AUSTRALIA & NEW ZEALAND BANKING GROUP LTD
Form 6-K
June 29, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

27 June 2007

Australia and New Zealand Banking Group Limited

ACN 005 357 522

(Translation of registrant s name into English)

Level 6, 100 Queen Street Melbourne Victoria 3000 Australia

(Address of principal executive offices)

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

Form 20-F: x Form 40-F o

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

Yes o No x

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

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

Signatures

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

Australia and New Zealand Banking Group Limited
(Registrant)

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

Date: 29 June 2007

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

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

Half Year
31 March 2007

Consolidated Financial Report
Dividend Announcement and
Appendix 4D

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED *ABN 11 005 357 522*

CONSOLIDATED FINANCIAL REPORT

Half year ended 31 March 2007

CONTENTS

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

All amounts are in Australian dollars unless otherwise stated. The Company has a formally constituted Audit Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 26 April 2007.

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

HIGHLIGHTS

ANZ 2007 Interim Profit $2,102 million

All figures compared to March 2006 half year unless otherwise indicated

Profit after tax

Profit $2,102 million	**up 16.1**	**%**
Cash* profit $1,936 million	**up 11.8**	**%**
Cash* profit before provisions $2,995 million	**up 12.1**	**%**

Earnings per share

EPS 113.2 cents	**up 15.0**	**%**
Cash* EPS 104.2 cents(1)	**up 10.9**	**%**

Shareholder return

Interim dividend 62 cents	**up 10.7**	**%**
Total Shareholder Return	**17.1**	**%**
Cash* Return on equity	**19.7**	**%**

Business highlights*

Revenue growth of 9.1%* and continued frontline investment with 2,120 new FTEs

Result in Personal - revenue up 14.4%, profit up 21.6%

Institutional profit up 10.6%. Profit before provisions up 4.2%

Profit before provisions in New Zealand Businesses up 13.5% but offset by provisioning

Continued growth in customer acquisition in Australia and a successful turnaround in New Zealand

Achieved targeted revenue and productivity:

Revenue growth 9.1% (10.4% FX adjusted)

Cost-Income ratio 44.3% (down 1.5% from 45.8%, medium-term target 40%)

Provisioning rose but ended below expectations as a result of large recoveries late in the half

Adjusted Common Equity ratio middle of target range at 4.4%(2)

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*   Adjusted for non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses). Refer page 13 for a detailed reconciliation of GAAP figures to non-GAAP cash figures. Refer pages 11 to 12 for a discussion of why management believe measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

(1)   Refer page 23

(2) Adjusted common equity is calculated as Tier 1 capital less preference shares at current rates and deductions from total capital. This measure is commonly used to assess the adequacy of common equity held

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FINANCIAL HIGHLIGHTS

Profit

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	**3,611**	3,575	3,368	1 %	7 %
Other operating income	**2,002**	1,614	1,595	24 %	26 %
Operating income	**5,613**	5,189	4,963	8 %	13 %
Operating expenses	**(2,386)**	(2,346)	(2,185)	2 %	9 %
Profit before credit impairment and income tax	**3,227**	2,843	2,778	14 %	16 %
Provision for credit impairment	**(240)**	(183)	(224)	31 %	7 %
Profit before income tax	**2,987**	2,660	2,554	12 %	17 %
Income tax expense	**(883)**	(780)	(742)	13 %	19 %
Minority interest	**(2)**	(3)	(1)	-33 %	100 %
Profit attributable to shareholders of the Company	**2,102**	1,877	1,811	12 %	16 %

Cash profit

Profit has been adjusted to exclude the following non-core items to arrive at cash profit.

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Profit attributable to shareholders of the Company	**2,102**	1,877	1,811	12 %	16 %
Less: Non-core items					
Significant items(1)					
Sale of Esanda Fleetpartners	**141**			n/a	n/a
Settlement of ANZ National Bank claims			14	n/a	-100 %
Settlement of NHB insurance claim			79	n/a	-100 %
Total significant items	**141**		93	n/a	52 %
Ineffective hedge fair value gains/losses(2)	**28**	21	13	33 %	large
NZD revenue hedge mark to market volatility(2)	**(3)**			n/a	n/a
ANZ National Bank incremental integration costs(3)			(26)	n/a	-100 %
Total non-core items	**166**	21	80	large	large
Cash profit(4),(5)	**1,936**	1,856	1,731	4 %	12 %

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(1) In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of $195 million ($141 million after tax) as a significant item. In the March 2006 half ANZ classified the $113 million ($79 million after tax) settlement of the NHB insurance matter and the $14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the acquisition of National Bank of New Zealand Limited (tax on settlement: $nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11)

