AUSTRALIA & NEW ZEALAND BANKING GROUP LTD
Form 20-F
January 08, 2007

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	%

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(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.

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.

- 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	%

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(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.

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.

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- 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.

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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

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(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.

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.

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.

- 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.

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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

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(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.

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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

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(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.

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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.

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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

(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.

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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.

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:

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- 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

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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	386
Operating expenses (statutory basis)	(126)	(111)	(119)	(356)
Other				
Operating expenses (comparable AIFRS basis)	(126)	(111)	(119)	(356)
Profit before income tax (statutory basis)	109	128	211	448
Total AIFRS profit before income tax adjustments	14	(10)	84	88
Profit before income tax (comparable AIFRS basis)	123	118	295	536
Income tax expense and minority interests (statutory basis)	(14)	(38)	(64)	(116)
Tax on AIFRS adjustments	(2)	3	(31)	(30)
Income tax expense and minority interests (comparable AIFRS basis)	(16)	(35)	(95)	(146)
Net profit (statutory basis)	95	90	147	332
AIFRS net profit adjustments	12	(7)	53	58
Net profit (comparable AIFRS basis)	107	83	200	390

	2006 $M	**2005 $M**
Asia	125	95
Pacific	113	90
Other	132	147
Total	370	332

Profit after tax from overseas markets increased 11% to $370 million.

Asia

	2006 $M	**2005 $M**
Net interest income	169	115
Other operating income	154	141
Operating income	323	256
Operating expenses	(151)	(126)
Profit before credit impairment and income tax	172	130
Provision for credit impairment	(21)	(21)
Profit before income tax	151	109
Income tax expense and minority interest	(26)	(14)

Net profit	125	95

Profit after tax increased $30 million (32%) from $95 million for year ended September 30, 2005 to $125 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments of $12 million, profit after tax increased by $18 million (17%) from $107 million for year ended September 30, 2005 to $125 million for year ended

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September 30, 2006. The depreciation of the AUD increased profit growth by 2% ($2 million). Significant influences on the result were:

- Net interest income increased $54 million (47%) from $115 million for year ended September 30, 2005 to $169 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $5 million, net interest income increased by $49 million (40%) reflecting improved Treasury performance in Singapore, Card volumes in Indonesia, improved deposit margins, particularly in Vietnam, and the first full year of operations in Cambodia. Loan and deposit volumes also grew across the region, reflective of increased economic activity.

- Other external operating income increased $13 million (9%) from $141 million for year ended September 30, 2005 to $154 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $5 million, other external operating income increased $16 million (12%). This was due to higher Cards volumes in Indonesia, higher foreign exchange revenue, increased equity accounted income from Metrobank Card Corporation and Tianjin City Commercial Bank, offset by reduced Equity accounted income in PT Panin Bank.

- Operating expenses increased 20% as a result of costs associated with building partner relationships in Indonesia, China and Vietnam, the first full year of operating costs in Cambodia and new product specialists in Asia.

- Provision for credit impairment charge remained flat. After adjusting for AIFRS 2005 Adjustments of $14 million, provision for credit impairment increased by $14 million. The individual provision charge increased largely due to Singapore and Indonesia, offset by write-backs in Hong Kong and Philippines.

- Income tax expense increase reflects increased profit and the impact of reduced equity accounted income from PT Panin Bank.

Pacific

	2006 $M	2005 $M
Net interest income	138	106
Other operating income	148	143
Operating income	286	249
Operating expenses	(128)	(111)
Profit before credit impairment and income tax	158	138
Provision for credit impairment		(10)
Profit before income tax	158	128
Income tax expense and minority interest	(45)	(38)
Net profit	113	90

Profit after tax increased $23 million (26%) from $90 million for year ended September 30, 2005 to $113 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments amounting to $7 million, profit after tax increased by $30 million (36%) from $83 million for year ended September 30, 2005 to $113 million for year ended September 30, 2006. The depreciation of the AUD increased profit growth by 2% ($2 million). Significant influences on the result were:

- Net interest income increased $32 million (30%) from $106 million for year ended September 30, 2005 to $138 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $4 million, net interest income increased by $28 million (25%). This reflected growth in lending volumes in Fiji, Samoa and PNG.

- Other external operating income increased $5 million (3%) from $143 million for year ended September 30, 2005 to $148 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $7 million, other operating income increased by $12 million (9%). This was due to growth in lending volumes in Fiji, Samoa, PNG and Vanuatu and higher foreign exchange revenue.

- Operating expenses increased 15% predominantly due to investment in our Operational Excellence agenda and expansion of footprint.

- Provision for credit impairment charge decreased by $10 million. After adjusting for AIFRS 2005 Adjustments of $7 million, provision for credit impairment decreased by $17 million. This was predominantly due to the writeback of two individual provisions in Fiji.

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Other

	2006 $M	2005 $M
Net interest income	151	191
Other operating income	119	158
Operating income	270	349
Operating expenses	(120)	(119)
Profit before credit impairment and income tax	150	230
Provision for credit impairment	42	(19)
Profit before income tax	192	211
Income tax expense and minority interest	(60)	(64)
Net profit	132	147

Other comprises United Kingdom, Europe, United States and Middle East & South East Asia (including Bangalore).

Profit after tax decreased $15 million (10%) from $147 million for year ended September 30, 2005 to $132 million for year ended September 30, 2006. Adjusting for AIFRS 2005 Adjustments amounting to $53 million profit after tax decreased $68 million (34%) from $200 million for year ended September 30, 2005 to $132 million for year ended September 30, 2006. The impact of exchange rates was immaterial. Significant influences on the result were:

- Net interest income decreased $40 million (21%) from $191 million for year ended September 30, 2005 to $151 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $54 million, net interest income decreased $93 million (38%). This was mainly due to reduced earnings on capital of $70 million following a change in the New Zealand funding structure resulting in repayment of intra-group debt and a reduction in the non-continuing business in the United States.

- Other operating income decreased by $39 million (25%) from $158 million for year ended September 30, 2005 to $119 million for year ended September 30, 2006. After adjusting for AIFRS 2005 Adjustments of $44 million, other operating income increased $5 million (4%). This was due largely to the profit on the sale of a power asset in the United States and the settlement of warranties on the sale of the London headquartered project and structured finance business offset by lower foreign exchange earnings and fees.

- Operating expenses increased 1%. The rise in staff numbers is attributable to increases in operations and technology staff in India, however these costs were charged to other businesses.

- Provision for credit impairment charge decreased by $61 million to a credit balance of $42 million. After adjusting for AIFRS 2005 Adjustments of $74 million, the credit balance on the provision for credit impairment decreased by $13 million (24%). This was mainly as a result of lower recoveries in the 2006 financial year. Net impaired loans reduced due to the realization of a power exposure in the United States.

ANZ has a small representative office in Tehran, Iran. ANZ's historical contacts with Iran have consisted almost exclusively of trade financing for commodity import and export, non-US dollar correspondent accounts with Iranian Government banks, project finance and foreign exchange services.

In quantitative terms, ANZ s Iran Country Limit, at its peak in August 2005, was the equivalent of US$310 million, as compared to total cross-border country limits at that time of US $84.4 billion equivalent and the Group s total assets of US$218 billion. ANZ s Iran country limit has been progressively reduced since that time. As of September 30, 2006, ANZ s country limit for Iran had been reduced to the equivalent of US$134 million. As of December, 2006 ANZ s country limit for Iran had been reduced to the equivalent of US$ 34 million.

ANZ does not have any branches or representative offices in Sudan.

ANZ has some indirect trade finance exposure to Sudan, where a financial institution not located in Sudan is the direct source of payments to ANZ. At its peak, in June 2006, this potential exposure to Sudan was the equivalent of US$100 million and related exclusively to trade finance for an Australian customer exporting grain to Sudan. As of December, 2006 this contingent trade finance exposure to Sudan had been reduced to the equivalent of US$60 million. No new trade finance exposures involving Sudan have been accepted by ANZ since January 2006.

ANZ does not have any branches or representative offices in Cuba. ANZ s maximum permitted exposure to Cuba is the equivalent of US$26.5 million. ANZ s contact with Cuba has been limited to the financing of the export of dairy product by a New Zealand customer and the import of nickel by a Chinese customer.

Cuba, Sudan and Iran have been designated by the United States as State sponsors of terrorism and are subject to United States economic sanctions. Iran is currently also subject to United Nations sanctions.

Balance Sheet

Years ended September 30	2006 $M	2005 $M
Assets		
Liquid assets & due from other financial institutions	24,684	17,949
Trading securities and available-for-sale assets	19,832	16,327
Derivative financial assets	9,164	6,511
Net loans and advances	255,410	232,490
Customers liability for acceptances	13,435	13,449
All other assets	13,246	14,159
Total Assets	335,771	300,885
Liabilities		
Due to other financial institutions	14,118	12,027
Deposits and other borrowings	204,794	190,322
Derivative financial liabilities	8,753	7,006
Liability for acceptances	13,435	13,449
Creditors and other liabilities	10,679	7,618
Bonds, notes and loan capital	61,176	48,210
All other liabilities	2,910	2,715
Total Liabilities	315,865	281,347
Net Assets	19,906	19,538

Liquid Assets & Due From Other Financial Institutions

Liquid assets increased $3.4 billion (29%) from $11.6 billion for year ended September 30, 2005 to $15.0 billion for year ended September 30, 2006. Australia increased $3.7 billion from customer-related repurchase agreement activity in Institutional and increased liquidity in Group Treasury. Overseas Markets decreased $0.6 billion due to a switch from bank certificates of deposit to more attractive available-for-sale assets in the United Kingdom.

Due from other financial institutions increased $3.3 billion (52%) from $6.4 billion for year ended September 30, 2005 to $9.7 billion for year ended September 30, 2006 due mainly to an increase in volumes of interbank lending in Australian Treasury, Singapore and New Zealand partially offset by a decrease in United Kingdom.

Trading and Available-For-Sale Assets

Trading securities volumes increased $2.9 billion (46%) from $6.3 billion for year ended September 30, 2005 to $9.2 billion for year ended September 30, 2006 due largely to a strategic decision in Institutional to be more competitive in the Debt Capital Markets with greater focus on supporting customer issuance and investment needs.

Available-for-sale assets include assets previously classified as investment securities (under AGAAP) and loans and advances and other assets that are available-for-sale. These assets are measured at fair value. Available-for-sale asset volumes increased $0.6 billion to $10.6 billion for year ended September 30, 2006 due to the reclassification of $1.1 billion assets from net loans and advances and other assets on October 1, 2005 on adoption of AIFRS and an increase in available-for-sale loans in Institutional Australia. This is partially offset by a decrease in Corporate and Structured Finance following the de-consolidation of two special purpose vehicles.

Derivative Financial Assets

Derivative assets increased $2.7 billion from $6.5 billion for year ended September 30, 2005 to $9.2 billion for year ended September 30, 2006 driven principally by increased volatility in exchange rates, notably the significant depreciation in the NZD during the year and increased trading activity.

Net Loans, Advances and Acceptances

Net loans and advances increased $22.9 billion (10%) from $232.5 billion for year ended September 30, 2005 to $255.4 billion in the fixed year to September 30, 2006. Excluding the impact of exchange rate movements (-$2.1 billion) and the impact of adopting AIFRS (-$1.5 billion, resulting from changes in credit provisioning and the reclassification to available-for-sale), the increase was $26.5 billion (12%).

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Growth in Australia was $17.1 billion (11%) from $160.1 billion for year ended September 30, 2005 to $177.2 billion for year ended September 30, 2006. After adjusting 2005 to a fully comparable AIFRS basis, growth was $18.1 billion (11%):

- Personal increased as a result of growth in housing loans. Consumer Finance increased, reflecting the success of the low rate MasterCard product. Esanda increased, with solid new business writings partly offset by the natural run-off of assets. Investment and Insurance Products grew (due to growth in margin lending volumes and uptake of new products) and Regional & Rural Banking grew.

- Institutional increased largely in Debt Products Group, with growth, driven by increased demand for funding of mergers and acquisition activity. Business Banking increased driven by continued business momentum and Corporate Banking grew with growth in asset finance products and variable rate term lending. Corporate and Structured Financing increased (due to increased project finance and structured debt activity) and volumes in Trade and Transaction Services increased as a result of growth in overdrafts.

New Zealand grew by $4.7 billion (7%) from $63.6 billion for year ended September 30, 2005 to $68.3 billion for year ended September 30, 2006. However, after excluding the impact of exchange rates and impact of adopting AIFRS, growth was $7.3 billion (12%), with increases in NBNZ Retail, ANZ Retail, Rural Banking and Corporate & Commercial Banking.

Overseas Markets grew in Asia and Pacific.

All Other Assets

Other assets reduced $1.0 billion due mainly to lower assets awaiting settlement in New Zealand.

Due to Other Financial Institutions

Due to other financial institutions increased $2.1 billion (18%) from $12.0 billion for year ended September 30, 2005 to $14.1 billion for year ended September 30, 2006. Australia increased $3.3 billion principally in the Markets business in Institutional with increased interbank repurchase agreement activity, partly offset by decreases in New Zealand and United Kingdom.

Deposits and Other Borrowings

Deposits and other borrowings increased $14.5 billion (8%) from $190.3 billion for year ended September 30, 2005 to $204.8 billion as for year ended September 30, 2006. Excluding the impact of exchange rate movement, the increase was $16.1 billion. After adjusting for exchange rate movements, Australia increased $9.3 billion (8%), largely as a result of increases in the following businesses:

- Institutional increased $4.1 billion (11%), with increased deposits in Debt and Transaction Services ($4.0 billion) following the Balance Sheet Collateralized Loan Obligation issuance ($2.2 billion) and growth in current accounts, Institutional & Corporate Relationships ($1.7 billion) and Markets ($0.7 billion), partly offset by a reduction in deposits in Corporate and Structured Financing ($2.3 billion).

- Personal increased $6.3 billion (11%) mainly due to the growth in cash management account products and term deposit balances (in both Banking Products ($4.3 billion) and Rural & Small Business Banking ($0.8 billion)), and increased issuance of commercial paper to meet funding requirements in Esanda ($0.8 billion).

- Treasury reduced $1.1 billion, largely due to a reduced requirement for short term domestic funding.

New Zealand increased $2.8 billion (5%), largely in Institutional ($4.4 billion) and Retail ($2.2 billion) following growth in current accounts bearing interest and term deposits. This is partially offset by a reduction in Treasury ($3.8 billion) where a switch has occurred from short term commercial paper and certificates of deposit to the longer term issuance of EMTNs.

Overseas Markets increased by $4.0 billion largely due to increased term deposits in Asia ($1.6 billion) and increased certificates of deposit in America ($1.5 billion) and United Kingdom ($0.4 billion).

Derivative Financial Liabilities

Derivative liabilities increase (principally the significant movement in NZD during the year) and increased trading activities.

Creditors and Other Liabilities

Payables and other liabilities increased $3.1 billion (40%) from $7.6 billion for year ended September 30, 2005 to $10.7 billion as for year ended September 30, 2006, with an increase in securities lending volumes in Institutional and an increase in liabilities awaiting settlement in Treasury.

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Bonds, Notes and Loan Capital

Bonds and notes increased $11.0 billion (28%) from $39.1 billion for year ended September 30, 2005 to $50.1 billion as for year ended September 30, 2006. Excluding exchange rate movements, bonds and notes increased by $7.1 billion (22%) in Australia and $4.1 billion (68%) in New Zealand, in response to increased term funding requirements.

Loan capital increased $2.0 billion (22%) from $9.1 billion for year ended September 30, 2006 to $11.1 billion as for year ended September 30, 2006 in response to term funding requirements and the reclassification of ANZ StEPS ($1.0 billion) from equity to debt on adoption of AIFRS on October 1, 2005.

Capital Resources

ANZ aims to manage its capital base in accordance with the following key objectives and policies:

- Capital levels are commensurate with the risk in the business;
- Capital levels are consistent with ANZ maintaining its preferred credit rating category of AA;
- Capital levels are maintained in accordance with Australian Prudential Regulation Authority s (APRA) prudential requirements;
- Capital is managed in a stable and prudent manner to maximize shareholder returns; and
- A well-diversified capital investor base is maintained.

These objectives were achieved during the 2006 financial year through: regular measurement and modeling of ANZ s capital base (both under existing conditions and different scenarios) to ensure that ANZ maintains capital levels in excess of the required capital calculated under models which quantify the economic risks of the business; periodic contact with the APRA and the Rating Agencies (i.e. Standard & Poors and Moodys), to discuss ANZ s capital levels against current minimum requirements and aiming to issue capital instruments to a wide variety of investor classes across multiple jurisdictions.

ANZ uses the Adjusted Common Equity (ACE) ratio as its principal capital management ratio measure. The ACE ratio is defined as ACE capital (Tier 1 capital less the aggregate of Hybrid Tier 1 capital (at current FX rates), total capital deductions and APRA transitional relief) as a percentage of risk-weighted assets. ACE is supplemented with Hybrid Tier 1 capital and Tier 2 subordinated debt issuances to meet the APRA prudential requirements. ANZ has a target range of 4.0% to 4.75% for the ACE ratio and generally undertakes capital management initiatives (e.g. issue or repurchase ordinary shares), when the ratio approaches or exceeds either end of the target.

Based upon current profitability, dividend payout ratio and participation rates in the respective share issuance plans, ANZ generates sufficient ACE each year to fund organic growth of ANZ s balance sheet and minor strategic acquisitions. ACE required to fund major strategic transactions would be through issuances of ordinary shares, either through a private placement or a public issue depending upon the size of the funding required. ANZ has a presence, and access to global markets, through existing Australian, New Zealand, US and European programs or precedents that enable it to issue Tier 1 capital, Tier 2 capital and senior debt into these markets.

Throughout the 2006 and 2005 financial years, ANZ maintained compliance with the minimum Tier 1 and Total Capital requirements set by APRA as well as applicable capitalisation rates set by local regulators in countries where ANZ operates branches and subsidiaries.

