
Operating expenses (comparable AIFRS basis)	**(1,154)**	
Profit before income tax (statutory basis)	**1,726**	
Total in AIFRS profit before income tax adjustments	61	
Profit before income tax (comparable AIFRS basis)	**1,787**	
Income tax expense and minority interests (statutory basis)	**(513)**	
Tax on AIFRS adjustments	(16)	
Income tax expense and minority interests (comparable AIFRS basis)	**(529)**	
Net profit (statutory basis)	**1,213**	
AIFRS net profit adjustments	45	
Net profit (comparable AIFRS basis)	**1,258**	

Institutional comprises Debt & Transaction Services, Markets, Corporate and Structured Financing, Business banking, Corporate Banking and other (including Client Relationship group and Personal and Private Banking Asia).

Net profit increased by $183 million (15%) from $1,213 million for the year ended September 30, 2005 to $1,396 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $45 million after tax, net profit increased $138 million (11%) from $1,258 million for the year ended September 30, 2005 to $1,396 million for the year ended September 30, 2005. Other operating income increased by $254 million (8%) from $3,075 million for year ended September 30, 2006.

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We continued to invest in our business, with expenses growing as we lifted the skills base and improved systems. The balance sheet is being more actively managed, through mechanisms such as the recent successful Collateralised Loan Obligation (CLO), with risk weighted assets growing marginally in the second half. Credit quality remained strong throughout the year. All businesses achieved annual profit growth. Business Banking and Corporate Banking profit grew with sound lending and deposit growth, and a reduction in credit impairment expenses. Trade and Transaction Services profit increased from higher global Trade Finance and Clearing Services volumes. Corporate and Structured Financing profit increased as deal flow volumes increased and credit impairment expense reduced after the write-back of several individual provisions. Markets profit increased with continuing revenue growth from sales activity and a particularly strong first half trading result. These strong performances were offset by the Debt Product Group, where a net profit decline resulted from declining margins, constrained balance sheet growth and a modest increase in individual provisions after write-backs in 2005.

Significant factors affecting the result were:

- Net interest income grew by $679 million (49%) from $1,390 million for year ended September 30, 2005 to $2,069 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $483 million, net interest income increased $196 million (10%) from $1,873 million for year ended September 30, 2005 to $2,069 million for year ended September 30, 2006. Average net lending assets and average deposit volumes increased. The net interest margin decreased 19 basis points due to competition, run-off of higher margin assets and changes in business mix. Debt and Transaction Services increased due to higher deposit volumes and the release of revenue related to prior years, offset by margin compression in the lending portfolio. Business Banking increased with growth in average lending and average deposit, offsetting a decline in margins. Corporate Banking increased growth in average lending and average deposit offsetting a margin decline. Markets net interest income increased $47 million, from increased trading securities income and collateral volumes.

- Other operating income decreased $425 million (25%) from $1,685 million for year ended September 30, 2005 to $1,260 million for year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. After adjusting for AIFRS 2005 Adjustments of $481 million, other operating income increased by $56 million (5%). Higher custodian fees and foreign exchange revenue in Debt and Transaction Services was partially offset by mark to market adjustments on hedges of the lending book. Corporate and Structured Financing increased, with higher income from structured finance transactions. Business Banking and Corporate Banking grew due to higher volumes.

- Operating expenses increased 11% from $1,154 million for year ended September 30, 2005 to $1,283 million for year ended September 30, 2006, reflecting increased investment in personnel. Personnel numbers increased by 357, and we have focused on providing training for current staff and selective recruitment to cover skill gaps. We are also investing in new IT platforms in our Markets and Transaction Services businesses.

- Provision for credit impairment charge decreased by $137 million from $195 million for year ended September 30, 2005 to $58 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $59 million, provision for credit impairment decreased by $78 million. This was driven by both lower collective and individual provision charges, following a combination of improved credit quality and high debt recoveries. Net impaired loans increased largely due to two accounts in Australia and New Zealand being downgraded in the March 2006 half.