(2) The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified $28 million after tax (Sep 2006 half: $21 million; Mar 2006 half: $13 million) relating to economic hedging as a non-core item (tax impact $13 million (Sep 2006 half: $10 million; Mar 2006 half: $5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a $3 million loss after tax (Sep 2006 half: $nil; Mar 2006 half: $nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact $1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page 12)

(3) In the March 2006 half ANZ incurred $26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was $13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration

(4) Refer page 13 for a reconciliation of cash profit to net profit

(5) Refer pages 11 to 12 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

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

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	**3,611**	3,575	3,368	1 %	7 %
Other operating income	**1,770**	1,583	1,563	12 %	13 %
Operating income	**5,381**	5,158	4,931	4 %	9 %
Operating expenses	**(2,386)**	(2,346)	(2,259)	2 %	6 %
Profit before credit impairment and income tax	**2,995**	2,812	2,672	7 %	12 %
Provision for credit impairment	**(240)**	(183)	(224)	31 %	7 %
Profit before income tax	**2,755**	2,629	2,448	5 %	13 %
Income tax expense	**(817)**	(770)	(716)	6 %	14 %
Minority interest	**(2)**	(3)	(1)	-33 %	100 %
Cash(1) profit	**1,936**	1,856	1,731	4 %	12 %

Earnings per share

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Earnings per ordinary share (cents)					
Basic	113.2	101.6	98.4	11 %	15 %
Diluted	110.0	98.5	95.5	12 %	15 %
Cash(1)(basic adjusted for non-core items)	104.2	100.5	94.0	4 %	11 %

Balance Sheet

	As at Mar 07 $M	As at Sep 06 $M	As at Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Assets					
Liquid assets	**15,433**	15,019	13,870	3 %	11 %
Due from other financial institutions	**6,439**	9,665	8,336	-33 %	-23 %
Trading and available for sale assets	**24,100**	19,832	22,008	22 %	10 %
Net loans and advances including acceptances	**281,822**	269,384	255,745	5 %	10 %
Other	**23,930**	20,740	22,222	15 %	8 %
Total assets	**351,724**	334,640	322,181	5 %	9 %
Liabilities					
Due to other financial institutions	**14,872**	14,118	13,345	5 %	11 %
Deposits and other borrowings	**210,585**	204,794	196,850	3 %	7 %
Liability for acceptances	**14,013**	13,435	13,692	4 %	2 %
Bonds and notes	**54,188**	50,050	46,923	8 %	15 %
Other	**37,156**	32,337	32,575	15 %	14 %
Total liabilities	**330,814**	314,734	303,385	5 %	9 %
Total shareholders equity	**20,910**	19,906	18,796	5 %	11 %

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(1) Refer footnotes 1 to 5 on page 2

Financial ratios

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M
Profit attributable to shareholders of the Company	2,102	1,877	1,811
Cash(1) profit	1,936	1,856	1,731
EVATM (2)	1,119	1,069	1,013
Profitability ratios			
Return on:			
Average ordinary shareholders' equity(3)	21.3 %	20.4 %	20.9 %
Average ordinary shareholders' equity(3) (cash(1) profit basis)	19.7 %	20.2 %	20.0 %
Average assets	1.21 %	1.13 %	1.15 %
Average assets (cash(1) profit basis)	1.11 %	1.11 %	1.10 %
Average risk weighted assets	1.73 %	1.59 %	1.60 %
Average risk weighted assets (cash(1) profit basis)	1.59 %	1.57 %	1.53 %
Total income	14.4 %	14.2 %	14.5 %
Net interest margin	2.24	2.33	2.29
Profit per average FTE ($)	64,203	59,187	58,202
Efficiency ratios			
Operating expenses to operating income	42.5 %	45.2 %	44.0 %
Operating expenses to average assets	1.37 %	1.41 %	1.39 %
Operating expenses to operating income (cash(1))	44.3 %	45.5 %	45.8 %
Operating expenses to average assets (cash(1))	1.37 %	1.41 %	1.44 %
Credit impairment provisioning			
Collective provision charge	52	33	36
Individual provision charge	188	150	188
Total provision charge	240	183	224
Individual provision charge as a % of average net advances	0.14 %	0.11 %	0.15 %
Ordinary share dividends (cents)			
Interim - 100% franked (Mar 06: 100% franked)	62	n/a	56
Final - 100% franked (Sep 06: 100% franked)	n/a	69	n/a
Ordinary share dividend payout ratio(4)	54.9 %	68.0 %	56.9 %
Cash(1) ordinary share dividend payout ratio(4)	59.6 %	68.8 %	59.6 %
Preference share dividend (cents)			
Dividend paid(5)	17	15	12

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(1) Refer footnotes 1 to 5 on page 2