Capital Management

Years ended September 30	**2006 $M**	**2005 $M**
Shareholders equity (including outside equity interests)	19,906	19,538
Loan capital (subordinated debt)	11,126	9,137
Total	31,032	28,675
Liabilities excluding loan capital	304,739	272,210
Total assets	335,771	300,885
Risk weighted assets	240,219	219,573
Tier 1 capital	16,357	15,157
Tier 2 capital	10,123	8,574
Deductions	(1,073)	(784)
Total qualifying capital	25,407	22,947
	%	%
Tier 1 capital ratio	6.8	6.9
Tier 2 capital ratio	4.2	3.9
Deductions	(0.4)	(0.3)
Total capital adequacy ratio	10.6	10.5
Adjusted common equity (ACE) (1)	4.7	5.1

(1) Tier 1 capital, less Hybrid Tier 1 capital (converted at balance date rates), less deductions less Tier 1 transitional AIFRS capital relief.

The ACE ratio at 4.7% remained at the upper end of ANZ s targeted capital range. During the fiscal year ended September 30, 2006, the ACE ratio declined 39 basis points, principally due to:

- New/additional capital deductions of $716 million from adopting AIFRS and APRA s amendments to the prudential standards on July 1, 2006 (-33 basis points);
- Net profits after preference share dividends of $3.7 billion (+167 basis points);
- Ordinary share dividend payments and commitments (net of ordinary share issuance under the Bonus Option Plan and Dividend Reinvestment Plan) of $2.1 billion (-95 basis points);
- Increase in risk weighted assets, excluding the impact of exchange rate movements (-47 basis points);
- Increase in investment/profit retention in funds management businesses and associates (-20 basis points), principally due to capital injections into PT Panin Bank Indonesia TBK and Tianjin City Commercial Bank Limited, and profit retention within ING joint ventures;
- Buy-back of ordinary equity of $146 million (-7 basis points); and
- Other (-4 basis points), which includes exchange rate movements (principally due to a weaker NZ dollar), increase in defined pension liabilities, 1st loss facility for Collateralized Loan Obligation (CLO); this is offset by share issuances to staff and option conversions.

As the new/additional capital deduction from adopting AIFRS and APRA s amendments to the prudential standards on July 1, 2006, flowed through to ACE capital, yet did not reflect a change in the underlying economic risk profile of ANZ, the Group revised its ACE capital target down to 4.00% to 4.75%, from 4.50% to 5.00% in October 2006. The range was expanded to 75 basis points to allow for short-term flexibility (e.g. due to increased volatility as a result of reporting under AIFRS).

Tier 1 capital ratio declined 9 basis points from 6.90% to 6.81%, due to the movement in ACE capital (discussed above), with the exceptions being:

- The new/additional capital deductions of $716 million were offset by transitional Tier 1 relief of the same amount (+33 basis points), which expires January 2008;

- Increase in risk weighted assets, excluding the impact of exchange rate movements (-69 basis points);

- Lower deductions for funds management businesses and associates (+10 basis points), due to part of capital outlays representing net tangible assets in the businesses acquired (and hence being a total capital deduction rather than a Tier 1 deduction);

- Lower adverse impact for exchange rate movements, due to the impact of the stronger US$ on the value of Hybrid Tier 1 capital.

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The Group commenced an on-market buy-back of $350 million of ordinary equity on January 10, 2006. The buy-back period was extended to March 30, 2006, and was completed on March 14, 2006. In the period to September 30, 2006, the Group repurchased approximately 6.1 million shares (2005: 9.6 million) at an average cost of approximately A$24.02 per share (2005: $21.15 per share) for a total of approximately $146 million (2005: $204 million).

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share (A$)**	**Total number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (A$)**
October 2005		N/A		146,345,149
November 2005	1,750,841	23.47	1,750,841	105,257,148
December 2005	2,126,971	23.52	2,126,971	55,237,163
January 2006	646,696	24.28	646,696	39,537,935
February 2006	920,341	24.74	920,341	16,764,891
March 2006	647,237	25.86	647,237	
April 2006		N/A		
May 2006		N/A		
June 2006		N/A		
July 2006		N/A		
August 2006		N/A		
September 2006		N/A		
Total	6,092,086		6,092,086	$ 0

Details of the Group s off balance sheet arrangements are detailed in Notes 44 and 45 of the Financial Report.

Commitments

The Group leases land and buildings under operating leases expiring from one to five years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Contingent rentals are not included in lease rental commitments, are not provided for due to their immateriality and therefore are expensed as incurred.

The table below shows total commitments for the two year period ended September 30, 2006.

Years ended September 30	**2006 $M**	**2005 $M**
Capital expenditure		
Contracts for outstanding capital expenditure		
No later than 1 year	55	80
Later than 1 year but not later than 5 years		
Total capital expenditure commitments	55	80
Lease rentals		
Future rentals in respect of leases		
Land and buildings		
Not later than 1 year	227	205
Later than 1 year but not later than 5 years	567	547
Later than 5 years	433	431
Total land and building lease rental commitments	1,227	1,183
Furniture and equipment		
Not later than 1 year	24	17
Later than 1 year but not later than 5 years	19	17
Later than 5 years	1	
Total furniture and equipment lease rental commitments	44	34
Total lease rental commitments	1,271	1,217
Total commitments	1,326	1,297

Credit Related Commitments

The credit risk of the following facilities may be less than the contract amount, however, the credit risk has been taken to be the contract amount.

	2006 $M	2005 $M
Undrawn facilities	98,554	87,319

Contingent Liabilities and Contractual Obligations

The Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The credit risk of these facilities may be less than the contract amount, however, the credit risk has been taken to be the contract amount.

Table of Contingent Liabilities

Years ended September 30	2006 $M	2005 $M
Guarantees	4,690	4,878
Standby letters of credit	1,468	1,446
Bill endorsements	100	125
Documentary letter of credit	3,078	3,015
Performance related contingents	11,710	10,160
Other	1,009	1,433
Total contingent liabilities	22,055	21,057

Contractual Obligations

Years ended September 30	Total $M	Less than 1 year $M	1 3 years $M	3 5 years $M	More than 5 years $M
Long term wholesale debt (1)	67,085	6,607	27,517	23,063	9,898
Capital lease obligations					
Operating leases	1,271	251	259	327	434
Unconditional purchase obligations					
Other long term obligations					
Total contractual cash obligations	68,356	6,858	27,776	23,390	10,332

(1) Long term wholesale debt excludes:

- Hybrid Loan Capital
- Euro Trust Securities

Customer Financings

Customer Financings through redeemable preference shares are undertaken as part of in-house debt/equity hybrid capability-making investments in small medium enterprise (SMEs) customers. Redeemable preference shares take the form of convertible redeemable preference notes, with an equity conversion right in the event of an IPO, trade sale or other specified trigger event.

Although legally described as preference shares, advances to customers using this product meet the definition of financial assets under Australian GAAP, and therefore would be recorded as part of net loans and advances or investments if appropriate. Income received on these products, consistent with their recognition as assets, would be recorded as part of interest income. Our policies for management of lending in the form of redeemable preference shares are consistent with our policies for general lending of similar amounts to similar clients.

Liquidity Resources

The core objective of the Group s liquidity management framework and processes is to ensure that the Group has sufficient liquidity to meet its obligations as they fall due across a wide range of operating circumstances.

The key principles of ANZ s liquidity management framework are:

- A diverse retail and wholesale funding base, avoiding undue concentrations of funding maturity, source and currency.

- Strong standing in financial markets to ensure timely access to wholesale funding by minimizing the possibility of adverse market sentiment. The Group has established issuance programs: domestic debt, US and Euro commercial paper and US and Euro medium term note.

- Holding an appropriate level of readily liquefiable assets to buffer the Group against short-term adverse conditions, in addition to the level of liquid assets required to support normal daily operations.

- Accurate and timely identification of all material sources and uses of funds, together with a strong understanding of the business s underlying cash flows.

- Monitoring and appropriate management of cash flow concentrations, particularly wholesale funding maturities and large-value net payments.

- The Group has contingency plans in the event of a liquidity crisis.

- Liquidity scenario analysis under a variety of normal and stressed business conditions.

The earnings of the Group are not its primary source of liquidity, which is customer deposits and wholesale primary markets. Accordingly, restrictions on the repatriation of earnings from offshore subsidiaries, back to the parent, would not materially affect the Group s liquidity. A number of our subsidiaries are domiciled in foreign jurisdictions and are controlled by local regulators; as such, repatriation of earnings from such entities is subject to local regulatory approval. Approval can be expected to be granted during normal business conditions subject to compliance with local capital and liquidity regulations. We are not currently aware of any restrictions on our ability to repatriate earnings.

Wholesale Funding

ANZ is funded from retail or customer deposits, and wholesale deposits and debt. The proportion of liabilities sourced from customer deposits was unchanged at 58% for the year ended September 30, 2006 from September 30, 2005. And the level of wholesale debt outstanding increased from $118 billion as of September 2005 to $133 billion as of September 2006. This funding is both short-term (less than 1 year duration) and long term (issues with an initial term greater than 1 year) from global wholesale financial markets.

The short-term wholesale funding requirements are raised and managed through the Group s Global Treasury and Markets operations. Long-term wholesale debt funding is managed and executed through its Treasury operations in Australia and New Zealand. These Treasury operations had $67 billion of term wholesale funding outstanding for year ended September 30, 2006, up from $55 billion for year ended September 2005. The portfolio is well diversified by type of product, currency of issue and investor base. In the 2006 financial year, the Treasury operations issued approximately $23 billion of new term wholesale debt through 149 transactions with a weighted average term to maturity of approximately 3.6 years.

Within the wholesale funding and liquidity management framework, both maturity concentration limits and geographic diversification limits have been established. Also, any funding instrument used must be on the approved products list. All foreign currency borrowings are hedged back into either A$, US$ or NZ$, and fixed rate borrowings are hedged back into an equivalent floating rate, via use the use of cross currency and interest rate swaps respectively.

Liquidity and funding metrics are applied to measure the proportion of the Group s external assets, which are funded by either:

- customer funding, equity, term wholesale debt and loan capital; and
- customer funding, equity and loan capital.

A combination of contractual and modelled information is used to categorise the balance sheet into core and non-core liabilities, according to liquidity characteristics. These metrics recognize that term wholesale debt has favorable liquidity characteristics, thereby assisting to reduce any adverse impact or volatility caused by short term funding; and also assist in monitoring the impact of deposit-gathering strategies.

Maturity Profile of Funding

As at September 30, 2006	**Senior $M**	**Subordinated (1) $M**	**Total $M**
1 year	6,607		6,607
2 years	16,380	22	16,402
3 years	11,009	106	11,115
4 years	10,343	400	10,743
5 years	12,320		12,320
> 5 years	1,771	8,127	9,898
	58,430	8,655	67,085

(1) Excludes Hybrid Loan Capital and Euro Trust Securities

Liquidity Portfolio

ANZ holds a portfolio of cash and high quality (A-rated and higher), diversified, highly liquid securities to support payment obligations and contingent funding in the event of a market disruption. The portfolio is managed on a global basis through the Group s major funding centers in Melbourne, New York, London, and Wellington. The level of readily liquefiable assets held in portfolio to minimize the impact of any liquidity disruption was $11 billion for year ended September 30, 2006. The currency composition of the portfolio is outlined in the table below.

AUD	Total $M
AUD	4,811
NZD	2,591
USD	2,829
EUR	202
GBP	535
	10,968

Supplementary Financial Information

Group Risk Profile

ANZ uses a two dimensional risk grading system, which measures both the customer s ability to repay (probability of default) and the loss in the event of default (a factor of the security taken to support the facilities). ANZ uses financial and statistical tools to assist in the risk grading of the Bank s customers. Customer s risk grading are reviewed periodically (typically at least annually for large customers) to ensure the risk grade reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of the risk grading tools used in the risk grading process are reviewed regularly to ensure they remain statistically valid and reflect current loss experiences.

To measure the probability of default, ANZ applies a risk grading scale of 0 to 10 to its lending with ratings 0 through 8 representing productive ratings and ratings of 9 and 10 representing impaired assets. The Institutional Division risk grades of 1 to 8 have + and modifiers, making a total of 27 separate risk grades. In the Personal Division some lending is portfolio graded.

To measure the loss in the event of default, a scale ranging from A to G is applied. Security Indicator A represents more than 130% security coverage, while Security Indicator G is applied to unsecured customer borrowings. The Institutional Division has four additional security indicators: K Cash Cover, M Mezzanine, S Sovereign and I Intragroup.

The table below shows the ANZ portfolio by risk grade as for year ended September 30, 2006. Outstandings (as opposed to limits) are documented, as they more closely relate to information disclosed in the balance sheet. Over the 2006 year, the quality of the portfolio has improved, with the percentage of lending assets risk graded 7 10 decreasing as a percentage of the total portfolio and the percentage of accounts risk graded 0 4 increasing.

Years ended September 30			2006		2005	
ANZ	S&P	Moody s				
CCR 0 3	AAA to BBB+	Aaa to Baa2	10.4	%	11.5	%
CCR 4	BBB-	Baa3	59.2	%	57.7	%
CCR 5	BB+ to BB	Ba1 to Ba2	16.0	%	16.8	%
CCR 6	BB-	Ba3	12.6	%	12.1	%
CCR 7 8	B+ to CCC	B1 to Caa	1.6	%	1.6	%
CCR 9 10	D/Non Accrual	Non Accrual	0.2	%	0.3	%

Loan Quality

ANZ s policy relating to the recognition and measurement of impaired assets conforms with APRA s guidelines.

Loans are classified as either performing or impaired. Impaired assets are on and off balance sheet facilities where there is doubt as to whether the full contractual amount (including interest) will be received.

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Impaired Loans

Gross impaired loans (Impaired On Balance Sheet Facilities) increased to $661 million, up from $642 million as at September 30, 2005. This increase was primarily driven by two large accounts in the Institutional Division becoming impaired during the first half of 2006, partially offset by lower impaired loans in New Zealand and strong asset realizations and write offs in the non continuing businesses.

The default rate (new impaired loans/average gross lending assets) has increased by 1 basis point since September 2005 to 42 basis points. ANZ s individual provision for credit impairment coverage ratio was 42% as for year ended September 30, 2006. Net impaired loans are $382 million (September 2005: $386 million) and represents 1.9% of shareholders equity for year ended September 2006.

As at September 30,	2006 $M	2005 $M
Gross impaired loans	661	642
Subject to specific provision for credit impairment	633	511
Without specific provision for credit impairment	28	131

Gross Impaired Loans by Region As at September 30,	2006 $M	2005 $M
Australia/New Zealand	639	549
US/UK Europe	3	42
Asia	8	11
Other international	11	40
Total	661	642

New Impaired Loans by Region As at September 30,	2006 $M	2005 $M
Australia/New Zealand	1,050	867
US/UK Europe		55
Asia	24	21
Other international	10	20
Total	1,084	963

Years ended September 30	2006 $M	2005 $M	2004 $M	2003 $M	2002 $M
Gross impaired loans subject to specific provision					
Australia	488	273	339	502	445
New Zealand	126	191	109	17	30
Overseas markets	19	47	266	394	597
Total	633	511	714	913	1,072
Individual provision for credit impairment	(279)	(256)	(378)	(482)	(575)
Net exposure	354	255	336	431	497
Gross impaired loans not subject to specific provision					
Australia	19	82	82	20	78
New Zealand	6	3	6	5	7
Overseas markets	3	46	27	69	46
	28	131	115	94	131
Net impaired loans (1)	382	386	451	525	628
Gross impaired loans					
Australia	507	355	421	522	523
New Zealand	132	194	115	22	37
Overseas markets	22	93	293	463	643
Total	661	642	829	1,007	1,203
Individual provision for credit impairment	(279)	(256)	(378)	(482)	(575)
Net impaired loans (1)	382	386	451	525	628
Ratio of individual provision for credit impairment to gross impaired loans	42.2 %	39.9 %	45.6 %	47.9 %	47.8 %

(1) Excluding off-balance sheet commitments that have been classified as unproductive of $30 million (2005: $26 million, 2004: $23 million, 2003: $37 million and 2002: $44 million) net of a provision of $7 million (2005: $17 million, 2004: $6 million, 2003: $2 million and 2002: $10 million).

Accruing Loans Past Due 90 Days or More

Set out below are loans which are past due by over 90 days. A facility is past due when a contracted payment (principal or interest) has not been met or the facility is outside of contractual arrangements (e.g. an overdraft is over its limit). This category comprises accrual loans that are past due 90 days or more and that are well secured, or loans that are past due 90 days or more and are portfolio managed (typically unsecured personal loans and credit cards) that can be held on an accrual basis for up to 180 days.

Years ended September 30	2006 $M	2005 $M
Australia	406	282
New Zealand	75	66
Overseas markets	18	33
Total past due loans	499	381

Restructured Loans

Set out below are loans where the original contractual terms have been modified to provide concessions of interest, or principal, or other payments due, or for an extension in maturity for a non-commercial period for reasons related to the financial difficulties of the customer. For these loans, interest and fees earned are recognized as income on an accrual basis.

Years ended September 30	2006 $M	2005 $M
Australia		28
New Zealand		
Overseas markets		
Total restructured loans		28
Other potential problem loans		

Other Potential Problem Loans

ANZ do not use the category potential problem loans for loans that continue to accrue interest. ANZ s risk grading systems identify customers that attract a higher probability of default and where necessary these customers receive specialist management attention.