Partnerships & Private Bank

	2006 $M	2005 $M
Net interest income	73	52
Other operating income	190	179
Operating income	263	231
Operating expenses	(62)	(50)
Profit before credit impairment and income tax	201	181
Provision for credit impairment	(25)	(14)
Profit before income tax	176	167
Income tax expense and minority interest	(7)	3
Net profit	169	170

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**52**	
Fees recognised as an adjustment to yield	8	
Other	2	10
Net interest income (comparable AIFRS basis)	**62**	
Provision for credit impairment charge (statutory basis)	**(14)**	
Movement in credit impairment provision	(3)	
Provision for credit impairment charge (comparable AIFRS basis)	**(17)**	
Net interest income after provision for credit impairment charge (statutory basis)	**38**	
Total AIFRS adjustments	7	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**45**	
Other operating income (statutory basis)	**179**	
Fees recognised as an adjustment to yield	(8)	
Other	7	(1)
Other operating income (comparable AIFRS basis)	**178**	
Operating expenses (statutory basis)	**(50)**	
Other		
Operating expenses (comparable AIFRS basis)	**(50)**	
Profit before income tax (statutory basis)	**167**	
Total in AIFRS profit before income tax adjustments	6	
Profit before income tax (comparable AIFRS basis)	**173**	
Income tax expense and minority interests (statutory basis)	**3**	
Tax on AIFRS adjustments		
Income tax expense and minority interests (comparable AIFRS basis)	**3**	
Net profit (statutory basis)	**170**	
AIFRS net profit adjustments	6	
Net profit (comparable AIFRS basis)	**176**	

Net profit decreased $1 million (1%) from $170 million for the year ended September 30, 2005 to $169 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $6 million net profit decreased $7 million (4%) from $176 million for the year ended September 30, 2005 to $169 million for the year ended September 30, 2006. Strong underlying performance in the Cards and Private Bank businesses were offset by lower equity accounted earnings for PT Panin Bank and the expiration of transitional tax relief and lower capital investment earnings in INGA. The impact of exchange rate movements was immaterial. Significant influences on the result were:

- Overall net interest income increased $21 million (40%) from $52 million for year ended September 30, 2005 to $73 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $10 million, net interest income increased $11 million (18%), driven by strong volume growth in Indonesia Cards and the first full year of operations in Cambodia.

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- Overall, other operating income increased $11 million (6%) from $179 million for the year ended September 30, 2005 to $190 million for the year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $1 million, other operating income increased $12 million (7%). Other operating income from cards increased $12 million. A 37% increase in cards issued drove fee income up 62% in Indonesia Cards and contributed to significant growth in Metrobank equity accounted income. New partnerships increased income by $7 million driven by equity accounted income from Tianjin City Commercial Bank, and the first full year of operations in Cambodia with deposit volumes well ahead of expectations. ANZ Private Bank other income increased 41% reflecting the impact of cross sell initiatives. INGA income increased $4 million with a 12% increase in operating profit partly offset by the impacts of the expiration of transitional tax relief in 2005 and lower capital investment earnings net of the capital investment hedge. These increases were partially offset by a $15 million reduction in equity accounted income from PT Panin, reflecting the difficult economic conditions during the latter part of 2005 and reduced bond sales.

- Operating expenses increased 24% as a result of the first full year of operations in Cambodia, increased business activity in the Cards business in Indonesia and ongoing investment across the Private Bank and International Partnership businesses.

- Overall provision for credit impairment charge increased $11 million from $14 million for year ended September 30, 2005 to $25 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $3 million, provision for credit impairment charge increased $8 million largely due to regulatory changes in Indonesia impacting the cards portfolio.

- Income tax expense increased $10 million mainly due to the impact of the tax benefit from capital investment hedges in respect of INGA in 2005. ANZ ceased hedging INGA s capital investment earnings from October 1, 2005.

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Non-continuing businesses

	2006 $M	2005 $M
Net interest income	12	53
Other operating income	14	11
Operating income	26	64
Operating expenses	(5)	(24)
Profit before credit impairment and income tax	21	40
Provision for credit impairment	22	(7)
Profit before income tax	43	33
Income tax expense and minority interest	(5)	22
Net profit	38	55