(2) EVATM refers to Economic Value Added, a measure of shareholder value. See page 25 for a reconciliation of EVATM to reported net profit, a discussion of EVATM and an explanation of its relevance as a performance measure

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

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

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

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	As at Mar 07	As at Sep 06	As at Mar 06	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net Assets					
Net tangible assets(1) per ordinary share ($)	**9.01**	8.53	7.99	6%	13%
Net tangible assets(1) attributable to ordinary shareholders ($M)	**16,613**	15,664	14,619	6%	14%
Total number of ordinary shares (M)	**1,844.7**	1,836.6	1,828.7	0%	1%
Capital adequacy ratio (%)					
Tier 1	**6.7%**	6.8%	6.8%		
Tier 2	**4.3%**	4.2%	4.0%		
Total capital ratio	**10.3%**	10.6%	10.4%		
Adjusted Common Equity ratio(2)	**4.4%**	4.7%	5.0%		
Risk weighted assets EOP ($M)	**250,485**	240,219	230,653		
Impaired assets					
Collective provision ($M)	**1,981**	1,940	1,903	2%	4%
Collective provision as a % of risk weighted assets	**0.79%**	0.81%	0.83%	-2%	-5%
Gross non-performing loans ($M)	**640**	661	726	-3%	-12%
Individual provisions on non-performing loans(3) ($M)	**(275)**	(279)	(305)	-1%	-10%
Net non-performing loans ($M)	**365**	382	421	-4%	-13%
Individual provision as a % of total non-performing loans	**43.0%**	42.2%	42.0%	2%	2%
Gross non-performing loans as % of net advances	**0.23%**	0.25%	0.28%	-8%	-18%
Net non-performing loans as a % of net advances	**0.13%**	0.14%	0.16%	-7%	-19%
Net non-performing loans as a % of shareholders equity(4)	**1.7%**	1.9%	2.2%	-11%	-23%
Other information					
Full time equivalent staff (FTEs)	**33,183**	32,256	31,063	3%	7%
Assets per FTE ($M)	**10.6**	10.4	10.4	2%	2%
Market capitalisation of ordinary shares ($M)	**54,788**	49,331	48,461	11%	13%

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

(2) Adjusted common equity is calculated as Tier 1 capital, less Innovative Tier 1 capital instruments (converted at balance date spot rates), less transitional Tier 1 capital relief and deductions. This measure is commonly used to assess the adequacy of common equity held

(3) Excludes individual provision on unproductive facilities

(4) Includes minority interest

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Business unit analysis

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Profit after income tax(1)					
Personal	783	654	583	20 %	34 %
Institutional	778	722	691	8 %	13 %
New Zealand Businesses	418	339	325	23 %	29 %
Partnerships & Private Bank	103	91	79	13 %	30 %
Non-continuing businesses		22	31	-100 %	-100 %
Group Centre	20	49	102	-59 %	large
Net profit	2,102	1,877	1,811	12 %	16 %

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 32 for an explanation of the changes

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Profit after income tax(1)					
Personal	709	654	583	8 %	22 %
Institutional	750	701	678	7 %	11 %
New Zealand Businesses(2)	351	339	337	4 %	4 %
Partnerships & Private Bank	103	91	79	13 %	30 %
Non-continuing businesses		22	31	-100 %	-100 %
Group Centre	23	49	23	-53 %	0 %
Cash profit(3)	1,936	1,856	1,731	4 %	12 %
Non-core items(3)	166	21	80	large	large
Profit	2,102	1,877	1,811	12 %	16 %

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 32 for an explanation of the changes

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

(3) Refer footnotes 1 to 5 on page 2

	As at Mar 07 $M	As at Sep 06 $M	As at Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net loans and advances including acceptances by business unit(1)					
Personal	140,226	133,652	126,776	5 %	11 %
Institutional	73,308	71,436	69,474	3 %	6 %
New Zealand Businesses(2)	66,672	61,937	56,935	8 %	17 %
Partnerships & Private Bank	1,592	1,270	1,204	25 %	32 %
Non-continuing businesses		1,054	1,337	-100 %	-100 %
Group Centre	24	35	19	-31 %	26 %
Net loans and advances including acceptances	281,822	269,384	255,745	5 %	10 %

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 32 for an explanation of the changes

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

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	As at Mar 07 $M	As at Sep 06 $M	As at Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Deposits and other borrowings by business unit(1)					
Personal	67,748	64,977	61,818	4 %	10 %
Institutional	76,094	69,239	65,381	10 %	16 %
New Zealand Businesses(2)	42,467	41,987	40,135	1 %	6 %
Partnerships & Private Bank	1,233	1,159	983	6 %	25 %
Group Centre	23,043	27,432	28,533	-16 %	-19 %
Deposits and other borrowings	210,585	204,794	196,850	3 %	7 %