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Interest and Other Income not recognized on Impaired Loans

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

Years ended September 30	2006 $M	2005 $M
Gross interest and other income receivable on impaired loans, restructured loans and unproductive facilities		
Australia	34	26
New Zealand	13	9
Overseas markets	7	16
Total gross interest and other income receivable on impaired loans, restructured loans and unproductive facilites	54	51
Interest recognized (1)		
Australia	(20)	(10)
New Zealand	(6)	(5)
Overseas markets		(10)
Total interest recognized	(26)	(25)
Net interest and other income not recognized		
Australia	14	16
New Zealand	7	4
Overseas markets	7	6
Total net interest and other income not recognized	28	26

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(1) The impairment loss on an impaired loan is calculated as the difference between the asset s carrying amount and the estimated future cash flows discounted to their present value. As the discount unwinds during the period it is recognized as interest income. The comparatives do not reflect this change and represent interest and other income received.

Provision for Credit Impairment

The provision for credit impairment represents management s best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

Credit exposures including loans and advances and off-balance sheet items, such as commitments and guarantees, are reviewed at least at each reporting date for impairment. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that a loss event or events has (or have) had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

ANZ s methodology for determining the total provision for credit impairment establishes both an individual component for assets that are individually significant (or on a portfolio basis for small value loans) and a collective component for those exposures not individually known to be impaired. The individual provision represents the results of analysis of individual loans within ANZ s portfolio. ANZ regularly reviews its loan portfolios and monitors adherence to terms, conditions and lending covenants. The reviews undertaken employ a variety of statistical measures and experienced judgement to determine the continuing collectability of credit facilities. When doubt arises as to the collectability of a credit facility, the exposure is classified and reported as individually impaired and an Individual Provision is allocated against it.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. In order to reduce any differences between loss estimates and actual loss experience, the historical loss experience is reviewed and may be adjusted based on current observable data and events and an assessment of the impact of model deficiencies.

The collective provision is regularly reviewed to ensure it is adequate, having regard to the loss rate and term of the portfolio. The provision for credit impairment is determined from analysis of both individual loan and portfolio risk gradings, associated default and loss expectancy rates and an assessment of the emergence period for incurred losses.

The changes in adoption of AIFRS have resulted in a reduction in the collective provision for credit impairment of $288 million. This reduction is largely attributable to:

- the application of a defined emergence period for estimating all incurred losses assessed on a collective basis. 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. The emergence period results in a more accurate estimate of incurred losses; and

- the adoption of behavioral scoring, product application scores and flow rate analysis to assign probabilities of default and loss given default to customer accounts, based on observed customer behaviors. Under previous Australian GAAP, the provision for credit impairment in the credit card portfolio was based on a lagged loss approach.

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 to page 73).

Years ended September 30	**2006 $M**	**2005 $M**
Individual provision for credit impairments		
Australia	218	160
New Zealand	52	90
Principal domestic markets	270	250
Overseas markets	16	23
Total individual provision for credit impairment	**286**	**273**
Collective provision for credit impairment	**1,940**	**2,167**
Total provision for credit impairment	**2,226**	**2,440**
Collective provision for credit impairment		
Balance at start of period	2,167	1,992
Adjustment due to adoption of accounting standard AASB 139	(288)	
Increase/(decrease) of provisions		(13)
Adjustment for exchange rate fluctuations	(8)	(35)
Charge to income statement	69	580
Transfer to specific provision for credit impairments		(471)
Recoveries		114
	1,940	2,167
Individual provisions for credit impairment		
Balance at start of period	273	384
Adjustment due to adoption of accounting standard AASB 139	(1)	
Increase of provisions	338	
Adjustment for exchange rate fluctuations	(4)	(11)
Discount unwind	(26)	
Bad debts written off	(421)	(571)
Recoveries	127	
Transfer from general provisions for credit impairment		471
	286	273
Total provisions for credit impairment	**2,226**	**2,440**
Provision movement analysis		
New and increased provisions for credit impairment		
Australia	508	378
New Zealand	81	146
United Kingdom	1	45
United States		1
Other overseas markets	28	34
	618	604
Provision for credit impairment releases	(153)	(133)
	465	471
Recoveries of amounts previously written off	(127)	(114)
Net individual provision for credit impairment	338	357
Net credit to collective provision for credit impairment	69	223

Charge to income statement	**407**	**580**

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The following table shows ANZ s individual provision for credit impairment against loans by geographic region in addition to individual provisions against off balance sheet commitments and ANZ s collective provision for credit impairments for current and prior year ended September 30.

Years ended September 30	**2006 $M**	**2005 $M**
Individual provision for credit impairment		
Australia	212	153
New Zealand	52	83
Overseas markets	15	20
Provisions against credit impairment	279	256
Provisions against off balance sheet commitments	7	17
Total individual provisions	286	273
Collective provisions for credit impairment	1,940	2,167
Total provision for credit impairment	2,226	2,440

Provision for Credit Impairment Industry Analysis

See Note 5 of the Financial Information section of the Financial Report for details.

Concentrations of Credit Risk / Loans and Advances by Industry Category

See Note 35 in the Notes to the Financial Statements section of the Financial Report for details.

Although ANZ s loan portfolio is spread across many countries, 71% of net loans and advances are booked in Australia (September 30, 2005: 70%) and 26% are booked in New Zealand (September 30, 2005: 26%). The inherent risk characteristics of ANZ s loan portfolio are therefore very much linked to general economic conditions in Australia and New Zealand, where the portfolio is diversified across different regions, industries, customer types and products.

As at September 30, 2006, ANZ s largest credit exposure in Australia was in the category Real estate mortgage (56%) which includes consumer lending secured by a mortgage. Over the year, strong growth was recorded in ANZ s Mortgages Australia portfolio (12%) with growth in the portfolio continuing to benefit from the strong Australian housing market, coupled with competitive products and distribution networks.

As at September 30, 2006, 9% of ANZ s Australian gross loans and advances were in the category Personal , which covers all consumer lending except for lease finance facilities and those facilities secured by a mortgage.

ANZ s largest overseas credit exposure is to Real estate mortgage , where the majority of the exposure and associated growth is in New Zealand. This category s share of ANZ s overseas gross loans and advances was 48% in the fiscal year ended September 30, 2006.

ANZ s credit practices coupled with strong economic conditions in both Australia and New Zealand have ensured that ANZ s consumer delinquency and loss rates have remained at low levels. ANZ s risk policies remain firmly based on principles of sound risk return, loan to value ratios, conservative debt servicing capacity and the avoidance of speculative lending. Although economic conditions in both Australia and New Zealand remain sound and current credit losses are at unprecedented low levels, the combination of a very low credit loss base, maturity of strong recent credit growth and implementation of strategic risk/return strategies, ANZ will likely see credit losses modestly increase in the near term.

Average Deposits

Details of our average deposits and balances due from other banks for each of the past two fiscal years is provided in the Average Balance Sheet analysis in Note 33 to the Financial Report.

Certificates of Deposit and Other Time Deposit Maturities

See Note 2 of the Financial Information section to the Financial Report for details.

Short Term Borrowings

See Note 6 of the Financial Information section to the Financial Report for details.

Volume and Rate Analysis

See Note 3 of the Financial Information section to the Financial Report for details.

Accounting Developments

The Group has elected to early adopt the following accounting standards and amendments:

- AASB 119: Employee Benefits (December 2004).

- AASB 2004-3: Amendments to Australian Accounting Standards (December 2004) amending AASB 1: First-time adoption of Australian Equivalents to International Financial Reporting Standards, AASB 101: Presentation of Financial Statements and AASB 124: Related Party Disclosures.

- AASB 2005-3: Amendment to Australian Accounting Standards (June 2005) amending AASB 119: Employee Benefits (December 2004).

- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts.

The following standards and amendments were available for early adoption but have not been applied by the Group in these financial statements:

- AASB 7: Financial Instruments: Disclosure. AASB 7 is applicable for annual reporting periods beginning on or after January 1, 2007.

- AASB 2005-1: Amendments to Australian Accounting Standards (May 2005) amending AASB 139. AASB 2005-1 is applicable for annual reporting periods beginning on or after January 1, 2006.

- AASB 2005-9: Amendments to Australian Accounting Standards (September 2005) is applicable for annual reporting periods beginning on or after January 1, 2006.

- AASB 2005-10: Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1: First-time adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts arising from the release of AASB 7: Financial Instruments: Disclosure. AASB 2005-10 is applicable for annual reporting periods beginning on or after January 1, 2007.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the Group as the standard and the amendment are only concerned with disclosures. AASB 7 requires the disclosure of the significance of financial instruments on an entity s financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. AASB 2005- 10 amendments arise from the release of AASB 7 and are only applicable when an entity adopts AASB 7.

AASB 2005-1 permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements.

As a result of the amendments introduced by AASB 2005-1, the Group can no longer designate NZD denominated revenues of its New Zealand subsidiary as hedged items. The realized gains on the hedges of future years revenues of approximately $141 million (net of tax) are included in the hedging reserve in equity at September 30, 2006. In line with AIFRS requirements, these gains (which would have otherwise been transferred to the income statement in future years as the hedged transactions occurred) were transferred directly to retained earnings at October 1, 2006. The hedge relationship was not recognized under US GAAP for the year ended September 30, 2005 or September 30, 2006.

The initial application of AASB 2005-9 may have an impact on the financial results of the Company and the Group as the amendment may result in liabilities being recognized for financial guarantee contracts that have been provided by the Company and the Group. However, the quantification of the impact is not yet known or reasonably estimable. An exercise to quantify the financial impact is currently being undertaken by the Company and the Group.

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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 October 1, 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 our 2005 operating results, is consistent with the way we manage the business and a more comparable base for the users of the financial statements.

Additional information concerning the impact of the transition to AIFRS are set out in Note 51 to the September 30, 2006 Financial Report.

United States GAAP

The following Standards will impact ANZ from October 1, 2006:

- SFAS 154 Accounting Changes and Error Corrections FAS 154 was issued in May 2005 and replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle.

Opinion 20 previously required that most voluntary changes in accounting principle be included as a cumulative adjustment to net income in the period of the change to the new accounting principle. FAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Group does not expect that adoption of FAS 154 will have a material impact to total shareholders equity and net income for US GAAP purposes since the adoption of FAS 154 will contribute to the alignment of International Financial Reporting Standards and US GAAP.

- SFAS 155 Accounting for Certain Hybrid Financial Instruments (FAS 155) was issued in February 2006 and amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

The new Standard permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also requires all entities to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative. The impact of application of this FAS 155 has not yet been quantified.

- SFAS 156 Accounting for Servicing of Financial Assets (FAS 156) was issued in March 2006 and amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. This asset or liability must be initially recognized at fair value, if practicable. Subsequently, measurement is permitted via an amortization or fair value method. The impact of application of FAS 156 is not expected to be material to the Group.

- In November 2005, the FASB issued FASB Staff Position (FSP) FAS 11 5-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . The FSP nullifies the accounting guidance relating to the recognition of investment portfolio other than-temporary impairments of EITF 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ; carries forward the

disclosure requirements included in the EITF 03-01 which have been effective and applied by the Group; supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value ; and references existing other-than-temporary impairment guidance including FAS 11 5, Accounting for Certain Investments in Debt and Equity Securities and SEC Staff Accounting Bulletin Topic 5M, Other-Than-Temporary Impairment of Certain Investments in Debt and Equity Securities . The FSP is effective from 1 October, 2006 and is not expected to have a material impact on the Group s US GAAP equity and net income.

- In September 2006 the FASB issued SFAS 157 Fair Value Measurements which is applicable for financial years beginning after 15 November 2007. The standard is applicable to assets and liabilities required to be measured at fair value by other accounting standards, and requires certain disclosures in respect of these assets and liabilities. It also outlines a framework to apply when determining fair value. The Group will apply the standard from October 1, 2008. It is not expected that the Standard will materially impact fair value measurement.

- SFAS 158 Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans was issued in September 2006. It changes the accounting for defined benefit plans by requiring that gains or losses relating to the plans be recognised in other post-retirement comprehensive income as they arise. The Group will apply SFAS 158 from 1 October 2006. The impact of application of this FAS 158 has not yet been quantified, The FASB staff issue FASB Staff Positions (FSP) to provide guidance on the application of the accounting standards and interpretations. The FASB issued FASB Staff Position FIN46R-6 Determining the variability to be considered in applying FASB No.46(R) in April 2006. It addresses the application of FIN46R when determining whether certain contracts or arrangements with a variable interest entity (VIE) are variable interests by requiring companies to base their evaluations on an analysis of the VIE s purpose and design rather than legal form or accounting classification. The Group will apply FSP on FIN 46R from 1 October 2007. We do not expect that the FSP on FIN46R will have a material impact on consolidation of VIEs.

- In June 2006 the FASB issued Interpretation 48 Accounting for Uncertainty in Income Taxes , which prescribes recognition and measurement principles for recognising income tax liability and treatment of related expenses including interest and penalties. The standard is required to be applied for periods beginning after 15 December 2006, and the Group will apply it from 1 October 2007. The Group has not yet quantified the impact of this interpretation.

Critical Estimates and Judgements in Applying Accounting Policies

The Group prepares its consolidated financial statements in accordance with policies which are based on Australian Equivalents to International Financial Reporting Standards, other authoritative accounting pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act of 2001. This involves the Group making estimates and assumptions that affect the reported amounts within the financial statements. Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of critical estimates and judgements, and their impact on the Group follows:

Provisions for credit impairment

The accounting policy, as explained in Note 1 (xi) to the Financial Report relating to measuring the impairment of loans and advances, requires the Group to assess impairment regularly.

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

Where impairment exists, a provision for credit impairment is raised (individual and collective) representing management s best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgment.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The estimate is determined from analysis of both individual loan and portfolio risk grading, associated risk parameters and an assessment of the emergence period for incurred losses.

Historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model deficiencies to reduce any differences between loss estimates and actual loss experience. In addition, the Group uses its experienced judgment to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered to be an essential part of the process.

The Group s loan portfolio is split between homogenous (retail) and non-homogenous (wholesale) loans with a provision for credit impairment being calculated separately for each of these components.

For retail loans (personal lending, credit cards and home loans), the Group applies a statistical methodology to determine the provision for credit impairment. This uses behavioral scoring, product application scores and flow rate analysis to assign probabilities of default and loss given default to customer accounts based on observed customer behaviors. Under previous Australian GAAP, the provision for credit impairment in the credit card portfolio was based on a lagged loss approach. The Group believes that the application of behavioral scoring and product application scoring provides greater precision to the estimates used in the Group s provision for credit impairment methodology for retail portfolios. On adoption of AIFRS, the application of these changes resulted in a reduction in the provision for credit impairment in the retail portfolios.

For wholesale loans the Group also applies a statistical methodology to determine the provision for credit impairment. This is based on the Group s risk rating framework and assigns probabilities of default and loss given default based on historical data. The risk rating framework used in the determination of the provision for credit impairment under AIFRS is the same as that used under previous Australian GAAP.

The Group s risk rating framework separately identifies the measurable risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD). For individually rated borrowers, the Group

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employs a risk rating scale of 0 to 10 (risk grades 1 to 8 have + and - modifiers making a total of 27 separate risk grades) to determine the probability of default, with ratings 0 through 8 being the productive ratings, and 9 and 10 representing the impaired grades. Underlying these ratings are associated default probabilities. To measure security coverage, a seven grade scale is applied, ranging from A through G. Security Indicator A represents more than 130% security coverage, while G is applied to unsecured customer borrowings.

The risk rating system is designed to meet Basel regulatory capital calibrations that reflect long run average and downturn parameters that may at times differ from the credit cycle at balance date. The historical loss experience is reviewed based on current observable data and events to ensure that the collective provision reflects only losses actually incurred in the loan portfolio at balance date.

A defined emergence period was introduced into the calculation of incurred losses on implementation of AIFRS. The emergence period was estimated through further analysis undertaken on adoption of AIFRS and in preparation for Basel accreditation. The Group performed a detailed qualitative and quantitative 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 elapsed time period when the loss events occurred until the Group assessed the loans for individual impairment and made provisions i.e. the emergence period.

The emergence periods for retail portfolios were determined based on historical macro-economic modeling and individual customer level behaviors. Independent external experts were also engaged by the Group with a view to performing a survey process to validate the estimated emergence periods. The emergence periods for wholesale portfolios were determined based on a review of defaulted loans. 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. The defined emergence period results in a more accurate estimate of incurred losses.

The average estimated emergence periods determined by the Group on adoption of AIFRS range from 15 months to 24 months. These estimates will be subject to regular review to ensure that they provide an accurate estimate of actual incurred loss.

The inclusion of the defined emergence period in the calculation of the provision for credit impairment under AIFRS remains consistent with US GAAP. The application of this data provides better estimates than previously used in the Group s provision for credit impairment methodology.

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, an adjustment will also be required to 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 any adjustment required.

For the September 30, 2005 year the spike in Oil Prices was determined to be such a loss event. The collective provision for credit impairment therefore currently includes a scenario modeling adjustment to allow for continued uncertainty and expected levels of default due to sustained materially higher oil prices.

For wholesale portfolios the impact of sustained higher oil prices was estimated based on regression analysis of oil price movements against PD movements based upon historical Standard & Poors data. This regression analysis was then applied to the industries that were identified by ANZ Economics as being impacted to determine the impact on PD (PD multipliers). These PD multipliers were then applied to the incurred loss estimate to determine a best estimate of the impact of higher oil prices.

The impact of sustained higher oil prices on retail portfolios was estimated based on an analysis by ANZ Economics of an equivalent effect of increased interest rates. This was then translated into an effect on the household debt service ratio which was then used to determine a best estimate of the impact on incurred losses. The scenario modeling provision related to oil price will be unwound, over the expected emergence period, to offset the related individual and collective provisions resulting from the higher oil price. The rate of offset is compared with, and supported by, ongoing analysis of the realised impact on each portfolio attributable to increases in oil prices, for example, defaults and downgrades.

The collective provision at balance date relies upon the use of numerous models in order to determine the PD, LGD, EAD and emergence period parameters that are used in the calculation. Although the models that are used are designed to be on average correct, an adjustment may be required to ensure that they represent a best estimate of the incurred loss at balance date.