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M
Net interest income (statutory basis)	**53**
Other	9
Net interest income (comparable AIFRS basis)	**62**
Provision for credit impairment charge (statutory basis)	**(7)**
Movement in credit impairment provision	104
Provision for credit impairment charge (comparable AIFRS basis)	**97**
Net interest income after provision for credit impairment charge (statutory basis)	**46**
Total AIFRS adjustments	113
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**159**
Other operating income (statutory basis)	**11**
Other	(4)
Other operating income (comparable AIFRS basis)	**7**
Operating expenses (statutory basis)	**(24)**
Other	
Operating expenses (comparable AIFRS basis)	**(24)**
Profit before income tax (statutory basis)	**33**
Total in AIFRS profit before income tax adjustments	109
Profit before income tax (comparable AIFRS basis)	**142**
Income tax expense and minority interests (statutory basis)	**22**
Tax on AIFRS adjustments	(38)
Income tax expense and minority interests (comparable AIFRS basis)	**(16)**
Net profit (statutory basis)	**55**
AIFRS net profit adjustments	71
Net profit (comparable AIFRS basis)	**126**

Non-continuing businesses comprises the London headquartered structured finance business, the run-off of New Zealand conduit transactions and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.

Net profit reduced by $17 million (31%) from $55 million for year ended September 30, 2005 to $38 million for year ended September 30, 2006. Adjusting for AIFRS, 2005 adjustments of $71 million after tax, net profit reduced by $88 million (70%) from $126 million in September 30, 2005 to $38 million in September 30, 2006. This reduction was driven by:

- Net interest income reduced by $41 million (77%) from $53 million for year ended September 30, 2005 to $12 million for year ended September 30, 2006. After adjusting for AIFRS adjustments of $9 million, net interest income reduced by $50 million reflecting a reduction in average lending volumes.

- Other operating income of $14 million largely represented a $12 million release of provisions created on the sale of the London headquartered project finance business following the settlement of sale warranties provided to Standard Chartered Bank and a $4 million gain on sale of power assets.

- Operating expenses reduced by $19 million, with the remaining expenses being legal and restructuring costs associated with the legacy balances in the London headquartered project finance business.

- The provision for credit impairment charge reduced by $29 million to a credit of $22 million. After adjusting for AIFRS 2005 Adjustments of $104 million, the credit arising on the provision for credit impairment reduced $75 million, this arose from the run-off of legacy assets, releasing collective provisions, and recoveries. The reduction in this benefit reflects a lower volume of run-off in 2006.

Group Center

	2006 $ M	2005 $ M
Net interest income	257	235
Other operating income	15	27
Operating income	272	262
Operating expenses	(200)	(307)
Profit before credit impairment and income tax	72	(45)
Provision for credit impairment		
Profit before income tax	72	(45)
Income tax expense and minority interest	(27)	34
Net profit	45	(11)

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**235**	
Reclassified hybrid financial instruments	(66)	
Other	(15)	(81)
Net interest income (comparable AIFRS basis)	**154**	
Provision for credit impairment charge (statutory basis)		
Movement in credit impairment provision		
Provision for credit impairment charge (comparable AIFRS basis)		
Net interest income after provision for credit impairment charge (statutory basis)	**235**	
Total AIFRS adjustments	(81)	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**154**	
Other operating income (statutory basis)	**27**	
Derivatives and hedging	44	
Other	3	47
Other operating income (comparable AIFRS basis)	**74**	
Operating expenses (statutory basis)	**(307)**	
Other		
Operating expenses (comparable AIFRS basis)	**(307)**	
Profit before income tax (statutory basis)	**(45)**	
Total in AIFRS profit before income tax adjustments	(34)	
Profit before income tax (comparable AIFRS basis)	**(79)**	
Income tax expense and minority interests (statutory basis)	**34**	
Tax on AIFRS adjustments	(10)	
Income tax expense and minority interests (comparable AIFRS basis)	**24**	
Net profit (statutory basis)	**(11)**	
AIFRS net profit adjustments	(44)	
Net profit (comparable AIFRS basis)	**(55)**	

Group Center comprises Group People Capital, Group Risk Management, Group Treasury, Group Strategic Development, Group Financial Management, Shareholder Functions and Operations, Technology and Shared Services and Internal Audit.

Net profit (excluding significant items) increased $64 million from a loss of $11 million for year ended September 30, 2005 to a profit of $53 million for year ended September 30, 2006. Adjusting the results for AIFRS 2005 Adjustments amounting to $44 million after tax, net profit increased by $108 million from a loss of $55 million for year ended September 30, 2005 to a profit of $53 million for year ended September 30, 2006. This increase was driven by:

- Operating income increased by $59 million. After adjusting for AIFRS 2005 Adjustments of $34 million, operating income increased by $93 million. This was primarily due to a $58 million increase in income on contracts put in place to hedge NZD and USD denominated earnings. These gains are largely offset in the translation of the results of New Zealand Banking. Operating income also increased due to $38 million of additional interest received on tax refunds.