(1) Prior period numbers have been adjusted for organisational structure changes. Refer page 32 for an explanation of the changes

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

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

CHIEF FINANCIAL OFFICER S REVIEW

March 2007 half year compared to March 2006 half year

ANZ recorded a profit after tax of $2,102 million for the half year ended 31 March 2007, an increase of 16% over the March 2006 half year. Earnings per share increased 15% to 113.2 cents over the March 2006 half year. After adjusting for non-core items(1) referred to on pages 11 to 12, Cash(1) profit increased 12% to $1,936 million and Cash EPS increased 11% to 104.2 cents.

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Profit attributable to shareholders of the Company	**2,102**	1,877	1,811	12%	16%
Less: Non-core items(1) (refer to page 13)	**(166)**	(21)	(80)	large	large
Cash profit(1),(2),(3)	**1,936**	1,856	1,731	4%	12%

Profit

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	**3,611**	3,575	3,368	1%	7%
Other operating income	**2,002**	1,614	1,595	24%	26%
Operating income	**5,613**	5,189	4,963	8%	13%
Operating expenses	**(2,386)**	(2,346)	(2,185)	2%	9%
Profit before credit impairment and income tax	**3,227**	2,843	2,778	14%	16%
Provision for credit impairment	**(240)**	(183)	(224)	31%	7%
Profit before income tax	**2,987**	2,660	2,554	12%	17%
Income tax expense	**(883)**	(780)	(742)	13%	19%
Minority interest	**(2)**	(3)	(1)	-33%	100%
Profit attributable to shareholders of the Company	**2,102**	1,877	1,811	12%	16%

Profit growth

Profit increased 16% to $2,102 million. Revenue increased 13% with growth in average interest earning assets offset by reduced margins (-5 basis points), higher fee income from volume growth and pricing initiatives, higher markets income and higher other income from equity accounting earnings and other investments. Operating expense growth of 9% reflected ongoing investment in the business. Provision for credit impairment increased 7% with growth in Personal and New Zealand offset by high recoveries in Institutional.

In Australia, profit increased 18% over the March 2006 half year with solid growth across all Personal businesses and higher Institutional revenue, primarily in Markets. Provision for credit impairment reduced with large recoveries during the March 2007 half.

Profit in New Zealand increased 19% (an increase of 24% in NZD terms) reflecting weaker Markets income and an increase in collective provision charge. Operating income increased 4% in NZD terms with lending growth of 11% partly offset by a decline in net interest margin of 9 basis points and lower revenue in Markets following the strong performance in the March 2006 half. Operating expense growth was contained to 2%.

Within Overseas Markets, profit in Asia and Pacific increased 35% and 7% respectively, driven by strong growth in the Institutional business in Singapore, higher equity accounting income in Asia and balance sheet growth in the Pacific. Profit in the UK and US decreased driven by reduced profit in non continuing businesses and repatriation of capital, partly offset by revenue growth in the March 2007 half with increased trading income in Markets.

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(1) In the March 2007 half ANZ has classified the profit on sale of Esanda Fleetpartners of $195 million ($141 million after tax) as a significant item. In the March 2006 half ANZ classified the $113 million ($79 million after tax) settlement of the NHB insurance matter and the $14 million settlement of a dispute with Lloyds TSB over the accounting treatment of certain items in the completion accounts for the

acquisition of National Bank of New Zealand Limited (tax on settlement: $nil) as significant items. ANZ excludes significant items to eliminate the distorting effect of one-off transactions on the results of its core business (refer page 11)

The Group enters into economic hedges to manage its interest rate and foreign exchange risk. In the March 2007 half ANZ has classified $28 million after tax (Sep 2006 half: $21 million; Mar 2006 half: $13 million) relating to economic hedging as a non-core item (tax impact $13 million (Sep 2006 half: $10 million; Mar 2006 half: $5 million)). Included in this non-core amount is ineffectiveness arising from designated accounting hedges, any volatility arising from usage of the fair value option and approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. In addition, ANZ has classified a $3 million loss after tax (Sep 2006 half: $nil; Mar 2006 half: $nil) relating to New Zealand revenue hedges that under the transitional provision of AASB 139 (AASB 2005-1) no longer qualify for hedge accounting from 1 October 2006 (tax impact $1 million credit). ANZ excludes volatility associated with fair value movements on these transactions to provide a better indication of the core business performance (refer page 12)

In the March 2006 half ANZ incurred $26 million after tax from ANZ National Bank incremental integration costs. Tax on ANZ National Bank incremental integration costs was $13 million. The integration program was completed in March 2006. ANZ National Bank incremental integration costs are excluded to better reflect the core cost base and assist analysis of the cost base following completion of the integration