The Group s provision for credit impairment methodology incorporates the use of judgements and reasonable estimates including a number of assumptions. In instances where the methodology could result in a range of subjective outcomes, the Group determines

credit impairment based on the most likely outcome. For example, Basel requirements may mandate the use of loss given default statistics that are reflective of a downturn scenario. Under AIFRS an adjustment would be made to these statistics to reflect the most likely loss given default, based on current conditions. For retail portfolios the best estimates are based on an average of the last three years. For wholesale, the best estimates are based over a longer term due to the infrequency of defaults.

The assumptions applied by management are also subject to review and oversight by the Group s Risk Committee and Audit Committee.

AIFRS and US GAAP principles for the identification of impaired loans are similar. Both AIFRS and US GAAP require the use of a discounted cash flow methodology for measuring impairment of individual loans where recovery is based on estimated cash flows; however, unlike AIFRS, US GAAP does not require the use of this discounted cash flow methodology for retail loans. We anticipate that this will be the only difference between AIFRS and USGAAP principles going forward. This difference will be reviewed going forward and, where material, an adjustment will be made under US GAAP.

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Special Purpose and Off Balance Sheet Vehicles

Type of Special Purpose Vehicle (SPE)	Reason For Establishment	Key Risks	SPE Assets 2006 $M	2005 $M
Securitization vehicles	Assets are transferred to an SPE which funds the purchase by issuing securities. This enables ANZ or customers to increase diversity of funding sources. The amount disclosed here is the total assets of SPEs managed or arranged by ANZ. It includes SPEs that purchase assets from sellers other than ANZ.	ANZ may manage securitization vehicles, service assets in a vehicle or provide liquidity or other support and retains the risks associated with the provision of these services. Credit and market risks associated with the underlying assets are not retained or assumed by ANZ except to the limited extent that ANZ provides arm s length services and facilities. ANZ does not bear the majority of residual rights and rewards.	9,381	11,981
Structured finance entities (1)	These entities are set up to assist with the structuring of client financing.	ANZ may manage these vehicles and also provide derivatives.	n/a	n/a
Credit protection	These entities are set up to allow the Group to sell the credit risk on portfolios.	ANZ may manage these vehicles.	2,145	
Managed funds	These funds invest in specified investments on behalf of clients.	INGA, INGNZ and certain subsidiaries of ANZ National Bank Limited, as managers of the funds, expose ANZ to operational and reputational risk.	53,760	44,779

(1) ANZ s net investment in the structured finance entities is $233 million (September 30, 2005: $1,243 million).

As at September 30,	2006	2005
Securitization vehicle assets that were managed or arranged by ANZ that related to assets previously (1):		
Sold by ANZ	1,185	1,650
Sellers other than ANZ	8,196	10,331
	9,381	11,981
Securitization vehicle assets that were managed or arranged by ANZ that related to assets (1):		
Sold by ANZ in previous years	1,185	1,650

(1) Balances represent total assets as at fiscal year end.

The following interests are retained by ANZ in relation to the SPEs

- Securitization vehicles: credit and market risks associated with the underlying assets within securitization vehicles are not retained or assumed by ANZ, except to the limited extent that ANZ provides arms length services, (e.g. for credit enhancement, hedging facilities or liquidity facilities).
- Structured finance entities: liquidity risk is retained.
- Managed funds: As a manager of funds, ANZ is exposed to operational and reputational risk.

Details of facilities provided by ANZ to the securitization vehicles are provided in the table below. ANZ earns fees at a commercial rate for providing these facilities.

Type of facility	2006	2005
Liquidity facility	4,367	4,554
Settlement limits	2,365	226
Hedging facilities	809	758
Loans and securities (1)	1,830	954
Credit enhancement facilities	180	137
Performance L/C s (2)	70	305

(1) Facilities provided by ANZ to the SPE which are not classified as credit enhancement facilities.

(2) Facilities provided by ANZ to a third party in favor of the SPE.

ANZ is also entitled to receive residual income in SPEs that relate to assets that ANZ has sold.

The transfer of financial assets to SPEs has been (and will continue to be) treated as a sale where the following conditions are met:

1. the transferred assets have been isolated from ANZ and are beyond its reach in receivership. In other words, the assets are transferred to a bankruptcy remote SPE;

2. the holder of the financial assets has the right to pledge or exchange the assets; and

3. ANZ does not maintain effective control through redemption rights prior to maturity or the unilateral right to require the SPE to return specific assets.

When these conditions are met, the assets are removed from ANZ s balance sheet, as they no longer meet the definition of assets under AIRFS.

In accordance with AIFRS and the interpretation thereof, ANZ did not control these vehicles and consolidation was not required for the following reasons:

- the activities of the SPEs are not being conducted on behalf of ANZ according to its specific business needs so that ANZ obtains benefits from the SPE s operations;

- ANZ does not have decision making powers to obtain the majority of the benefits of the activities of the SPE or by setting up an autopilot mechanism, the entity has delegated these decision making powers;

- ANZ does not have rights to obtain the majority of the benefits of the SPE, nor is it exposed to risks incident to the activities of the SPE; or

- ANZ does not retain the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Valuation of Investment in INGA

The Group has adopted the equity method of accounting for its 49% interest in INGA. As at September 30, 2006, the Group s carrying value was $1,462 million (September 30, 2005: $1,530 million).

The carrying value is subject to a recoverable amount test to ensure that this does not exceed its recoverable amount at the reporting date.

Any excess of carrying value above recoverable amount is written off to the income statement as an impairment write-down.

During the year the Group engaged Ernst & Young (EY) to provide an independent valuation of INGA for March 30, 2006 assessment purposes. The valuation was a stand alone market based assessment of economic value, and excluded the Group s specific synergies and hedging arrangements. The independent valuation was based on a discounted cash flow approach, with allowance for the cost of capital. EY presented an independent valuation range of $3,955 million to $4,194 million, reflecting a range of sales and cost base assumptions. Based on this review, ANZ believed that no change was required to the carrying value of the investment as at March 30, 2006.

At September 30, 2006, impairment testing via a management review was conducted to determine whether there were any indicators of impairment. The assessment involved review of the following indicators of impairment:

- Performance

- Operational and regulatory factors

- Economic and industry factors

The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

Valuation of investment in ING (NZ) Holdings Limited (ING NZ)

The Group has adopted the equity method of accounting for its 49% interest in ING NZ.

As at September 30, 2006, the Group s carrying value for ING NZ was $146 million (September 30, 2005: $131 million).

The carrying value is subject to a recoverable amount test to ensure that this does not exceed its recoverable amount at the reporting date.

Any excess of carrying value above recoverable amount is written off to the income statement as an impairment write-down.

During the year the Group engaged PricewaterhouseCoopers (PwC) to provide an impairment analysis of ING NZ for March 30, 2006 assessment purposes. The valuation was based on a discounted cash flow approach. PwC presented a valuation range as at December 31, 2005 of $337 million to $371 million (at September 30, 2006 exchange rates), reflecting a range of sales and cost base assumptions.

PwC also considered the additional cash generated by ING NZ in the period between December 31, 2005 and March 31, 2006 in order to provide an assessment as at March 31, 2006 of the appropriateness of the carrying value. Based on this review ANZ believed that no change was required to the carrying value of the investment as at March 31, 2006.

At September 30, 2006, impairment testing via a management review was conducted to determine whether there were any indicators of impairment based on the March 31, 2006 valuation. The assessment involved review of the following indicators of impairment:

- Performance
- Operational and regulatory factors
- Economic and industry factors

The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

Goodwill and valuation of goodwill in ANZ National Bank Ltd

The carrying value of goodwill is reviewed at each balance date and is written down, to the extent that it is no longer supported by probable future benefits.

Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write-down.

As at September 30, 2006, the balance of goodwill recorded as an asset in ANZ National Bank Ltd was $2,828 million (September 30, 2005: $2,943 million).

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management reporting purposes.

Impairment testing of purchased goodwill is performed annually in March through an independent valuation, by comparing the recoverable value of the CGU with the current carrying amount of its net assets, including goodwill. Where the current carrying value is greater than fair value a charge for impairment of goodwill will be recorded in the income statement.

In determining the fair value of the CGU for testing of the goodwill in ANZ National Bank Ltd, an independent valuation is obtained based on a capitalization of earnings approach. Under this methodology, valuation multiples (such as the price to earnings (PE) ratio) observed from previous transactions in the banking sector and current price/cash earnings multiples from similar businesses are used to determine an appropriate price/earnings multiple for the CGU.

In determining an appropriate price multiple for the valuation, judgment is applied when assessing comparable companies and transactions, particularly with respect to the mix of business, geographic location, growth prospects, volatility of future earnings and size of the overall business.

The results of the independent valuation carried out as at March 31, 2006 showed a fair value in excess of the then current carrying value for the CGU and hence the carrying value of the goodwill was not considered impaired.

At September 30, 2006, impairment testing (via a management review) was conducted to determine whether there were any indicators of impairment in the carrying value of ANZ National Bank Ltd s goodwill. The assessment involved review of the following indicators of impairment:

- Performance
- Operational and regulatory factors

- Economic and industry factors

The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

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Risk Management

Vision and Strategy

ANZ recognizes the importance of effective risk management to its business success. Management is committed to achieving strong risk control, and a distinctive risk management capability that enables ANZ business units to meet their performance objectives.

ANZ approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

- The Board, providing leadership, setting risk appetite/strategy and monitoring progress.
- A strong framework for development and maintenance of Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals.
- The use of risk tools, applications and processes to execute the global risk management strategy across the Group.
- Business Unit level accountability, as the first line of defense , and for the management of risks in alignment with the Group s strategy.
- Independent oversight to ensure Business Unit compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The various risks inherent in the operations of the Group may be broadly grouped together under the following major categories:

Credit Risk

The Group has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

The framework is top down, being defined firstly by the Group s Vision and Values and secondly, by Credit Principles and Policies. The effectiveness of the credit risk management framework is validated through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organization and staff.

Risk Management s responsibilities for credit risk policy and management are executed through dedicated departments, which support the Group s business units. All major business unit credit decisions require approval by both business writers and independent risk personnel.

Market Risk

Market risk is the risk that ANZ will incur losses from changes in interest rates, foreign exchange rates or the prices of equity shares and indices, commodities, debt securities and other financial contracts, including derivatives. It also includes the risk that the Group will incur increased interest expense arising from funding requirements during periods of poor market liquidity.

The market risk framework is discussed in more detail at Item 11: Quantitative and Qualitative Disclosures about Market Risk.

Operational Risk

Operational risk refers to risks arising from the day to day operational activities which may result in direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Risk Management is responsible for establishing the Group s operational risk framework and associated Group-level policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

A Risk Drivers and Controls (or Scorecards) Approach to operational risk measurement is used to measure the operational risk profile of individual business units, and to allocate operational risk economic capital. This approach gives business managers a strong and clear incentive to reduce operational risk.

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Compliance Risk

Compliance risk is the risk of failure to comply with all applicable legal and regulatory requirements and industry standards, and internal policies and procedures, and the corresponding impact on ANZ s business, reputation and financial condition. Group Compliance has global oversight responsibility for the ANZ Compliance Framework, and each division has responsibility for embedding the Framework into its business operations.

Other

There are a number of other risks, which are not classified as Market, Credit or Operational Risk or Compliance, that need to be managed effectively and for which ANZ holds economic capital. These include, but are not limited to, items such as investment risk and fixed asset risk. ANZ adopts a prudent approach to allocating capital for these risks.

Key Risk Enhancements

Basel II

ANZ s implementation of the Basel II requirements for credit and operational risk has resulted in a number of enhancements to ANZ s Risk systems, credit and operational risk rating tools, policies and procedures. These changes are embodied in ANZ s Basel II accreditation application to APRA and included throughout this document.

From the capital modeling perspective, significant initiatives include the development of methodologies to determine adjustments to risk estimates to take into account the effects of the credit cycle, including economic down turns.

The deployment of eCARTII, the new rating portal, has commenced, introducing a consistent approach to the implementation of new and updated models to the wholesale businesses. eCARTII also provides improved data integrity through its introduction of a feed of customer data from the Risk Information Store data repository that reduces data entry errors by allowing users to select existing customer details. This customer feed is also used in the Corporate Collateral Management System (CCMS) which has also commenced roll-out. CCMS provides a common platform for the recording and management of collateral (security) across the wholesale businesses.

A critical element of the overall transition of the Basel II Programme to business as usual is the structured integration of Basel II into ANZ s ongoing compliance framework. The key objective is to minimize the risk of future non-compliance with Basel II. Basel II compliance will become only one component of overall compliance at ANZ and as such it is being integrated into existing compliance processes.

Stress Testing

In March 2006, the results of the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) stress test were presented to representatives of the IMF and RBA. A similar exercise was completed for the ANZ s New Zealand operations and the consolidated results were presented to the Board Risk Committee in August 2006. The key outcomes of the stress test indicate that while profitability fell, ANZ has sufficient capital to withstand the impact of the scenario. In ANZ s opinion, it has working capital sufficient for the company s present requirements.

Stress testing is integral to strengthening the predictive approach to risk management and is a key component to managing risk appetite, asset writing strategies and business strategies. It creates greater understanding of impacts on financial performance through modeling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

ANZ has a dedicated stress testing team within Risk Management that model and report to the Board s Risk Committee twice yearly.

During 2006, significant business units within ANZ completed an Asset Writing Strategy. Each Asset Writing Strategy sets out planned portfolio growth (over the next three years), capital usage and risk and return profiles. These are defined, reviewed and revised with respect to the portfolio asset quality, emerging issues, underlying risk appetite and board / executive management financial objectives. Going forward, each business unit will update and revise its Asset Writing Strategy annually.

Organisationally, over the past two years, ANZ has made significant improvements to the profile and reporting lines of the risk management function throughout the group, increasing the prominence of risk management within the business divisions. This has included the appointment of Heads of Risk for all key Business Divisions and the Head of Risk Services for the specialist risk functions.

Operational Risk Management Framework

ANZ s Operational Risk Framework incorporates the Basel II requirements and is reviewed annually to reflect progressive changes. Operational risk policies are in place and continually developed and refreshed to support the Operational Risk framework and to assist in the control and mitigation of operational risks.

A robust process exists for the identification, evaluation and treatment of operational risks. All business activity and new initiatives must be risk assessed in order to ensure that unacceptable risk is designed out of the business. ANZ s approach to management of operational risk is consistent with the Australia & New Zealand Risk Management Standard 4360: 2004.

ANZ uses a Scorecard or Risk Drivers and Controls Approach underpinned by a statistical quantification model, to measure ANZ s operational risk profile and to determine and allocate operational risk capital. This is an expert system, which:

- Assesses the level of ANZ s exposure to specified risk drivers,
- Assesses the scope and quality of ANZ s internal control environment, key operational processes and risk management, and
- Links these assessments to operational risk capital.

The approach directly connects risk measurement with the operational risk management process in ANZ, by providing a road map for reducing risk and direct incentives to invest in internal controls. The process is well embedded in ANZ s day-to-day risk management systems and culture. It has been undertaken on a bi-annual basis since its introduction in ANZ in 2000 and is now an accepted and integral component of ANZ s operational risk framework. The capital calculation methodology was reviewed in the fiscal year ended September 30, 2005 against Basel II Advanced Measurement Approach qualifying requirements, and as a result refinements to the approach were made to incorporate the required Basel II elements.

Business Continuity and Crisis Management

ANZ s business continuity and crisis management capabilities continue to be reviewed, tested and, where necessary, strengthened in response to new and emerging threats.

Business Continuity is viewed as a critical management responsibility within the overall operational risk framework, which seeks to minimize the likelihood of a disruption to normal operations, constrain the impact were an event to occur and achieve efficient and effective recovery.

Crisis Management planning at Group and Country levels supplements Business Continuity Plans in the event of a broader Group or country crisis. Crisis Management plans include crisis team structures, roles, responsibilities and contact lists, and are subject to periodic testing.

Item 6: Directors, Senior Management/Executives and Employees

Directors

In accordance with the rules of the ANZ Constitution, as amended December 2005 (Constitution), and except as otherwise required by the Corporations Act 2001 (Cth), any other applicable law, and the Listing Rules of the Australian Stock Exchange, the Board of Directors has power to manage the business of the Company and may exercise all powers not required to be exercised at a general meeting of shareholders. On the date hereof the Directors of the Company are:

Director s Name	Position held	Year appointed	Age
C B Goode, AC	Director / Chairman of the Board	1991	68
G J Clark	Director	2004	63
J K Ellis	Director	1995	69
D M Gonski, AO	Director	2002	53
M A Jackson, AC	Director	1994	53
J McFarlane	Chief Executive Officer	1997	59
D E Meiklejohn	Director	2004	64
J P Morschel	Director	2004	63

Under the Constitution, a non-executive Director must retire from office at the third annual general meeting after being elected or last re-elected.

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Ms Jackson and Mr Ellis offered themselves for re-election at the 2006 Annual General Meeting, and therefore both of these Directors will be required to retire (although they may offer themselves for re-election) on or before the 2009 Annual General Meeting. Messrs Goode and Gonski were re-elected at the 2005 Annual General Meeting, and therefore both of these Directors will be required to retire (although they may offer themselves for re-election) on or before the 2008 Annual General Meeting. Messrs Meiklejohn and Morschel and Dr Clark were each elected or re-elected at the 2004 Annual General Meeting, and therefore each of these Directors will be required to retire (although they may offer themselves for re-election) on or before the 2007 Annual General Meeting.

Mr McFarlane s employment contract with the Company was extended in October 2004 for a further year until September 30, 2007. On December 5, 2006, the ANZ Board announced that it had agreed to extend the contract of Mr McFarlane until December 31, 2007 or later if required for the succession process.

Directors profiles

MR C B GOODE, AC

B COM (HONS), MBA, HON LLD (MELB), HON LLD (MONASH)

Independent Non-Executive Director

Chairman

Non-executive director since July 1991. Mr Goode was appointed Chairman in August 1995 and is an ex-Officio member of all Board Committees.