- Operating expenses reduced by $68 million mainly due to reductions in incremental and non-incremental New Zealand integration costs, other project costs and lower non-lending losses. The increase in employee numbers is largely driven by the transitional impact of offshoring technology and back office work to India.

Results by Region

Years ended September 30	**2006 $M**	**2005 $M**
Operating profit before income tax		
Domestic Markets		
Australia	3,472	2,950
New Zealand	1,241	1,000
	4,713	3,950
Overseas	501	448
	5,214	4,398
Income tax expense		
Domestic Markets		
Australia	(984)	(803)
New Zealand	(409)	(303)
	(1,393)	(1,106)
Overseas	(129)	(114)
Income tax expense	(1,522)	(1,220)
Outside equity interest		
New Zealand	(2)	(1)
Overseas	(2)	(2)
Operating profit after income tax		
Domestic Markets		
Australia	2,488	2,147
New Zealand	830	696
	3,318	2,843
Overseas	370	332
	3,688	3,175

Australia

	2006 $M	2005 $M
Net interest income	4,761	3,818
Other operating income	2,090	2,391
Operating income	6,851	6,209
Operating expenses	(2,966)	(2,847)
Profit before credit impairment and income tax	3,885	3,362
Provision for credit impairment	(412)	(416)
Profit before income tax	3,473	2,946
Income tax expense and minority interest	(985)	(798)
Net profit	2,488	2,148

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**3,818**	
Fees recognised as an adjustment to yield	515	
Reclassified hybrid financial instruments	(66)	
Other	(5)	444
Net interest income (comparable AIFRS basis)	**4,262**	
Provision for credit impairment charge (statutory basis)	**(416)**	
Movement in credit impairment provision	(36)	
Provision for credit impairment charge (comparable AIFRS basis)	**(452)**	
Net interest income after provision for credit impairment charge (statutory basis)	**3,402**	
Total AIFRS adjustments	408	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**3,810**	
Other operating income (statutory basis)	**2,391**	
Fees recognised as an adjustment to yield	(525)	
Derivatives and hedging	44	
Other	11	470
Other operating income (comparable AIFRS basis)	**1,921**	
Operating expenses (statutory basis)	**(2,847)**	
Other		
Operating expenses (comparable AIFRS basis)	**(2,847)**	
Profit before income tax (statutory basis)	**2,946**	
Total in AIFRS profit before income tax adjustments	(62)	
Profit before income tax (comparable AIFRS basis)	**2,884**	
Income tax expense and minority interests (statutory basis)	**(798)**	
Tax on AIFRS adjustments		
Income tax expense and minority interests (comparable AIFRS basis)	**(798)**	
Net profit after income tax (statutory basis)	**2,148**	
AIFRS net profit adjustments	(62)	
Net profit after income tax (comparable AIFRS basis)	**2,086**	

Selected Australian economic indicators are shown below:

Year ended June 30	2006	2005
Nominal rates of growth (1) in Gross Domestic Product	6.3 %	7.3 %
Inflation rates	4.0 %	2.5 %
Real rates of growth in Gross Domestic Product (2)	2.9 %	2.6 %

Source: Australian National Accounts: National Income and Expenditure, ABS Cat. no. 5206.0 and 6401.0

(1) Not restated for the effects of changes to price levels.

(2) Nominal rates of Gross Domestic Product restated for the effect of changes to price levels.

The real rate of growth in Gross Domestic Product for the year ending June 30, 2006 is 2.9% (Australian National Accounts: Income and Expenditure).