(2) Refer page 13 for a reconciliation of cash profit to net profit

(3) Refer pages 11 to 12 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

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Cash(1) profit

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	**3,611**	3,575	3,368	1 %	7 %
Other operating income	**1,770**	1,583	1,563	12 %	13 %
Operating income	**5,381**	5,158	4,931	4 %	9 %
Operating expenses	**(2,386)**	(2,346)	(2,259)	2 %	6 %
Profit before credit impairment and income tax	**2,995**	2,812	2,672	7 %	12 %
Provision for credit impairment	**(240)**	(183)	(224)	31 %	7 %
Profit before income tax	**2,755**	2,629	2,448	5 %	13 %
Income tax expense	**(817)**	(770)	(716)	6 %	14 %
Minority interest	**(2)**	(3)	(1)	-33 %	100 %
Cash profit(1),(2),(3)	**1,936**	1,856	1,731	4 %	12 %

Cash profit growth

Cash profit increased 12% to $1,936 million. Core(1) revenue increased 9% with growth in average interest earning assets offset by reduced margins (-5 basis points), higher fee income from volume growth and pricing initiatives, higher markets income and higher other income from equity accounting earnings and other investments. Operating expense growth of 6% reflected ongoing investment in the business. Provision for credit impairment increased 7% with growth in Personal and New Zealand offset by high recoveries in Institutional.

In Australia, cash profit increased 19% over the March 2006 half year with solid growth across all Personal businesses and higher Institutional revenue, primarily in Markets. Provision for credit impairment reduced with large recoveries during the March 2007 half.

Cash profit in New Zealand decreased 2% (an increase of 2% in NZD terms) reflecting weaker Markets income and an increase in collective provision charge. Operating income increased 4% in NZD terms with lending growth of 11% partly offset by a decline in net interest margin of 9 basis points and lower revenue in Markets following the strong performance in the March 2006 half. Operating expense growth was contained to 2%.

Within Overseas Markets, cash profit in Asia and Pacific increased 40% and 7% respectively, driven by strong growth in the Institutional business in Singapore, higher equity accounting income in Asia and balance sheet growth in the Pacific. Cash profit in the UK and US decreased driven by reduced profit in non continuing businesses and repatriation of capital, partly offset by revenue growth in the March 2007 half with increased trading income in Markets.

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(1) Refer to footnotes 1 to 3 on page 2

(2) Refer page 13 for a reconciliation of cash profit to net profit

(3) Refer pages 11 to 12 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

Profit drivers

Profit after tax increased 16% over the March 2006 half year and Cash(1) profit increased 12% over the March 2006 half year. For a discussion of the impact of non-core items refer pages 11 to 12. Key influences on profit are shown below.

Net interest ñ7% ***- Adjusted for non-core items(1), (2)ñ7%:***

Net interest income was driven by growth of 10% in average interest earning assets (11% excluding the impact of exchange rates) with strong growth in New Zealand (9%, or 13% excluding exchange rate impact) and Personal (12%). Average deposits and other borrowings grew 6% (8% excluding exchange rates) following strong growth in Institutional (14%), Personal (11%) and New Zealand (1%, or 5% excluding exchange rates). Volume growth was offset by a 5 basis point decline in margin, primarily from competitive pressures.

Other income ñ26% ***- Adjusted for non-core items(1), (2)ñ13%:***

Adjusted for non core items, other income growth was underpinned by volume growth initiatives, strong Markets income and increased equity accounting income and a $27 million profit on the sale of MasterCard shares.

Operating expenses ñ9% ***- Adjusted for non-core items(1), (2)ñ6%:***

Operating expense growth was primarily due to annual salary increases and a 7% increase in staff numbers, largely in Personal and Institutional, as we continue to invest in the business.

Provision for credit impairment ñ7% ***- Adjusted for non-core items(1), (2)ñ7%:***

Individual provisions were unchanged with an increase in Personal due to higher provisions primarily in the Cards portfolio, offset by Institutional with lower provisions raised and higher recoveries. The collective provision charge increased by $16 million driven largely by different trends in risk levels in New Zealand s ANZ Retail and strong volume growth in Corporate & Commercial and volume increases in Institutional, partially offset by a reduction in Personal from moderating portfolio growth in Consumer Finance.

Income tax ñ19% ***- Adjusted for non-core items(1)ñ14%:***

The increase in tax expense is driven by growth in profit before tax and an increase in the effective tax rate by 0.5% reflecting the run-off of certain structured finance transactions.