Skills, experience and expertise

Mr Goode has a background in the finance and resources industries and has been a professional non-executive director since 1989. Mr Goode brings a wide range of skills and significant experience of the finance industry to his role as Chairman of the Board.

Current Directorships

Chairman: Woodside Petroleum Limited (Director from 1988), Australian United Investment Company Limited (Director from 1990), Diversified United Investment Limited (Director from 1991), and The Ian Potter Foundation Ltd (Director from 1987).

Former Directorships include

Former Director: Singapore Airlines Limited (from 1999-2006).

Age 68 Residence Melbourne.

MR J McFARLANE, OBE

MA, MBA, SFFIN, FSI, FHKIB, FRSA

Chief Executive Officer

Chief Executive Officer since October 1, 1997. Mr McFarlane is also a Director of ANZ s largest subsidiary, ANZ National Bank Limited in New Zealand.

Skills, experience and expertise

Mr McFarlane brings broad leadership, management and banking skills following a 31-year career in banking. Mr McFarlane is a former Group Executive Director, Standard Chartered Plc, Head of Citibank in the United Kingdom and Managing Director of Citicorp Investment Bank Ltd.

Current Directorships

Director: Financial Markets Foundation for Children (from 1999) and Australian Business Arts Foundation (from 2000).

Member: Foreign Affairs Council (from 2005), Business Regulation Advisory Group (from 2002), Financial Literacy Foundation Advisory Board (from 2005), the Council of the Australian Bankers Association (from 1997, including term as Chairman) and the Asia Business Council (from 2004).

Former Directorships include

Former Director: The International Monetary Conference (2001-2006, including term as President), Business Council of Australia (1999 2003), Australian Graduate School of Management Ltd (1999-2003) and The London Stock Exchange (1989-1991).

Age 59 **Residence** Melbourne.

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DR G J CLARK

PHD, BSC (HONS), FAP, FTSE

Independent Non-Executive Director

Chairman of the Technology Committee

Non-executive director since February 2004. Dr Clark is a member of the Governance Committee.

Skills, experience and expertise

Dr Clark is Principal of Clark Capital Partners, a US based firm that advises internationally on technology and the technology market place. Previously he held senior executive positions in IBM, News Corporation and Loral Space and Communications. He brings to the Board international business experience and a distinguished career in micro-electronics, computing and communications.

Current Directorships

Director: Babcock & Brown Capital Limited (from 2006) and KaComm Communications Pty Ltd (from 2006).

Former Directorships include

Former Director: James Hardie Industries NV (2002-2006), Digex (2000-2002) and Acton Semiconductor Pty Limited (2001-2005).

Age 63 **Residence** Based in New York, United States of America but also resides in Sydney.

MR J K ELLIS

MA, FAICD, HON FIE AUST, FAUS IMM, FTSE, HON DR ENG (CQU)

Independent Non-Executive Director

Non-executive director since October 1, 1995. Mr Ellis is a member of the Audit Committee. Mr Ellis term as Chairman of the Risk Committee ended on September 30, 2006 and he will continue as a member of the Risk Committee.

Skills, experience and expertise

A trained engineer, Mr Ellis brings to the Board his analytical skills together with his practical understanding of operational issues, investments and acquisitions across a range of sectors including natural resources, manufacturing, biotechnology and education.

Current Directorships

Chairman: Pacifica Group Limited (Director from 1999), Future Directions International Pty Ltd (from 2003), Landcare Australia Limited (from 2004), Golf Australia (from 2005) and the Earth Resources Development Council (from 2006).

Chancellor: Monash University (from 1999).

Consultant: Monash Energy Advisory Board (from 2006).

Former Directorships include

Former Chairman: Broken Hill Proprietary Company Limited (1997-1999), Black Range Minerals Limited (2000-2004) and National Occupational Health & Safety Commission (2003-2005).
Former Director: Australian Minerals & Energy Environment Foundation (1999-2003) and GroPep Limited (2000-2005).

Former Member: Australia-Japan Foundation (1999-2005).

Age 69 **Residence** Melbourne.

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MR D M GONSKI, AO

B COM, LLB, S.I.A. (AFF), FAICD, FCPA

Independent Non-Executive Director

Chairman of the Governance Committee

Non-executive director since February 2002. Mr Gonski is a member of the Risk Committee.

Skills, experience and expertise

A lawyer, Mr Gonski has a broad experience across business, the law and investment banking. He also brings to his role on the Board an appreciation for the community through his work in the arts and the not-for-profit sector.

Current Directorships

Chairman: Coca Cola Amatil Limited (Director from 1997), the Investec Group in Australia (Director from 2001), Sydney Grammar School Trust (from 1993) and University of New South Wales Foundation Limited (from 2006).

Chancellor: University of New South Wales (from 2005).

Director: The Westfield Group (from 1985) and Singapore Airlines Limited (from 2006).

President: Board of Trustees of Art Gallery of NSW (from 1997).

Former Directorships include

Former Chairman: Morgan Stanley Australia Limited (1999-2002), National Institute of Dramatic Art (2001-2005) and Australia Council for the Arts (2002-2006).

Former Director: John Fairfax Holdings Limited (1993-2005) and ING Australia Limited (2002-2005).

Age 53 **Residence** Sydney.

MS M A JACKSON, AC

B EC, MBA, HON LLD (MONASH), FAICD, FCA

Independent Non-Executive Director

Chairman of the People Committee

Non-executive director since March 1994. Ms Jackson is a member of the Audit Committee.

Skills, experience and expertise

A Chartered Accountant, with significant financial expertise, Ms Jackson has broad industrial and commercial experience including her involvement in transportation, mining, the media, manufacturing and insurance. This expertise coupled with her work in health and education contribute to her role on the Board.

Current Directorships

Chairman: Qantas Airways Limited (Director from 1992), Asia Pacific Business Coalition on HIV/AIDS (from 2006) and Flexigroup Ltd. (from 2006).

Director: Billabong International Limited (from 2000) and Brain Research Institute (from 2006).

Member: Executive Committee Australia-Japan Business Co-operation (from 2002) and Business Council of Australia Chairman s Panel (from 2002).

Former Directorships include

Former Deputy Chairman: Southcorp Limited (2004-2005).

Former Co-Chairman: Australia NZ Leadership Forum (2003-2006).

Former Director: John Fairfax Holdings Limited (2003-2004) and Howard Florey Institute of Experimental Physiology and Medicine (1998-2006).

Former Partner: Consulting Division of KPMG Peat Marwick (1991-1992).

Age 53 **Residence** Melbourne.

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MR D E MEIKLEJOHN

B COM, DIP ED, FCPA, FAICD, FAIM

Independent Non-Executive Director

Chairman of the Audit Committee

Non-executive director since October 2004. Mr Meiklejohn is a member of the Governance Committee and the Risk Committee.

Skills, experience and expertise

Mr Meiklejohn has a strong background in finance and accounting. He also brings to the Board his experience across a number of directorships of major Australian companies spanning a range of industries.

Current Directorships

Chairman: PaperlinX Limited (from 1999).

Director: Coca Cola Amatil Limited (from 2005) and Mirrabooka Investments Limited (from 2006).

Vice President: Melbourne Cricket Club (from 1987).

Former Directorships include

Former Chairman: SPC Ardmona Limited (2002-2005) and former Deputy Chairman of GasNet Australia Limited (2001-2004).

Former Director: WMC Resources Limited (2002-2005) and OneSteel Limited (2000-2005). Director and Chief Financial Officer Amcor Limited (1985-2000).

Age 64 **Residence** Melbourne.

MR J P MORSCHEL

DIPQS, FAIM

Independent Non-Executive Director

Chairman of the Risk Committee

Non-executive director since October 2004. Mr Morschel is a member of the Risk Committee and, on October 1, 2006, became its Chairman. He is also a member of the People Committee.

Skills, experience and expertise

Mr Morschel has a strong background in banking and financial services, and brings the experience of being a director of major Australian and international companies.

Current Directorships

Chairman: Rinker Group Limited (from 2003)

Director: Singapore Telecommunications Limited (from 2001), Tenix Pty Limited (from 1998) and Gifford Communications Pty Limited (from 2000).

Former Directorships include

Former Director: Rio Tinto Plc (1998-2005), Rio Tinto Limited (1998-2005), CSR Limited (1996-2003), Leighton Holdings Limited (2001-2004) and Westpac Banking Corporation (1993-2001).

Age 63 **Residence** Sydney.

Senior Management and Executives

At the date of the 20-F executive officers and senior management of ANZ were:

Executive Officers	Position held	Year appointed to position	Year joined Group
J McFarlane	Chief Executive Officer 31 years in the Banking and Financial Services Industry	1997	1997
S M Buggle	Group General Manager, Finance Over 20 years finance experience	2005	2003
R J Edgar	Senior Managing Director 28 years experience in the Financial Services Industry	2003	1984
S A Freeman	Group General Manager, People Capital 27 years experience in Human Resources, including Industrial Relations	2001	2001
M A Grime	Managing Director, Operations Technology and Shared Services 24 years experience in senior Operations and Technology roles	2003	2003
B C Hartzer	Group Managing Director, Personal Division 17 years experience in the Banking and Financial Services Industry world-wide.	2004	1999
G K Hodges	Chief Executive ANZ National Bank Limited in New Zealand 28 years experience across Corporate Banking and Commercial Banking	2005	1991
P Hodgson	Chief Risk Officer Over 20 years experience in the Corporate and Investment Banking Sectors	2004	1997
T L Estrange	Group General Counsel and Company Secretary Over 20 years legal and management experience spanning a range of industry sectors	2003	2003
P R Marriott	Chief Financial Officer 26 years experience in International Banking, Finance and Auditing	1997	1993
R G Moore	Group General Manager, Audit Over 30 years experience in Audit and Risk Management consulting to a range of industry sectors	2004	2004
S C Targett	Group Managing Director, Institutional Over 20 years experience in financial markets world-wide	2004	2004

There are no family relationships between or among any of the directors or executive officers.

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Remuneration Report

Introduction

This Remuneration Report details ANZ s remuneration policies which apply to key management personnel (KMP) and ANZ s senior executives. The report identifies the link between remuneration and ANZ s performance, and individual outcomes relating to remuneration and equity for ANZ s directors and top executives.

This report covers the KMP of the Company and the Group (which includes the directors of the parent) and the five highest paid executives in the Company and the Group.

KMP were selected according to the following criteria:

- All directors of the ANZ Board: Based on responsibility for providing direction in relation to the management of ANZ. The Board Charter clearly sets out the Board s purpose, powers, and specific responsibilities.

- Executives: Based on direct reports of the CEO with key responsibility for the strategic direction and management of a major revenue-generating division or who controls material revenue and expenses.

- The People Committee has responsibility for making recommendations to the Board for both director and executive remuneration and executive succession (refer to page 115 for more details about the Committee s role, and anz.com > about ANZ (listing at top of screen) > Corporate Governance > ANZ People Committee Charter, which details the terms of reference under which the Committee operates). On a number of occasions throughout the year, both the People Committee and management received external advice on matters relating to remuneration. The following advisors were used: Blake Dawson Waldron, Ernst & Young, Hay Group, Greenwoods & Freehills, and PricewaterhouseCoopers.

Commentary on Changes Between 2005 & 2006

Non-Executive Directors

As a result of the closure of the ANZ Directors Retirement Scheme as at September 30, 2005, Non-executive Directors fees were adjusted based on an independent actuarial valuation of the scheme. A subsequent market adjustment was also applied to fees. Refer to Section B1 for further details.

Executive Director (Chief Executive Officer)

As a result of an independent market analysis on the competitiveness of J McFarlane s remuneration against other major companies, the Board approved a $200,000 increase to J McFarlane s fixed remuneration (effective October 1, 2005). The last fixed remuneration increase occurred October 1, 2003. Increasing J McFarlane s fixed remuneration to $2.2m also uplifts his target incentive to $2.2m (100% of his fixed remuneration). His actual incentive payment for the financial year ended September 30, 2006 was $2.4m (compared to $2.1m in 2005) reflecting the Board s assessment of his performance against agreed balanced scorecard objectives which include ANZ s financial performance and its performance against specified measures for shareholders, customers, staff and the community. The last Long Term Incentive (LTI) allocation issued in December 2004, was approved by shareholders at the 2004 AGM. There are no further LTI allocations under J McFarlane s existing employment contract which has resulted in a reduction in amortized LTI equity for the 2006 year (compared with 2005).

Executives: Based on direct reports of the CEO with key responsibility for the strategic direction and management of a major revenue-generating division or who controls material revenue and expenses.

The **People Committee** has responsibility for making recommendations to the Board for both director and executive remuneration and executive succession (refer to page 115 for more details about the Committee s role, and anz.com > about ANZ (listing at top of screen) > Corporate Governance > ANZ People Committee Charter, which details the terms of reference under which the Committee operates). On a number of occasions throughout the year, both the People Committee and management received external advice on matters relating to remuneration. The following advisors were used: Blake Dawson Waldron, Ernst & Young, Hay Group, Greenwoods & Freehills, and PricewaterhouseCoopers.

Executive Remuneration

A review of 2005 remuneration (based on fixed remuneration, short-term incentives and long-term incentives) was undertaken to assess the competitiveness of executive remuneration relative to the market. To ensure appropriate recommendations from this review, ANZ used multiple data sources such as Annual Report disclosures from ANZ s major competitors, and independent financial services market data sourced externally. Overall, it was found that reward levels were not market competitive and below the median of the market. As a result, adjustments to individual reward mixes were made. The remuneration adjustments were assessed individually, based on market positioning, role changes and market pressures. The remuneration adjustments for ANZ s disclosed executives can be summarized as follows: i) Increased fixed pay for B Hartzer and S Targett to reflect increased responsibilities associated with ANZ s restructure into three broad divisions. ii) A corresponding increase in target STI amounts for B Hartzer and S Targett due to their adjusted TEC. iii) Increased LTI allocation awarded to current disclosed executives.

Other year on year variations include:

i) A greater proportion of S Targett s amortised sign-on equity falling into the 2006 financial year. ii) Change in position (and responsibility) for G Hodges from Group Managing Director Corporate in the 2005 financial year, to the Chief Executive, ANZ National Bank Limited, New Zealand in 2006. iii) P Hodgson not included in 2005 total of all disclosed executives (2006 only). iv) 2005 disclosures only for Sir J Anderson, therefore not included in the 2006 totals. v) E Funke Kupper s remuneration for the 2006 year is based on four months only.

Section A: Remuneration Tables

Table 1: Director Remuneration

For the year ended September 30, 2006, remuneration details of the KMP identified as directors of the Company, are set out below.

	SHORT TERM EMPLOYEE BENEFITS					
	Financial Year	**Cash salary/fees $**	**Value of shares acquired in lieu of cash salary/fees $**	**Associated entity Board fees (cash) $**	**Committee fees (cash) $**	**Value of shares acquired in lieu of cash incentive (1)(2) $**
Current Non - Executive Directors						
C Goode (Appointed director July 1991; appointed Chairman August 1995)	**2006**	78,724	621,118			n/a
Independent Non Executive Director, Chairman	2005	79,415	420,585			n/a
G Clark (Appointed February 2004)	**2006**	137,250	45,738		34,808	n/a
Independent Non Executive Director	2005	130,000			25,440	n/a
J Ellis (Appointed October 1995)	**2006**	144,426	38,551		65,500	n/a
Independent Non Executive Director	2005	103,000	27,000		42,250	n/a
D Gonski (Appointed February 2002)	**2006**	122,521	60,446		46,775	n/a
Independent Non Executive Director	2005	88,970	41,030	22,150	22,512	n/a
M Jackson (Appointed March 1994)	**2006**	183,000			65,500	n/a
Independent Non Executive Director	2005	130,000			42,250	n/a
D Meiklejohn (Appointed October 2004)	**2006**	183,000			66,866	n/a
Independent Non Executive Director	2005	130,000			31,027	n/a
J Morschel (Appointed October 2004)	**2006**	149,526	45,738		40,000	n/a
Independent Non Executive Director	2005	111,723	30,000		19,500	n/a
Former Non-Executive Directors						
R Deane (Appointed September 1994; retired 30 June 2006)	**2006**	137,250		122,141 (7)	21,025	n/a
Independent Non Executive Director	2005	130,000		122,384	17,618	n/a
J Dahlsen (Appointed May 1985; retired 3 February)						
Independent Non Executive Director	2005	44,417			18,809	n/a
B Scott (Appointed August 1985; retired 23 April 2005)						
Independent Non Executive Director	2005	72,857		28,516	17,234	n/a
Total of all Non-Executive Directors	**2006**	1,135,697	811,591	122,141	340,474	n/a
	2005	1,020,382	518,615	173,050	236,640	n/a
Executive Director						
J McFarlane (Appointed October 1997) (9,10)	**2006**	50	2,071,192			2,420,005
Chief Executive Officer	2005	44	1,882,896			2,100,004
Total of all Directors	**2006**	1,135,747	2,882,783	122,141	340,474	2,420,005
	2005	1,020,426	2,401,511	173,050	236,640	2,100,004

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(1) Shares acquired through participation in Directors Share Plan (relates to CEO only in relation to his cash incentive, as Non-executive Directors (NEDs) do not participate in short-term incentive arrangements). Value reflects the price at which the shares were purchased on market (amortization not applicable). Share purchases for NEDs were made on October 28, 2004 and 4 May 2005 for the 2005 year and on October 31, 2005 and May 1, 2006 for the 2006 year.

(2) 100% of the CEO s cash incentive vested during the financial year that performance relates to.

(3) Includes $300,000 additional employer contribution, agreed as part of the CEO s contract extension announced October 26, 2004 (refer to section D2). For J Morschel, superannuation guarantee contributions paid in respect of each other NED, are paid to him as cash in lieu.