Net profit increased $340 million (16%) from $2,148 million for year ended September 30, 2005 to $2,488 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments amounting to $62 million, net profit increased by $402 million (19%) from $2,086 million for year ended September 30, 2005 to $2,488 million for year ended September 30, 2006. Significant influences on the result were:

- Net interest income increased $943 million (25%) from $3,818 million for the year ended September 30, 2006 to $4,761 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $444 million, net interest income increased by $499 million (12%). Average net advances increased, driven by growth in Consumer Finance, Regional Rural and Small Business Bank, Mortgages, Business Banking, Corporate Banking and Debt Product Group. Average deposit and other borrowing volumes increased driven by Regional Rural and Small Business Banks, Esanda, Banking Products, Corporate Banking, Business Banking and Group Treasury. Net interest margin decreased 5 basis points with a change in the asset mix, increased volumes of wholesale funding and competitive pressures in the lending books of Mortgages, Consumer Finance, Debt Products Group, Business Banking and Corporate Banking, partly offset by higher earnings from foreign exchange revenue hedging, interest received on tax refunds from the ATO and release of revenue related to prior years in Trade and Transaction Services.

- Other operating income decreased by $301 million (13%) from $2,391 million for the year ended September 30, 2005 to $2,090 million for the year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. Adjusting for AIFRS 2005 Adjustments of $470 million, other operating income increased $169 million (9%). Personal increased 8% due to volume growth initiatives in Consumer Finance, higher transaction volumes in Banking Products and higher sales from financial planners in Investment and Insurance Products. Institutional increased due to increased volumes in Trade and Transaction Services, higher deal fees in Corporate and Structured Financing and higher Markets earnings with increased activity and positioning to take advantage of interest rate and currency volatility.

- Operating expenses increased by $119 million (4%) from $2,847 million for the year ended September 30, 2005 to $2,966 million for the year ended September 30, 2006, reflecting an increased investment in frontline staff with a 4% increase in personnel numbers, the footprint expansion in Personal through the addition of 25 more branches and a further 330 ATMs, annual salary increases, and investment in new IT platforms in Markets and Transactional Services businesses. This was offset by a credit of $113 million relating to the settlement of the NHB insurance claim (significant item).

- Provision for credit impairment decreased by $4 million (1%) from $416 million for the year ended September 30, 2005 to $412 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $36 million, provision for credit impairment decreased $40 million (9%). This was driven by a combination of increased lending volumes, moderately higher risk in credit cards and an increase in Institutional, due to two accounts downgraded in the March 2006 half, partly offset by recoveries in the non-continuing businesses, being offset by an improved credit risk profile in most portfolios.

New Zealand

	2006 $M	2005 $M
Net interest income	1,724	1,588
Other operating income	698	745
Operating income	2,422	2,333
Operating expenses	(1,166)	(1,215)
Profit before credit impairment and income tax	1,256	1,118
Provision for credit impairment	(16)	(114)
Profit before income tax	1,240	1,004
Income tax expense and minority interest	(410)	(309)
Net profit	830	695

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M	
Net interest income (statutory basis)	**1,588**	
Fees recognised as an adjustment to yield	44	
Other	2	46
Net interest income (comparable AIFRS basis)	**1,634**	
Provision for credit impairment charge (statutory basis)	**(114)**	
Movement in credit impairment provision	(30)	
Provision for credit impairment charge (comparable AIFRS basis)	**(144)**	
Net interest income after provision for credit impairment charge (statutory basis)	**1,474**	
Total AIFRS adjustments	16	
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	**1,490**	
Other operating income (statutory basis)	**745**	
Fees recognised as an adjustment to yield	(44)	
Other	(13)	(57)
Other operating income (comparable AIFRS basis)	**688**	
Operating expenses (statutory basis)	**(1,215)**	
Other		
Operating expenses (comparable AIFRS basis)	**(1,215)**	
Profit before income tax (statutory basis)	**1,004**	
Total AIFRS profit before income tax adjustments	(41)	
Profit before income tax (comparable AIFRS basis)	**963**	
Income tax expense and minority interests (statutory basis)	**(309)**	
Tax on AIFRS adjustments	16	
Income tax expense and minority interests (comparable AIFRS basis)	**(293)**	
Net profit (statutory basis)	**695**	
AIFRS net profit adjustments	(27)	
Net profit (comparable AIFRS basis)	**668**	

Net profit increased $135 million (19%) from $695 million for year ended September 30, 2005 to $830 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments amounting to $27 million, net profit increased $162 million (24%) from $668 million for year ended September 30, 2005 to $830 million for year ended September 30, 2006. The devaluation of the NZD exchange rate has impacted these results with the average NZD exchange rate reducing by 5.4% during the year. Excluding exchange rate impacts and on a comparable AIFRS basis profit after tax increased $196 million (31%) from $634 million for year ended September 30, 2005 to $830 million for year ended September 30, 2006.