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(1) *Refer footnotes 1 to 3 on page 9*

(2) *Refer footnote 1 on page 9*

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March 2007 half year compared to September 2006 half year

The Group recorded a profit after tax of $2,102 million for the half year ended 31 March 2007, an increase of 12% over the September 2006 half. Basic earnings per share increased 11% (11.6 cents) to 113.2 cents.

Cash profit(1) increased 4% over the September 2006 half which reflects seasonality in the halves and higher provisions for credit impairment. Cash earnings per share (refer page 24) increased 4% (3.7 cents) to 104.2 cents.

Operating income increased 8% assisted by the profit on sale of Esanda Fleetpartners. After adjusting for non-core items, operating income increased 4%. Net interest income increased 1%, impacted by a reduction in interest income on revenue hedges ($50 million or -3 basis points) and lower net interest income on derivative transactions ($35 million offset in other income). Average interest earning assets grew 6%, primarily in Personal and New Zealand, which was partially offset by a decline in net interest margin of 6 basis points (excluding the impact of revenue hedges). Other income increased 12% reflecting increased profit on trading instruments in Institutional, which includes unrealised gains which are partly offset in net interest income. Operating expense growth was contained to 2% following the strong growth in the September 2006 half.

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(1) Refer footnotes 1 to 3 on page 9

Non-core items

In order to calculate cash profit, ANZ has adjusted the income statement for non-core items, as outlined below, to assist in understanding the core business performance by removing the volatility in reported results created by one-off significant items, ANZ National Bank incremental integration costs which ceased in the half year March 2006, and the timing differences in the recognition of fair value gains in profit on ineffective hedging contracts. Cash profit is a key performance measure used by the investment community and ANZ s Australian peers.

Non-core items in the income statement

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Significant items					
Sale of Esanda Fleetpartners	**141**			n/a	n/a
Settlement of ANZ National Bank claims			14	n/a	-100%
Settlement of NHB insurance claim			79	n/a	-100%
Total significant items	**141**		93	n/a	52%
Ineffective hedge fair value gains/losses	**28**	21	13	33%	large
NZD revenue hedge mark to market volatility	**(3)**			n/a	n/a
ANZ National Bank incremental integration costs			(26)	n/a	-100%
Non-core items	**166**	21	80	large	large

- **Significant items**

Significant items in the income statement are those items that management believe do not form part of the core business by virtue of their magnitude and infrequent nature and, as such, should be removed from profit when analysing the core business performance. The following are considered significant items:

- Sale of Esanda Fleetpartners (March 2007 half year)

During the March 2007 half ANZ sold Esanda Fleetpartners, which had operations in Australia and New Zealand, to Nikko Principal Investments in Australia. Profit on disposal was $195 million ($141 million after tax) with $128 million ($74 million after tax) recognised in Australia and $67 million ($67 million after tax) recognised in New Zealand.

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

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

- Settlement of ANZ National Bank claims (March 2006 half year)

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

- **Volatility resulting from the application of hedge accounting**

The Group enters into economic hedges to manage its interest rate and foreign exchange risk. The implementation of AIFRS accounting policies on hedge accounting from 1 October 2005 (1 October 2006 in respect of hedges of NZD revenue) introduced volatility within the Income Statement in respect of ineffective hedges as follows:

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

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

ANZ has separately reported the impact of volatility due to hedge ineffectiveness as a non-core item as the profit reported on hedge transactions is asymmetrical to the treatment of the hedged item and will reverse over time and as such is not part of the core operating performance. During the March 2007 half year ANZ has classified $25 million after tax (Sep 2006 half: $21 million; Mar 2006 half: $13 million) relating to ineffective hedging and, from 1 October 2006, NZD revenue hedges as non core items (tax on hedges $12 million (Sep half 2006: $10 million; Mar 2006 half: $5 million)).

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

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

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

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

- **ANZ National Bank incremental integration costs**

Expenditure on the integration of ANZ National Bank, which was completed in March 2006, included both the reallocation of existing resources to integration and incremental integration costs. Incremental costs were those costs that did not recur once integration was completed and thus did not form part of the core ongoing cost base. During the March 2006 half year $26 million after tax or $39 million before tax of incremental integration costs was incurred.

Reconciliation of net profit to cash profit

The following table reconciles AIFRS values with fully comparable AIFRS values adjusted to exclude non core items.