(4) The accrual for the ANZ Directors Retirement Scheme relates only to the 2005 financial year, due to its closure as at September 30, 2005. The following benefits were paid under the ANZ Directors Retirement Scheme to the following former directors: R Deane (retired June 30, 2006) $723,107; J Dahlsen (retired February 3, 2005) $513,668; B Scott (retired April 23, 2005) $516,214. The accrued entitlements fixed under the ANZ Directors Retirement Scheme as at September 30, 2005 are as follows: C Goode $1,312,539; G Clark $83,197; J Ellis $523,039; D Gonski $249,445; M Jackson $487,022; D Meiklejohn $64,781; J Morschel $60,459.

(5) In accordance with the requirements of AASB 2 Share-based Payment, the amortization value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed) and that the LTI performance shares will vest after 3 years. The fair value is determined at grant date and is allocated on a straight-line basis over the expected vesting period. The fair value for options and performance shares was determined using a binomial pricing model that is explained in section F9 for options, and F10 for performance shares. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realized should the options become exercisable or the performance shares vest.

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			POST EMPLOYMENT	LONG TERM EMPLOYEE BENEFITS		SHARE-BASED PAYMENTS (5)		
	Other $	Total $	Super contributions (3) $	Retirement benefit accrued during year (4) $	Long service leave accrued during the year $	Total amortisation value of LTI shares $	Total amortisation value of LTI options $	Total Remuneration (6) $
Current Non - Executive Directors								
C Goode (Appointed director July 1991; appointed Chairman August 1995)		699,842	12,276		n/a	n/a	n/a	712,118
Independent Non Executive Director, Chairman		500,000	11,723	243,284	n/a	n/a	n/a	755,007
G Clark (Appointed February 2004)		217,796	12,276		n/a	n/a	n/a	230,072
Independent Non Executive Director		155,440	11,723	50,189	n/a	n/a	n/a	217,352
J Ellis (Appointed October 1995)		248,477	12,276		n/a	n/a	n/a	260,753
Independent Non Executive Director		172,250	11,723	110,981	n/a	n/a	n/a	294,954
D Gonski (Appointed February 2002)		229,742	12,276		n/a	n/a	n/a	242,018
Independent Non Executive Director		174,662	11,723	104,001	n/a	n/a	n/a	290,386
M Jackson (Appointed March 1994)		248,500	12,276		n/a	n/a	n/a	260,776
Independent Non Executive Director		172,250	11,723	122,008	n/a	n/a	n/a	305,981
D Meiklejohn (Appointed October 2004)		249,866	12,276		n/a	n/a	n/a	262,142
Independent Non Executive Director		161,027	11,723	64,781	n/a	n/a	n/a	237,531
J Morschel (Appointed October 2004)		235,264			n/a	n/a	n/a	235,264
Independent Non Executive Director		161,223		60,459	n/a	n/a	n/a	221,682
Former Non-Executive Directors								
R Deane (Appointed September 1994; retired 30 June 2006)	1,600 (8)	282,016	9,104		n/a	n/a	n/a	291,120

Independent Non Executive Director			270,002	11,723	49,169	n/a	n/a	n/a	330,894
J Dahlsen (Appointed May 1985; retired 3 February) Independent Non Executive Director			63,226	4,423	111,303	n/a	n/a	n/a	178,952
B Scott (Appointed August 1985; retired 23 April 2005) Independent Non Executive Director			118,607	6,803	127,089	n/a	n/a	n/a	252,499
Total of all Non-Executive Directors	1,600		2,411,503	82,760	-	n/a	n/a	n/a	2,494,263
			1,948,687	93,287	1,043,264	n/a	n/a	n/a	3,085,238
Executive Director									
J McFarlane (Appointed October 1997) (9,10)	219,370	(11,12)	4,710,617	428,700		59,376	1,310,649	756,311	7,265,653
Chief Executive Officer	4,031	(12)	3,986,975	417,000		31,242	982,987	1,791,718	7,209,922
Total of all Directors	220,970		7,122,120	511,460		59,376	1,310,649	756,311	9,759,916
	4,031		5,935,662	510,287	1,043,264	31,242	982,987	1,791,718	10,295,160

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(6) Amounts disclosed for remuneration of directors exclude insurance premiums paid by the consolidated entity in respect of directors and officers liability insurance contracts which cover current and former directors and officers, including senior managers of the entity and directors, senior managers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

(7) Amounts paid in NZD are converted to AUD at an average rate for the year of 1.1433 (1.0847 in 2005).

(8) Other for R Deane relates to a non-monetary benefit received on retirement as a gift from the Board.

(9) Amortization value of options as a percentage of total remuneration (as shown in the Total column above) was 10% in 2006 (25% in 2005).

(10) J McFarlane elected to use almost all of his cash salary and incentive to purchase on market deferred shares under the Directors Share Plan. The purchase dates were October 28, 2004, February 1, 2005, May 2, 2005 and August 8, 2005 for the 2005 year and October 31, 2005, January 30, 2006, May 1, 2006 and August 7, 2006 for the 2006 year.

(11) Relates to reimbursement to J McFarlane of $202,837 for the additional tax liability on his UK Pension Plan holdings, arising as a result of Australian Foreign Investment Fund rules, and J McFarlane s continuing Australian residency (in accordance with the contractual arrangements detailed in section D2).

(12) Relates to professional services rendered in respect of taxation matters ($16,533 in 2006).

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Table 2: Executive key management personnel remuneration and top 5 remuneration

For the year ended September 30, 2006, remuneration details of the KMP identified as executives of the Group (as required under AASB 124), and the five most highly remunerated executives in the Company and the Group (as required under the Corporations Act 2001), other than the Chief Executive Officer, are set out below:

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT
	Financial Year	Cash salary/fees $	Non monetary benefits (1) $	Total cash incentive (2,3) $	Total $	Super contributions $
Current Executives						
R Edgar (8)	**2006**	787,068	14,788	850,000	1,651,856	49,725
Senior Managing Director	2005	727,696	28,281	800,000	1,555,977	46,800
B Hartzer	**2006**	883,626	59,640	1,300,000	2,243,266	58,500
Group Managing Director, Personal Division	2005	694,435	61,542	1,080,000	1,835,977	46,800
G Hodges (9)	**2006**	841,866	71,920	895,000	1,808,786	7,459
Chief Executive, ANZ National Bank Limited (NZ)	2005	648,556	11,465	863,000	1,523,021	40,838
P Marriott	**2006**	842,618	6,313	1,080,000	1,928,931	52,650
Chief Financial Officer	2005	748,700	7,277	920,000	1,675,977	46,800
S Targett	**2006**	936,600	6,313	1,000,000	1,942,913	58,500
Group Managing Director, Institutional Division	2005	748,700	7,277	880,000	1,635,977	46,800
P Hodgson (10)	**2006**	701,393	6,313	825,000	1,532,706	43,875
Chief Risk Officer						
Former Executives						
Sir J Anderson **(retired effective December 31, 2005) (11,12)** Chief executive & Director, ANZ National Bank Limited (New Zealand)	2005	838,110		460,960	1,299,070	83,811
E Funke Kupper **(resigned effective February 1, 2006) (13)**	**2006**	234,483	2,110		236,593	14,663
Group Managing Director, Asia Pacific	2005	654,550	7,277	770,000	1,431,827	40,950
Total of all Executive KMPs	**2006**	4,526,261	161,084	5,125,000	9,812,345	241,497
	2005	5,060,747	123,119	5,773,960	10,957,826	352,799
Total of all Disclosed Executives	**2006**	5,227,654	167,397	5,950,000	11,345,051	285,372
	2005	5,060,747	123,119	5,773,960	10,957,826	352,799

(1) Non-monetary benefits consist of salary packaged items such as car parking, novated lease motor vehicles and G Hodges non-monetary benefits include housing and airfares.

(2) Total cash incentive relates to the full incentive amount for the financial year that the performance relates to.

(3) 100% of the cash incentive awarded in both 2005 and 2006 vested to the person in the applicable financial year.

(4) Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, R Edgar and G Hodges are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: 3 months of notional salary (which is 65% of fixed remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years, less the total accrual value of long service leave (including taken and untaken).

(5) In accordance with the requirements of AASB 2, the amortization value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options / performance rights will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed) and that deferred shares will vest after 3 years. The fair value is determined at grant date and is allocated on a straight-line basis over the 3-year vesting period. For options, the fair value is determined using a Binomial Option Pricing (BOP) model. For performance rights a modified Black-Scholes and a BOP model were used. The valuation models are explained in section F9. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realized should the options / performance rights become exercisable. For deferred shares, the fair value is the volume weighted average price of the Company s shares traded on the ASX on the day the shares were

granted.

(6) Amortization of other equity allocations for Sir J Anderson relates to the granting of zero priced options (ZPO). ZPOs were granted as part of his employment contract. Refer to section E2 for further details. Amortization of other equity allocations for S Targett relates to the grant of deferred shares beginning on May 1, 2004 (four tranches to the value of $700,000 each issued at 6 month intervals in May and November in 2004 and 2005, subject to Board approval and continued employment) and hurdled A options (refer to section F11.1 for performance hurdle details) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer.

	LONG TERM EMPLOYEE BENEFITS		**SHARE-BASED PAYMENTS (5)**					
	Retirement benefit accrued during year (4)	**Long service leave accrued during the year $**	**Total amortisation value of STI shares $**	**Total amortisation value of LTI shares $**	**Total amortisation value of Lti options $**	**Total amortisation value of performance rights $**	**Total amortisation of other equity allocations (6) $**	**Total Remuneration (7,14) $**
Current Executives								
R Edgar (8)		37,607	108,692	503,179	181,819	202,340		2,735,218
Senior Managing	1,672							
Director		13,928	173,907	555,470	264,095			2,611,849
B Hartzer		40,575	94,597	175,183	174,542	216,792		3,003,455
Group Managing Director, Personal Division		19,469	149,259	237,943	282,929			2,572,377
G Hodges (9)		48,447	82,179	150,066	149,602	202,340		2,448,879
Chief Executive, ANZ National Bank Limited (NZ)	1,635	46,140	131,825	186,089	218,920			2,148,468
P Marriott		34,830	127,015	206,816	206,831	209,566		2,766,639
Chief Financial Officer		12,422	208,525	295,175	317,175			2,556,074
S Targett		20,020		44,857	43,215	216,795	1,166,859	3,493,159
Group Managing Director, Institutional Division		12,497		40,544	39,059		789,238	2,564,115
P Hodgson (10)		11,716	130,541	113,241	30,377	173,434		2,035,890
Chief Risk Officer								
Former Executives								
Sir J Anderson (retired effective December 31, 2005) (11,12)								
Chief executive & Director, ANZ National Bank Limited (New Zealand)	33,367						477,452	1,893,700
E Funke Kupper **(resigned effective February 1, 2006) (13)**			104,930	146,895	147,119	152,622		802,822
Group Managing Director, Asia Pacific		10,860	184,924	221,068	239,523			2,129,152
Total of all Executive KMPs		181,479	517,413	1,226,996	903,128	1,200,455	1,166,859	15,250,172
	36,674	115,316	848,440	1,536,289	1,361,701		1,266,690	16,475,735
Total of all Disclosed Executives		193,195	647,954	1,340,237	933,505	1,373,889	1,166,859	17,286,062
	36,674	115,316	848,440	1,536,289	1,361,701		1,266,690	16,475,735

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(7) Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors and officers liability insurance contracts which cover current and former directors and officers, including senior managers of the entity and directors, senior managers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no

reasonable basis for such allocation exists.

(8) B Edgar was the Chief Operating Officer prior to October 2005.

(9) Prior to November 2005, G Hodges was the Group Managing Director Corporate. Between November 1, 2005 and December 31, 2005, he was the Chief Executive Designate (New Zealand), with his position changing to Chief Executive, ANZ National Bank Limited, New Zealand effective January 1, 2006.

(10) P Hodgson is disclosed as one of the five most highly remunerated executives in the Company for 2006 only (as required under the Corporations Act 2001). Therefore 2005 comparative information has not been provided, and he has not been included in the Executive KMP totals.

(11) Amounts paid to Sir J Anderson in NZD in 2005 were converted to AUD at an average rate for the 2005 year of 1.0847.

(12) Sir J Anderson ceased employment during the year, effective December 31, 2005, and received his fixed pay during the period October 1, 2005 to December 31, 2005 of NZ$250,250, a retirement gratuity payment of NZ$1,193,150 as part of his employment contract, a payment in lieu of notice plus annual leave entitlements totaling NZ$437,109, a payment in lieu of his equity participation for 2006 of NZ$250,000 and a payment in relation to his 2006 STI bonus of NZ$250,000. Total payment NZ$2,380,509.

(13) E Funke Kupper received a final payment on resignation of $165,554 relating to his accrued annual leave and long service leave. With the inclusion of the final payment his total remuneration for 2006 would be $968,376.

(14) Amortization value of options and rights as a percentage of total remuneration was: R Edgar 14% (2005: 10%); B Hartzer 13% (2005: 11%); G Hodges 14% (2005: 10%); P Marriott 15% (2005: 12%); S Targett 15% (2005: 11%); P Hodgson 10%.

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Section B. Non-executive Directors Remuneration

B1. Non-executive Directors Remuneration Policy

Non-executive Directors (NEDs) fees are reviewed annually and are determined by the Board of Directors based on advice from external advisors and with reference to fees paid to other NEDs of comparable companies.

The total of NEDs fees (including superannuation contributions) are within the maximum annual aggregate limit agreed to by shareholders at the Annual General Meeting held on December 16, 2005 ($3 million, excluding superannuation benefit payouts and retirement benefits), and are set at levels that fairly represent the responsibilities of, and the time spent by the NEDs on Group matters. NEDs receive a fee for being a director of the Board, and additional fees for either chairing or being a member of a committee. Work on special committees may attract additional fees of an amount considered appropriate in the circumstances. An additional fee is also paid if a NED serves as a director on a subsidiary board. NEDs do not receive any performance / incentive payments and are not eligible to participate in any of the Group s incentive arrangements.

To compensate for the removal of the Non-Executive Directors Retirement Scheme (as at September 30, 2005), NED fees were increased by 27.5% effective October 1, 2005. This amount was determined based on an independent actuarial valuation of the scheme by Mercer Finance and Risk Consulting and advice from expert remuneration consultants PricewaterhouseCoopers. This increase is also in line with market practice in relation to fee increases due to the removal of Directors Retirement Schemes, where increases have typically ranged from 25% to 30%.

Market adjusted fee increases of ~10% were also approved for 2006 based on market analysis and independent advice that market movements of 10% to 15% were expected in 2006. Committee membership fees received a larger market adjustment (excluding Governance Committee and Technology Committee) to ensure market competitiveness.

The fee structure is illustrated below:

Table 3

		Breakdown of 2005/2006 Fees		
Role	**2004/05 Fees $**	**Increase relating to closure of Retirement Scheme $**	**Increase relating to market adjustment $**	**Total 2005/06 Fees $**
Chairman	500,000	137,500	62,500	700,000
Non-Executive Director	130,000	35,750	17,250	183,000
Committee Chair (1)	32,500	8,938	4,062	45,500
Committee Member (1)	9,750	2,681	7,569	20,000

(1) Except Governance Committee and Technology Committee, where the current Chair and Member Fees are $26,775 and $8,033 respectively. These 2005/2006 fee amounts reflect the fee increase due to the removal of the ANZ Directors Retirement Scheme. No additional market adjustment was applied.

NED Shareholding Guidelines

NEDs have agreed to accumulate ANZ shares, over a five-year period, to the value of 100% (200% for Chairman) of the base annual NED Fee and to maintain this shareholding while a director of ANZ. NEDs have agreed to apply up to 25% of their base fee annually through the Directors Share Plan or other means, towards the purchase of ANZ shares in order to achieve / maintain the desired holding level. This guideline was approved by the Board in September 2005.

B2. Non-Executive Directors Retirement Policy

The NED retirement scheme was closed effective September 30, 2005.

Accrued entitlements relating to the ANZ Directors Retirement Scheme were fixed at September 30, 2005 and will be carried forward to retirement, and collected by the NED when they retire (refer to footnote 4 in Table 1 for the fixed entitlement for each NED). Based on shareholder approval at the 2005 AGM, NEDs nominated the proportion of their accrued entitlement to be held until retirement as either cash or shares. Those electing the cash alternative receive an additional amount relating to the interest accrued at the 30 day bank bill rate from

October 1, 2005 to the date of retirement. Those electing shares will be entitled to receive dividends on the shares purchased. Refer to the 2005 notice of AGM for further details.

B3. Directors Share Plan

The Directors Share Plan is available to both non-executive and executive directors. Directors may elect to forego remuneration to which they may have otherwise become entitled and receive shares to the value of the remuneration foregone, and therefore the shares acquired are not subject to performance conditions. Participation in the plan is voluntary.

Shares acquired under the plan are purchased on market and are held in trust for up to 10 years. Shares are subject to a minimum 1 year restriction, during which the shares cannot be traded, and are subject to forfeiture for serious misconduct. All costs associated with the plan are met by the Company.

Section C. Remuneration Structure

C1. Remuneration Guiding Principles

ANZ s reward policy approved by the Board shapes the Group s remuneration strategies and initiatives.

The following principles underpin ANZ s reward policy:

1. Focus on creating and enhancing value for all ANZ stakeholders;

2. Differentiation of individual rewards commensurate with contribution to overall results and according to individual accountability, performance and potential;

3. Significant emphasis on at risk components of total rewards; and

4. The provision of a competitive reward proposition to successfully attract, motivate and retain the highest quality individuals required to deliver ANZ s business and growth strategies.

Shareholding Guidelines

Direct Reports to the CEO are expected to accumulate ANZ shares, over a five year period, to the value of 200% of their Fixed Pay and to maintain this shareholding while an executive of ANZ. Our next most senior executives are expected to accumulate ANZ shares to the value of 100% of their Fixed Pay and to maintain this shareholding while an executive of ANZ. This guideline was introduced in June 2005. New executives will be expected to accumulate the required holdings within five years of appointment.