Significant influences on the result were:

- Net interest income increased $136 million (9%) from $1,588 million for the year ended September 30, 2005 to $1,724 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $46 million, net interest income increased $90 million (6%), excluding the impact of exchange rates net interest income increased 11%. This includes an additional $66 million resulting from the issue of preference share capital in September 2005 to repay intercompany debt as a result of amendments to New Zealand thin capitalization rules. Lending volumes increased with growth robust across all businesses, except for a reduction in UDC (impacted by intense competition and sales force restructuring), and the roll off in discontinuing businesses. Net interest margins declined mainly driven by competition and product mix impacts (customer migration from variable rate to fixed rate mortgages, the increasing requirement for wholesale funding, and growth in lower margin products). This was partly offset by the benefit of the additional preference share capital (equivalent of 9 basis points).

- Other operating income decreased $47 million (6%) from $745 million for the year ended September 30, 2005 to $698 million for the year ended September 30, 2006. The decrease was mainly due to the reclassification of fee income which was recognized as an adjustment to yield under AIFRS 2005 Adjustments. Adjusting for AIFRS 2005 Adjustments of $57 million, other operating income increased by $10 million (1%), excluding the impact of exchange rates the increase was 7%. This was largely due to the strong result in Institutional mainly from the Markets business, as well as income resulting from the MasterCard Initial Public Offer. The National Bank Retail increased, with growth across lending, card and transactional fees as well as commission income.

- Operating expenses decreased $49 million (4%) from $1,215 million for the year ended September 30, 2005 to $1,166 million for the year ended September 30, 2006. Excluding the impact of exchange rate movements, operating expenses increased 1%. Increases in frontline and customer support staff numbers, salary increases, the cost of the Commerce Commission settlement ($9 million), and the cost of operating domestic systems in New Zealand ($9 million) were partly offset by a 6% reduction in the number of support staff, control of discretionary expenditure, and lower ANZ National Bank incremental and non-incremental integration costs with the project completed during the year.

- Provision for credit impairment charge decreased by $98 million (86%) from $114 million for the year ended September 30, 2005 to $16 million for the year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $30 million, the provision for credit impairment fell by $128 million (89%). This was driven by both lower collective and individual provision charges, following a combination of increased lending volumes being offset by individual provisions raised for corporate accounts and exposures to the apple and pear export industry in 2005, an improved credit risk profile (an increased proportion of low risk residential and rural lending) and collective provisions raised in 2005 for portfolio deterioration.

- The effective tax rate increased, largely due to the run off of structured finance deals.

Overseas Markets

	2006 $M	**2005 $M**
Net interest income	458	412
Other operating income	421	442
Operating income	879	854
Operating expenses	(399)	(356)
Profit before credit impairment and income tax	480	498
Provision for credit impairment	21	(50)
Profit before income tax	501	448
Income tax expense and minority interest	(131)	(116)

Net profit	370	332

The following table reconciles comparative AIFRS (statutory) numbers for 2005 to reflect the AIFRS 2005 Adjustments, including the impact of AASB 139, Financial Instruments: Recognition and Measurement . ANZ believes that this reconciliation provides adjusted AIFRS information for 2005 that is more comparable with ANZ s 2006 AIFRS results.

	Full year Sep 05 $M			
	Asia	**Pacific**	**Other**	**Total Overseas**
Net interest income (statutory basis)	115	106	191	412
Fees recognised as an adjustment to yield	5	4	54	63
Net interest income (comparable AIFRS basis)	120	110	245	475
Provision for credit impairment charge (statutory basis)	(21)	(10)	(19)	(50)
Movement in credit impairment provision	14	(7)	74	81
Provision for credit impairment charge (comparable AIFRS basis)	(7)	(17)	55	31
Net interest income after provision for credit impairment charge (statutory basis)	94	96	172	362
Total AIFRS adjustments	19	(3)	128	144
Net interest income after provision for credit impairment charge (comparable AIFRS basis)	113	93	300	506
Other operating income (statutory basis)	141	143	158	442
Fees recognised as an adjustment to yield	(5)	(4)	(54)	(63)
Other		(3)	10	7
Other operating income (comparable AIFRS basis)	136	136	114	