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M
Net interest income (statutory basis)	3,611	3,575	3,368
Net interest income (cash basis)	3,611	3,575	3,368
Other operating income (statutory basis)	2,002	1,614	1,595
Settlement of NBNZ warranty claims(1)			(14)
Fair value hedge gains/losses(2)	(37)	(31)	(18)
Gain on sale of Esanda Fleetpartners(3)	(195)		
Other operating income (cash basis)	1,770	1,583	1,563
Operating income (statutory basis)	5,613	5,189	4,963
Total significant items income adjustments (net total identified above)	(232)	(31)	(32)
Operating income (cash basis)	5,381	5,158	4,931
Operating expenses (statutory basis)	(2,386)	(2,346)	(2,185)
NBNZ incremental integration costs(4)			39
Settlement of NHB insurance claim(5)			(113)
Operating expenses (cash basis)	(2,386)	(2,346)	(2,259)
Profit before credit impairment and income tax (statutory basis)	3,227	2,843	2,778
Total significant items adjustments (net total identified above)	(232)	(31)	(106)
Profit before credit impairment and income tax (cash basis)	2,995	2,812	2,672
Provision for credit impairment (statutory basis)	(240)	(183)	(224)
Provision for credit impairment (cash basis)	(240)	(183)	(224)
Profit before income tax (statutory basis)	2,987	2,660	2,554
Total significant items before income tax adjustments (net total identified above)	(232)	(31)	(106)
Profit before income tax (cash basis)	2,755	2,629	2,448
Income tax expense and minority interest (statutory basis)	(883)	(780)	(742)
Tax on significant items adjustments	66	10	26
Income tax expense and minority interest (cash basis)	(817)	(770)	(716)
Net profit (statutory basis)	2,102	1,877	1,811
Total non core items	(166)	(21)	(80)
Net profit (cash basis)	1,936	1,856	1,731

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(1) Refer to page 11 Significant items (Settlement of ANZ National Bank claims)

(2) Refer to page 12 Ineffective hedge fair value gains

(3) Refer to page 11 Significant items (Sale of Esanda Fleetpartners)

(4) Refer to page 12 ANZ National Bank incremental integration costs

(5) Refer to page 11 Significant items (Settlement of NHB insurance claim)

(6) Refer to page 11 for a breakdown of total non core items

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Income and expenses

Net Interest Income

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Net interest income	3,611	3,575	3,368	1 %	7 %
Average interest earning assets	323,510	305,962	294,364	6 %	10 %
Net interest margin (%)	2.24	2.33	2.29	-4 %	-2 %

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

Net interest income increased $243 million (7%) over the March 2006 half.

Volume

Average interest earning assets increased $29.1 billion (10%):

- Average net advances grew by $24.4 billion (10%). Growth in net advances in Australia was attributable to: Personal ($13.7 billion or 11%), with $10.6 billion or 11% in Mortgages; Institutional Australia ($5.1 billion or 10%), with $2.0 billion or 14% in Business Banking, $2.5 billion or 8% in Debt Product Group, $0.3 billion or 10% in Trade and Transaction Services Australia; and Non-continuing Businesses (-$0.5 billion). New Zealand s average net advances increased by $5.0 billion or 8% (increased $8.6 billion or 12% in NZD terms). Average net advances increased by $1.1 billion (12%) in Overseas Markets.

- Other interest earning assets increased $4.7 billion (8%), driven by higher levels of liquid assets ($2.6 billion) and trading securities ($2.2 billion).

Average deposits and other borrowings grew $12.3 billion or 6%. Growth in Australia was attributable to: Personal ($6.2 billion or 11%), with $4.6 billion or 13% in Banking Products and $0.9 billion or 18% in Regional, Rural and Small Business Banking; Institutional Australia ($6.1 billion or 16%), with $5.7 billion or 28% in Trade and Transaction Services Australia; and $2.9 billion or 15% in Treasury. Average deposits and other borrowings increased in New Zealand $1.8 billion or 3% (increased $4.5 billion or 7% in NZD terms comprising core deposits growth of 10%, partially offset by a decrease in Treasury Certificates of Deposit and Commercial Paper due to a switch to longer term funding). Average deposits and other borrowings decreased ($4.8 billion or 20%) in Overseas Markets including an exchange rate impact of -$0.6 billion.

Margin

Net interest margin decreased 5 basis points from the March 2006 half:

- Funding mix (+1 basis point)

Margins were assisted by substitution of customer deposits for wholesale funding (+1 basis point) and a small increase in the proportion of free funds.

- Asset mix (-2 basis points)

Reduction in margin was due to an increase in the proportion of lower yielding liquid assets and trading securities in Group Treasury and Markets (-2 basis points).

- Competition (-7 basis points)

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

- Wholesale rates (+2 basis points)

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

- Other items (+1 basis point) include:

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

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

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

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

Net interest income at $3,611 million was 1% ($36 million) higher than the September 2006 half.