C2. Remuneration Structure Overview

The executive remuneration program (which includes the remuneration of senior managers, the company secretaries and other KMP) aims to differentiate remuneration on the basis of achievement against group, business unit and individual performance targets which are aligned to sustained growth in shareholder value using a balanced scorecard approach. The program comprises the following components:

- Fixed Pay component: salary, non-monetary benefits and superannuation contributions. (Refer to C3)
- Variable or at risk component (Refer to C4):
- Short-Term Incentive (STI); and
- Long-Term Incentive (LTI).

Depending on the competitive market, the proportion of remuneration at risk generally increases for the most senior or complex roles, or for those roles where there is strong market pressure to provide greater levels of remuneration.

Fixed Pay is set at the median of the market. STI and LTI payments for on target performance are also set at market median. The plan design allows for the opportunity to earn upper quartile total remuneration for significant out performance, and significantly reduced payment for underperformance. In this way the remuneration structure is heavily weighted towards reward for performance .

C3. Fixed Remuneration

For most executives, Fixed Pay comprises cash salary, a superannuation contribution, and the remainder as nominated benefits. The types of benefits that can be packaged by executives include novated car leases, additional superannuation contributions, car parking, child care, laptops and contributions towards the Employee Share Save Scheme.

Executive remuneration is reviewed annually based on individual performance and market data. ANZ operates with a midpoint targeted to the local market median being paid in the finance industry in the relevant global markets in which ANZ operates, and a range around this midpoint.

C4. Variable Remuneration

Variable remuneration forms a significant part of executives potential remuneration, providing an at-risk component that is designed to drive performance in both the short-term (annually) and in the medium and long-term (3 years or more). The opportunities available to executives under ANZ s variable reward programs are designed to reinforce the achievement of short and long term performance targets and to ensure remuneration competitiveness in the relevant markets in which they operate. Most executives participate in the short-term incentive (STI) plan detailed in section C4.1 and the long-term incentive (LTI) plan detailed in section C4.2.

Equity allocated under ANZ incentive schemes remains at risk until fully vested (in the case of Deferred Shares) or exercisable (in the case of Options or Performance Rights). As such, it is a condition of grant that no schemes are entered into that specifically protect the unvested value of shares, options and performance rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares or options. We also advise that all current disclosed directors and executives did not enter into (and are not currently involved in) any schemes to protect the value of their interests in any vested ANZ securities.

C4.1 Short-Term Incentives

ANZ s STI approach supports our strategic objectives by providing rewards that are significantly differentiated on the basis of achievement against performance targets. Most executives participate in the plan explained below. All STI plans are reviewed and approved by the People Committee.

Determination of STI Levels

The size of the overall pool available each year is based on performance against cash earnings per share (EPS) growth target. This pool is then spread between the Divisions based on their performance against a balanced scorecard of financial and qualitative measures, and then distributed to individuals based on relative performance. The Board is required to approve the STI Group and Division outcomes and the distribution of the STI pool amongst the Divisions.

Each executive has a target STI which is determined according to job size and market relativities. The size of the actual STI payment made at the end of each financial year to individuals may be at, above or below the target and this will be determined according to ANZ Group, Division and Individual Performance.

Individual performance objectives are set and aligned at the start of each financial year according to a balanced scorecard of measures at the Group, Division and Individual level. These measures are aligned with the achievement of ANZ s overall balanced scorecard, and therefore considered the most appropriate measures for aligning with company performance. Division and Individual objectives are a subset of the Group objectives, which ensures there is alignment of objectives throughout the executive population.

Performance objectives under ANZ s balanced scorecard include a number of qualitative and quantitative measures which include, but are not limited to:

- Financial Measures including: Economic Value Added (EVATM); Revenue, EPS and Net Profit After Tax
- Customer Measures including: Customer Satisfaction and Market Share
- Employee Engagement, Risk Management and Compliance Measures
- Environment, Health & Safety and Community Measures.

Performance against these objectives is assessed at the end of the financial year and rewards are made based on performance against targets.

The STI is payable 100% in cash (except where specific business plans require otherwise). Executives are able to elect to sacrifice part or all of their incentive towards the purchase of ANZ shares which are restricted from sale for 12 months, or towards additional superannuation contributions. As the incentive amount has already been earned, there are no performance measures attached to the shares.

The target STI award level for disclosed executives is 100% of TEC in 2006 with a maximum STI award of 150% of TEC. For larger senior executive roles in the ANZ STI plan, the target STI is 67% of TEC, with a maximum of 100% of TEC, and for smaller senior executive roles the

target is 43% of TEC and the maximum 65% of TEC. Note, the target and maximum STI amounts for larger and smaller senior executive roles may vary for customized incentive schemes.

C4.2 Long-Term Incentives

Long-term incentives (LTIs) are used as a mechanism to link a significant portion of executives remuneration to the attainment of sustained growth in shareholder value. LTI is delivered as 100% Performance Rights, with a single long-term performance measure.

A Performance Right is a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Performance Rights are designed to reward executives for share price growth dependent upon the Company s Total Shareholder Return (TSR) outperforming peers. TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance.

The conditions under which Performance Rights are granted are approved by the Board in accordance with the rules of the ANZ Share Option Plan.

Each performance Right has the following features:

- Performance rights held by eligible executives will be tested once only against the performance hurdle at the end of three years;
- Subject to the performance hurdle being met, the executive has a two-year exercise period that commences three years after the grant date;
- Upon exercise, each Performance Right entitles the executive to one ordinary share;
- In case of dismissal for serious misconduct, Performance Rights are forfeited;
- In case of resignation or termination on notice, only Performance Rights that become exercisable by the end of the notice period may be exercised;
- In case of retrenchment or retirement, the Performance Rights will generally be performance tested at the date of termination, and where performance hurdles have been met, Performance Rights will vest on a pro-rata basis and a grace period provided in which to exercise;
- In case of death or total & permanent disablement, the performance hurdle is waived and a grace period is provided in which to exercise all Performance Rights; and
- A performance hurdle applies, which is explained below.

The proportion of Performance Rights that become exercisable will depend upon a single point testing of the TSR achieved by ANZ relative to the companies in the comparator group at the end of a three-year period. An averaging calculation will be used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility.

Where median performance is achieved, executives total remuneration will typically be below market median for the financial services industry. 75th percentile performance is required for full vesting which enables executives to receive the full value of their LTI. To ensure an independent TSR measurement, ANZ engages the services of an external organization (Macquarie Financial Services) to calculate ANZ s performance against the TSR hurdle.

Comparator Group

The peer group of companies against which ANZ s TSR performance is measured, comprises the following companies:

- AMP Limited
- AXA Asia Pacific Holdings Limited
- Commonwealth Bank of Australia
- Insurance Australia Group Limited

- Macquarie Bank Limited
- National Australia Bank Limited
- QBE Insurance Group Limited
- St George Bank Limited
- Suncorp-Metway Limited
- Westpac Banking Corporation

The companies in this comparator group were chosen because they represent ANZ s key competitors in the financial services industry, are an appropriate reference group for investors and are of sufficient size by market capitalization and weight in the ASX Top 50. Refer to section F11 for details pertaining to legacy LTI equity vehicles (which are yet to vest).

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Size of LTI Grants

The size of individual LTI grants is determined by an individual s level of responsibility, performance and the assessed potential of the executive. Typically, at the most senior levels the Target LTI value will range from around 13% to 28% of the individual s target reward mix.

Executives are advised of their LTI dollar value, which is then converted into a number of Performance Rights based on a valuation. ANZ engages external experts (PricewaterhouseCoopers and Mercer Finance & Risk Consulting) to independently value the Performance Right, taking into account factors including the performance conditions, life of instrument, share price at grant date etc. These valuations are then reviewed by KPMG and the highest value is then approved by the Board as the allocation value. LTI allocations are made annually in or around November.

C5. Performance of ANZ

The table below shows ANZ s annual performance over the five-year period spanning October 1, 2002 to September 30, 2006. The table illustrates the impact of ANZ s performance on shareholder wealth, taking into account dividend payments, share price changes and other capital adjustments during the financial year.

Table 4	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 (1)
Basic Earnings Per Share (EPS)	141.4	142.4	153.1	160.9	200.0
NPAT ($m)	2,322	2,348	2,815	3,018	3,688
Total Dividend (cps)	85	95	101	110	125
Share price at 30 September ($)	16.88	17.17	19.02	24.00	26.86
Total Shareholder Return (%)	15.3	6.7	17.0	32.6	17.1

(1) Figures are based on AIFRS results

In table 4, ANZ s Total Shareholder Return (TSR, which includes share price growth, dividends and other capital adjustments) has been shown for each individual financial year between 2002 and 2006.

Section D Chief Executive Officer s Remuneration

D1. Chief Executive Officer (CEO) Remuneration Overview

The CEO (identified as a KMP) is ANZ s only executive director. The structure of J McFarlane s remuneration, which is in accordance with his employment agreement, is as follows:

Fixed pay: Consists of salary, benefits and superannuation contributions. Since October 2003, J McFarlane has elected to receive almost all of his Fixed Pay in the form of shares purchased under the Directors Share Plan. These shares are not subject to a performance condition as they are provided in place of cash remuneration at the CEO s choice. However, they are subject to forfeiture in case of termination for serious misconduct.

Short-term Incentive: The Board sets J McFarlane s balanced scorecard at the beginning of the financial year. The Board then assesses performance against these objectives at the end of the year to determine the appropriate incentive (relative to target). These objectives are aligned with the achievement of ANZ s business plan, and are the most appropriate indicators of performance. These objectives include a number of quantitative and qualitative measures, which include (but are not limited to) financial, customer, people, environment and community measures. J McFarlane s STI may be paid in cash or in shares purchased under the Directors Share Plan. J McFarlane has typically elected to receive shares.

Long-term Incentive: J McFarlane s Long-Term Incentive is made up of Hurdled Options and Performance Shares as approved by shareholders at the 2001 and 2004 Annual General Meetings respectively. No equity was issued to J McFarlane in the 2006 financial year. The performance conditions pertaining to the Options and Performance Shares issued during the 2005 year are indicated in F11.1 Hurdled A options and F11.3 respectively. They are linked to

Company performance and increasing shareholder value. There are no further LTI allocations under his existing employment contract.

The remuneration of J McFarlane for the year ended September 30, 2006 is set out in Table 1 in section A of this Remuneration Report. The mix of remuneration for J McFarlane under his current contract is made up as follows:

- Fixed Remuneration of $2,200,000 per annum;

- Target variable Short-Term Incentive of $2,200,000 per annum;

- Long-Term Incentive of $2,600,000 granted on December 31, 2004 - one allocation only in 2005 financial year (based on valuation of 175,000 performance shares at issue). Note, the fair value of LTI equity granted since December 2003, and annualized over the period from grant date to contract end date is $1,530,000.

Variations to J McFarlane s remuneration structure which will impact remuneration in future periods, require Board approval.

Shareholding Guideline

The Chief Executive Officer of ANZ is expected to accumulate ANZ shares, over a five year period, to the value of 200% of his Fixed Remuneration and to maintain this shareholding while CEO of ANZ. This shareholding guideline was introduced in September 2005. The CEO is currently compliant, with 1,973,422 beneficially held shares.

D2. CEO s Contract Terms

On October 26, 2004, the Company announced an extension to J McFarlane s contract:

- The term of the contract was extended by one year to September 30, 2007. On December 5, 2006 John McFarlane s contract was further extended to December 31, 2007 to facilitate transition;

- In addition to mandatory superannuation contributions, the Company makes additional employer contributions of $300,000 per annum (effective from October 1, 2003), paid quarterly to J McFarlane s chosen superannuation fund; and

- J McFarlane was granted 175,000 Performance Shares on December 31, 2004.

A separate agreement, made on October 23, 2001, provides for reimbursements to J McFarlane for any additional tax liabilities that may arise on his UK Pension Plan holdings as a result of his continuing Australian residency. Under this agreement, ANZ reimburses J McFarlane for any additional tax liability incurred on his UK Pension Plan during his employment with ANZ, arising as a consequence of Australian Foreign Investment Fund rules. In the event of decreased Australian tax liabilities due to a decreased value in J McFarlane s UK Pension Plan, the reduced liability will be used to offset potential subsequent reimbursements.

D3. CEO s Retirements and Termination Benefits

J McFarlane can terminate his employment agreement by providing 12 months notice. ANZ may terminate the employment agreement by providing notice equal to the unexpired term of the employment agreement (which ends December, 2007). If ANZ terminates the employment agreement without notice and thus breaches its obligation to provide the required notice, ANZ has agreed with J McFarlane that the damages payable by ANZ for breach of contract would be equal to the Total Employment Cost (TEC) that would otherwise be received over the remainder of the contract (TEC comprises salary or fees, non-monetary benefits and mandatory superannuation contributions).

In circumstances of serious misconduct, J McFarlane is only entitled to payment of TEC up to the date of termination. Payment of accumulated superannuation benefits plus statutory entitlements of long service leave and annual leave (calculated on the basis of salary) applies in all events of separation.

In the event of resignation not approved by the Board or dismissal for serious misconduct, all unexercised options and Performance Shares will be forfeited. In the event of termination on notice or agreed separation, all vested options and Performance Shares must be exercised within 6 months of the termination or agreed separation date, subject to meeting the relevant performance hurdles. In the event of serious misconduct, shares held in the Directors Share Plan will be forfeited. On resignation or termination on notice, shares held under the Directors Share Plan will be released. In accordance with J McFarlane s contract variation (refer to section D2), J McFarlane s nominated superannuation fund receives $300,000 per annum (effective from October 1, 2003, paid quarterly) in addition to mandatory superannuation contributions.

D4. CEO s Participation in Equity Programs

Hurdled Options:

At the 2001 Annual General Meeting, four tranches of options were approved for granting by the Board: 500,000 in 2001; 1,000,000 in 2002; 1,000,000 in 2003 and 500,000 in 2004. For options granted to the CEO, the exercise price is equal to the weighted average share price on the ASX during the 5 trading days immediately before or after the Company s Annual General Meeting that immediately precedes the allocation. The exercise of these options is subject to performance hurdles being satisfied. J McFarlane s specific performance hurdles are indicated in section F11.1 (Hurdled A), and for Performance Shares in section F11.3. For options granted to the CEO, the life and exercise period may differ, as disclosed in F3.

Performance Shares:

175,000 Performance Shares were issued to J McFarlane on December 31, 2004 as part of his contract extension, as approved by shareholders at the 2004 Annual General Meeting. No dividends will be payable on the shares until they vest. Vesting will be subject to time and performance hurdles being satisfied as detailed in section F11.3. As these Performance Shares were granted as part of J McFarlane s contract extension to September 30, 2007, as opposed to a new contract, the conditions of grant were aligned with those of the original contract (e.g. the vesting and exercise period) apart from the application of a TSR performance hurdle.

Given we expect the decisions and actions of J McFarlane to be based on long-term considerations (with the impact of decisions and actions to extend well beyond the end of his contract), the adoption of an exercise period (December 31, 2006 to December 31, 2009) that commences before and extends beyond his contract end date encourages a balanced focus. The performance hurdles ensure that full benefits are not achieved if targets are not met.

Directors Share Plan

J McFarlane participates in the Directors Share Plan, which is explained in Section B3.

Please refer to Section F for details of grants and holdings.

Section E. Disclosed Executives Contract Terms

Contractual terms are similar, but do, on occasion, vary to suit different needs. Section E1 details the contractual terms for those disclosed executives who are on open-ended contracts. Section E2 details the contractual terms for Sir J Anderson, who was on a fixed term contract. Note, the contract terms detail the structure of disclosed executive remuneration. Variations to the remuneration structure which will impact remuneration in future periods, requires Board approval.

E1. Open Ended Contracts: Dr RJ Edgar, BC Hartzer, GK Hodges, PJ Hodgson, PR Marriott and S Targett

Length of Contract	Open-ended
Fixed Remuneration	Remuneration consists of salary, mandatory employer superannuation contributions and benefits.
Short-Term Incentive	Eligible to participate. Refer to section C4.1 for details of short-term incentive arrangements.
Long-Term Incentive	Eligible to participate at the Board s discretion refer to section C4.2 for long-term incentive arrangements.
Resignation	Employment may be terminated by giving 6 months written notice. On resignation any options and unvested deferred shares will be forfeited.
Retirement	On retirement, shares and options are released in full.
Termination on Notice by ANZ	ANZ may terminate the executive s employment by providing 12 months written notice or payment in lieu of the notice period based on Fixed Pay. On termination on notice by ANZ any options or LTI deferred shares that have vested, or will vest during the notice period will be released, in accordance with the ANZ Share Option Plan Rules. LTI shares that have not yet vested will generally be forfeited, although for some executives (E Funke Kupper, BC Hartzer and PR Marriott) these shares will be released in full. Deferred shares granted under STI arrangements will vest in full for all executives. There is discretion to pay incentives on a pro-rata basis (depending on termination date and subject to business performance).
Redundancy	If ANZ terminates employment for reasons of bona fide redundancy, a severance payment will be made that is equal to 12 months Fixed Pay. All STI deferred shares are released. All options granted since April 24, 2002 are released on a pro-rata basis. All LTI deferred shares are released on a pro-rata basis. There is discretion to pay incentives on a pro-rata basis (depending on termination date and subject to business performance).
Death or Total and Permanent Disablement	All options and shares are released; pro-rata short-term incentive.
Termination for serious misconduct	ANZ may immediately terminate the executive s employment at any time in the case of serious misconduct, and the employee will only be entitled to payment of Fixed Pay up to the date of termination. Payment of statutory entitlements of long service leave (only if minimum 15 years of service) and annual leave applies in all events of separation. On termination for serious misconduct any options and any deferred shares still held in trust will be forfeited.
Other Aspects	S Targett: Subject to continued employment and the approval of the Board, four tranches to the value of $700,000 each of deferred shares to be granted at six month intervals in May and November in 2004 and 2005, and Hurdled Options with the value of $750,000 granted within 3 months of commencement of employment, to compensate for the loss of equity from S Targett s previous employer. On Termination on Notice, sign-on options can be exercised as a pro-rata proportion to the period of employment. Sign-on deferred shares will vest in full, including any scheduled to be granted during the notice period.

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E2. Fixed Term Contract (Sir J Anderson)

Length of Contract	Contract was effective from December 1, 2003 to September 30, 2005, and extended to April 15, 2006. Retired effective December 31, 2005.
Fixed Remuneration	The Fixed Pay package was NZD1,000,000 per annum and was inclusive of employer contributions to the superannuation fund.
Short-Term Incentive	STI payments were subject to both business and individual performance. The target payment was 50% of Fixed Pay.
Equity Participation	Zero Priced Options (ZPOs) were granted as part of Sir J Anderson s contract under the ANZ Share Option Plan. A ZPO is a right to acquire a share at nil cost. They were designed to deliver equity to the CEO of the National Bank of New Zealand (NBNZ) and to meet the particular needs and circumstances at the time of the acquisition of NBNZ. Grants were fixed at NZD $500,000 worth of ZPOs annually, granted in two tranches per annum and with a nil exercise price. The ZPOs had no time based vesting criteria, and so were able to be exercised at any time during employment and within 6 months of the termination of employment.
Resignation	Sir J Anderson was able to terminate his employment by giving 12 months written notice. On resignation any ZPOs not exercised as at the termination date would lapse.
Retirement	A policy for payment of retirement gratuities was in place with NBNZ employees prior to the acquisition by the Company of NBNZ. This policy has been continued for eligible staff who were ANZ National Bank Limited employees as at December 1, 2003, including Sir J Anderson. Under this policy, a payment was made to Sir J Anderson on his retirement equal to the number of full years service divided by 35 and multiplied by 85% of finishing salary (where finishing salary is fixed remuneration less any superannuation contribution).
Termination on Notice by ANZ	The employment contract provided ANZ National Bank Limited with a right to terminate Sir J Anderson s employment by providing notice or payment in lieu of notice equal to the unexpired term of the employment agreement (which had an end date of April 15, 2006). On termination on notice, any options could be exercised in accordance with the ANZ Share Option Plan Rules.
Death or Total and Permanent Disablement	Exercise any ZPOs; pro rata incentive.
Termination for serious misconduct	The employment contract provided ANZ National Bank Limited with a right to terminate Sir J Anderson s employment at any time without notice for serious misconduct, on the basis that Sir J Anderson would have been entitled to payment up to the date of termination. On termination for serious misconduct any ZPOs which had not been exercised as at the termination date would lapse.

E3. Participation in Equity Programs

A number of shares and options are granted to executives under the remuneration programs detailed in Section C. For disclosed executives, details of all grants made during the year and legacy LTI programs are listed in Section F. Aggregate holdings of shares and options are also shown. The deferred shares component of the LTI is administered under the ANZ Employee Share Acquisition Plan. For executives, the shares are deferred for three years.

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Section F. Equity Instrument Relating to Directors and Specified Executives

F1. Shareholdings of Non-Executive Directors (Including Movements During the 2005 & 2006 Years)

2006 Financial Year Name	Balance of shares as at Oct 1, 2005 (1)	Shares acquired during the year in lieu of salary (2)	Shares resulting from any other change during the year (3)	Balance of shares held as at Sept 30, 2006 (1,4)	Balance of shares held as at report sign-off date (1)
CB Goode	535,637	26,046	65,345	627,028	648,003
G Clark	5,000	1,920		6,920	8,501
RS Deane	75,364			75,364	75,364
JK Ellis	91,196	1,614	22,000	114,810	115,951
DM Gonski	54,904	2,534	11,510	68,948	68,948
MA Jackson	93,297			93,297	93,297
DE Meiklejohn	5,156		2,000	7,156	7,156
JP Morschel	5,502	1,920		7,422	9,003

2005 Financial Year Name	Balance of shares as at Oct 1, 2004 (1)	Shares acquired during the year in lieu of salary (2)	Shares resulting from any other change during the year (3)	Balance of shares held as at Sept 30, 2005 (1,5)	Balance of shares held as at report sign-off date (1)
CB Goode	502,464	20,781	12,392	535,637	559,451
G Clark (6)	2,000		3,000	5,000	6,766
JC Dahlsen (retired February 3, 2005)	121,915		(8,441)	113,474	113,474
RS Deane	75,364			75,364	75,364
JK Ellis	84,476	1,703	5,017	91,196	115,042
DM Gonski (7)	52,612	2,055	237	54,904	67,892
MA Jackson	93,297			93,297	93,297
DE Meiklejohn (8)	2,656		2,500	5,156	6,326
JP Morschel	4,000	1,502		5,502	7,268
BW Scott (retired April 23, 2005)	72,475		(6,494)	65,981	65,981

(1) Balance of shares held at October 1, 2004/2005, September 30, 2005/2006, November 2, 2005 and November 1, 2006, includes directly held shares, nominally held shares and shares held by related parties.

(2) All shares acquired in lieu of salary were done so under the Directors Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors Share Plan).

(3) Other shares resulting from any other changes during the year include the net result of any shares purchased/sold or acquired under the Dividend Reinvestment Plan.

(4) The following shares were nominally held as at September 30, 2006: CB Goode 408,553; G Clark 1,920; RS Deane 73,000; JK Ellis 47,898; DM Gonski 66,076; MA Jackson 10,632; DE Meiklejohn 4,654; JP Morschel 3,422.

(5) The following shares were nominally held as at September 30, 2005: CB Goode 141,860; RS Deane 73,000; JK Ellis 23,900; DM Gonski 52,159; MA Jackson 10,632; DE Meiklejohn 2,656; JP Morschel 1,502.

(6) Shareholding for G Clark includes 3,000 shares held by G Clark s related party previously omitted.

(7) Balance of shares held as at report sign-off date (2005) includes shares purchased on October 27, 2005 under the Directors Retirement Benefit scheme previously omitted for JK Ellis and DM Gonski.

(8) Shareholding excludes shares held through JB Were and RBC investment products previously disclosed.

F2. Shareholdings of CEO (Including Movements During the 2005 & 2006 Years)

	Balance of shares as Oct 1, 2005/2006 (1)	Share acquired during the year in lieu of salary (2)	Performance shares granted during the year (3,4)	Value of performance shares granted during the year (5) $	Shares acquired during the year through the exercise of options (6)	Shares resulting from any other change during the year (7)	Balance of shares held at Sep 30, 2005/2006 (1,8)	Balance of shares held as at report sign-off date (1)
2006	1,819,715	81,118			2,000,000	(1,927,411)	1,973,422	2,074,993
2005	1,690,507	89,995	175,000	2,628,500	500,000	(635,787)	1,819,715	1,820,056

(1) Balance of shares held at October 1, 2004/2005, September 30, 2005/2006, November 2, 2005 and November 1, 2006 includes directly held shares, nominally held shares and shares held by related parties.

(2) All shares acquired in lieu of salary were done so under the Directors Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors Share Plan).

(3) The grant of performance shares on December 31, 2004 was approved by shareholders at the 2004 AGM, with the earliest vesting date being December 31, 2006. Refer to section F11.3 for further information.

(4) Nil performance shares forfeited or vested. The maximum amortization balance is $331,263 for subsequent financial years, however the value will be nil if the minimum performance hurdle is not achieved.

(5) The fair value of performance shares granted during the 2005 financial year (and approved at the 2004 AGM) is based on the fair value of the shares as at December 31, 2004 ($15.02) multiplied by the number granted.

(6) All options held/exercised by the CEO have been approved by shareholders (December 1999 and December 2001).

(7) Other shares resulting from any other changes during the 2005 / 2006 years include the net result of any shares purchased, sold, or acquired under the Dividend Reinvestment Plan. For 2005, it also includes those shares received on October 28, 2004 in regards to the 2004 incentive (for the period ending September 30, 2004), and for 2006 it includes those shares received on October 31, 2005 in regards to the 2005 incentive (for the period ending September 30, 2005)

(8) 1,270,176 shares were held nominally as at September 30, 2005 and 1,486,294 shares as at September 30, 2006.

F3. Options Granted to CEO (1)

Financial Year **2005 [shown in bold]** *2006 [shown in italics]*

Type of options	Grant date	First date exercisable	Date of expiry (4)	Exercise price (5) $	Number granted (6,7)	Number vested during the 2005/2006 FY	Percentage that vested during the 2005/2006 FY%	Vested and excercisable as at Sept 30 2005/2006	Vested and unexercisable as at Sept 30 2005/2006	
Hurdled (2)	Dec 31, 2001	Dec 31, 2004	Dec 31, 2005	16.48	500,000	500,000	100			
Hurdled A	Dec 31, 2001	Dec 31, 2003	Dec 31, 2007	16.80	500,000			**500,000**		
Hurdled A	Dec 31, 2002	Dec 31, 2004	Dec 31, 2007	16.69	1,000,000	**1,000,000**	**100**	**500,000**	*500,000*	*(8)*
Hurdled A	Dec 31, 2003	Dec 31, 2005	Dec 31, 2008	17.48	1,000,000	*1,000,000*	*100*			
Hurdled A (3)	Dec 31, 2004	Dec 31, 2006	Dec 31, 2008	20.49	500,000					
Total					3,500,000	2,500,000		1,000,000	500,000	

(1) All options granted to the CEO have been approved by shareholders (December 1999 and December 2001).

(2) The options may be exercised only if the ANZ Accumulation Index over the period from the date on which the options are granted to the last trading day of any month occurring during the relevant exercise period equals or exceeds the ASX 100 Accumulation Index calculated over the same period. Refer to section F11.1 for Hurdled A details.

(3) The fair value per option at the December 31, 2004 grant date is $1.98. Refer to section F9 for details of the valuation methodology and inputs.

(4) Treatment of options on termination of employment is explained in section D3 of the Remuneration Report.

(5) The exercise price is equal to the weighted average share price during the 5 trading days immediately after the Company s Annual General Meeting. Note, the original exercise price of options issued prior to the Renouncable Rights issue in November 2003 have been reduced by 72 cents, because of the dilution of share capital associated with the Renouncable Rights issue.

(6) Nil options forfeited or expired during the period.

(7) The maximum amortization balance is $124,767 for subsequent financial years, however the value will be nil if the minimum performance hurdles are not achieved.

(8) The options have met the time vesting hurdle, however only 50% of the 1 million granted have passed the performance hurdle at this stage.

F4. Option Holdings of CEO (Including Movements During The 2005 & 2006 Years) (1)

Type of options	Balance as at Oct 1 2005/2006	Granted during the year as remuneration (1)	Value of options granted during the year (2) $	Exercised during the year	Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year (3) $	Share price on date of exercise of options	Amount paid per share $	Balance as at Sept 30 2005/2006	Total value of options granted and exercised during the year $
2006											
Hurdled	3,000,000			500,000	Jul 03, 2006	500,000	4,955,000	26.71	16.80	1,000,000	4,955,000
				500,000	Jul 04, 2006	500,000	5,030,000	26.75	16.69		5,030,000
				1,000,000		1,000,000	9,730,000	27.21	17.48		9,730,000

						Aug 31, 2006						
2005												
Hurdled	3,000,000	500,000		990,000	500,000	Aug 08, 2005	500,000	2,530,000	21.54	16.48	3,000,000	3,520,000

(1) All options granted to the CEO have been approved by shareholders (December 1999 and December 2001).

(2) The value of options granted during the 2005 year is based on the fair value of the option ($1.98) multiplied by the number granted. Refer to section F9 for details of the valuation methodology and inputs.

(3) The value per option used in this calculation is based on the difference between the volume weighted average price of the Company s shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.

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F5. Deferred Shares Granted to Disclosed Executives

LTI Deferred Shares (1)

Financial Year	**2005 [shown in bold]**	***2006 [shown in italics]***				
Name	**Grant date**	**Vesting date**	**Number granted (2,3)**	**Value of deferred shares granted during the 2005 or 2006 year (4) $**	**Number that vested during the 2005 or 2006 year**	**Percentage that vested during the 2005 or 2006 year %**
Dr RJ Edgar	Oct 24, 2001	Oct 24, 2004	2,700		**2,700**	**100**
	Apr 24, 2002	Apr 24, 2005	3,200		**3,200**	**100**
	Oct 23, 2002	Oct 23, 2005	7,600		*7,600*	*100*
	May 20, 2003	May 20, 2006	8,500		*8,500*	*100*
	Nov 05, 2003	Nov 05, 2006	8,889			
	Nov 05, 2003	Nov 05, 2006	25,000			
	May 11, 2004	May 11, 2007	8,452			
	Nov 05, 2004	Nov 05, 2007	6,519	**134,941**		
	Nov 05, 2004	Nov 05, 2007	26,000	**538,189**		
Total			96,860	673,130	22,000	23
E Funke Kupper	Oct 24, 2001	Oct 24, 2004	6,000		**6,000**	**100**
	Apr 24, 2002	Apr 24, 2005	4,500		**4,500**	**100**
	Oct 23, 2002	Oct 23, 2005	8,000		*8,000*	*100*
	May 20, 2003	May 20, 2006	6,800		*6,800*	*100*
	Nov 05, 2003	Nov 05, 2006	6,838			
	May 11, 2004	May 11, 2007	6,256			
	Nov 05, 2004	Nov 05, 2007	6,018	124,570		
Total			44,412	124,570	25,300	57
BC Hartzer	Oct 24, 2001	Oct 24, 2004	2,800		**2,800**	**100**
	Apr 24, 2002	Apr 24, 2005	4,600		**4,600**	**100**
	Oct 23, 2002	Oct 23, 2005	6,600		*6,600*	*100*
	May 20, 2003	May 20, 2006	6,500		*6,500*	*100*
	Nov 05, 2003	Nov 05, 2006	7,408			
	May 11, 2004	May 11, 2007	7,135			
	Nov 05, 2004	Nov 05, 2007	9,127	188,925		
Total			44,170	188,925	20,500	46
GK Hodges	Oct 24, 2001	Oct 24, 2004	1,000		**1,000**	**100**
	Apr 24, 2002	Apr 24, 2005	1,400		**1,400**	**100**
	Oct 23, 2002	Oct 23, 2005	3,800		*3,800*	*100*
	May 20, 2003	May 20, 2006	6,500		*6,500*	*100*
	Nov 05, 2003	Nov 05, 2006	5,699			
	May 11, 2004	May 11, 2007	6,586			
	Nov 05, 2004	Nov 05, 2007	7,522	155,702		
Total			32,507	155,702	12,700	39
PJ Hodgson	Apr 24, 2002	Apr 24, 2005	800		**800**	**100**
	Oct 23, 2002	Oct 23, 2005	900		*900*	*100*
	May 20, 2003	May 20, 2006	1,000		*1,000*	*100*
	Nov 05, 2003	Nov 05, 2003	1,097			
	May 11, 2004	May 11, 2007	1,111			
	Nov 05, 2004	Nov 05, 2007	1,974	40,822		
	Dec 08, 2004	Dec 08, 2007	12,481	248,402		
Total			19,363	289,224	2,700	14
PR Marriott	Oct 24, 2001	Oct 24, 2004	5,700		**5,700**	**100**
	Apr 24, 2002	Apr 24, 2005	5,500		**5,500**	**100**
	Oct 23, 2002	Oct 23, 2005	9,300		*9,300*	*100*
	May 20, 2003	May 20, 2006	9,100		*9,100*	*100*
	Nov 05, 2003	Nov 05, 2006	9,573			
	May 11, 2004	May 11, 2007	9,275			

	Nov 05, 2004	Nov 05, 2007	8,475	175,429		
Total			56,923	175,429	29,600	52
S Targett	Nov 05, 2004	Nov 05, 2007	6,519	134,941		

(1) LTI deferred shares were last granted under the ANZ Long Term Incentive Program in the 2005 year, and therefore were not granted in the 2006 year. LTI is now delivered in the form of Performance Rights (refer to section C4.2). The LTI deferred shares are restricted for 3 years and may be held in trust beyond this time. Refer to section F11.2 of the Remuneration Report for more details.

(2) Nil shares forfeited during the 2005 & 2006 years.

(3) The maximum amortization balance for each executive for subsequent financial years is as follows: Dr RJ Edgar $296,805; BC Hartzer $99,681; GK Hodges $84,525; PJ Hodgson $118,134; PR Marriott $103,853; S Targett $49,417.

(4) The value of shares granted during the 2005 year is based on the volume weighted average price of the Company s shares traded on the ASX on the day the shares were granted, multiplied by the number granted.

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STI Deferred Shares (1)

Financial Year	**2005** **[shown in bold]**	***2006*** ***[shown in italics]***				
Name	**Grant date**	**Vesting date**	**Number granted (2,3)**	**Value of deferred shares granted during the year $**	**Number that vested during the 2005 or 2006 year**	**Percentage that vested during the 2005 or 2006 year %**
Dr RJ Edgar	Oct 24, 2001	Oct 24, 2004	3,891		**3,891**	**100**
	Apr 24, 2002	Apr 24, 2005	4,302		**4,302**	**100**
	Oct 23, 2002	Oct 23, 2005	6,423		*6,423*	*100*
	May 20, 2003	May 20, 2006	5,622		*5,622*	*100*
	Nov 05, 2003	Nov 05, 2006	6,781			
	May 11, 2004	May 11, 2007	7,683			
Total			34,702		20,238	58
E Funke Kupper	Oct 24, 2001	Oct 24, 2004	6,510		**6,510**	**100**
	Apr 24, 2002	Apr 24, 2005	5,724		**5,724**	**100**
	Oct 23, 2002	Oct 23, 2005	8,554		*8,554*	*100*
	May 20, 2003	May 20, 2006	4,148		*4,148*	*100*
	Nov 05, 2003	Nov 05, 2006	7,636			
	May 11, 2004	May 11, 2007	7,052			
Total			39,624		24,936	63
BC Hartzer	Oct 24, 2001	Oct 24, 2004	7,058		**7,058**	