Volume

Average interest earning assets increased $17.5 billion (6%):

- Average net advances grew by $15.0 billion (6%). Growth in Australia was attributable to: Personal ($6.2 billion or 5%), with $4.8 billion or 5% in Mortgages; Institutional Australia ($2.3 billion or 4%) with $0.7 billion or 5% in Business Banking, $1.3 billion or 4% in Debt Product Group; and Non-continuing Businesses (-$0.2 billion). New Zealand s average net advances increased by $6.5 billion or 10% (NZD3.4 billion or 5% in NZD terms). Average net advances grew by $0.2 billion (3%) in Overseas Markets.

- Other interest earning assets increased $2.5 billion (4%), driven by higher levels of liquid assets ($1.5 billion), trading securities ($0.1 billion), available-for-sale assets and interbank lending ($1.3 billion).

Average deposits and other borrowings grew $6.2 billion or 3%. Growth in Australia was attributable to: Personal ($3.3 billion or 5%), with $2.8 billion or 8% in Banking Products and $0.6 billion or 12% in Regional, Rural and Small Business Banking; and Institutional Australia ($3.5 billion or 9%) with $4.1 billion or 19% in Trade & Transaction Services Australia; and -$1.1 billion or 5% in Treasury. Average deposits and other borrowings increased in New Zealand $4.8 billion or 9% (NZD2.3 billion increase or 4% in NZD terms). Average deposits and other borrowings decreased $4.3 billion (18%) in Overseas Markets, with exchange rate impacts -$0.6 billion.

Margin

Net interest margin was down 9 basis points to 2.24% from the September 2006 half:

- Funding mix (+1 basis point)

Margins were assisted by substitution of customer deposits for wholesale funding (+1 basis point) and a small increase in proportions of free funds.

- Asset mix (-2 basis points)

Reduction in margin was due to an increase in the proportion of lower yielding liquid assets and trading securities in Group Treasury and Markets (-2 basis points).

- Competition (-4 basis points)

Competitive pressures reduced margins, mainly in Australian and New Zealand Mortgages (-2 basis points) and Institutional lending (-1 basis point). In addition, margins have reduced given migration into high yielding customer deposits (-1 basis point).

- Wholesale rates (+2 basis points)

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

- Other items (-6 basis points) include:

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

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

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

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

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

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	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Other operating income					
Total fee income	1,143	1,116	1,029	2%	11%
Foreign exchange earnings	237	220	227	8%	4%
Profit on trading instruments	173	65	144	large	20%
Other	217	182	163	19%	33%
Core other operating income	1,770	1,583	1,563	12%	13%
Ineffective hedge fair value gains/losses(1)	41	31	18	32%	large
NZD revenue hedge mark to market volatility	(4)			n/a	n/a
Significant items(1)	195		14	n/a	large
Total other income	2,002	1,614	1,595	24%	26%
Composition of Markets' income					
Net interest income	50	85	28	-41%	79%
Foreign exchange earnings	178	166	172	7%	3%
Profit on trading instruments	156	74	146	large	7%
Fee and other income	13	19	6	-32%	large
Total Markets income	397	344	352	15%	13%

(1) Refer footnote 1 on page 8. Refer pages 11 to 12 for a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

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

Other operating income increased $407 million (26%). Core other operating income increased $207 million (13%) after excluding non-core items (refer pages 11 to 12). The following explanations are based on core other operating income:

- Fee income increased $114 million (11%):

- Lending fee income increased $17 million (8%)

- Personal increased $23 million. Banking Products increased $8 million as a result of growth in the number of transaction accounts and pricing initiatives. Mortgages increased $7 million due to growth in account numbers as well as pricing initiatives and Esanda increased $4 million as a result of higher predetermination fee income.

- New Zealand increased $4 million (NZD increase $6 million) due to a $2 million increase in National Bank Retail as a result of increased revenue from overdraft management fees and a $2 million increase in ANZ Retail as a result of pricing initiatives.

- Institutional decreased $13 million. Corporate & Structured Financing decreased $8 million with a change in business mix (higher non-lending fees) and Working Capital decreased $6 million due to lower loan administration fees.

- Non-lending fee income increased $97 million (12%)

- Personal increased $69 million. Consumer Finance increased $41 million due to volume growth and pricing initiatives. Banking Products increased $15 million driven by new product and pricing initiatives. Investment and Insurance Products grew $13 million due to an increase in income generated by financial planners.

- Institutional increased $42 million. Corporate & Structured Financing increased $28 million with significant growth experienced within the advisory, private equity and structured finance portfolios. Working Capital increased

$7 million reflecting stronger growth in transaction volumes and higher fee revenue in commodity trade finance deals from China. Markets increased $6 million reflecting the strategic focus to grow the credit business.

- Non-continuing businesses decreased $9 million due to the sale of Esanda Fleetpartners.

- Foreign exchange earnings increased $10 million. Institutional increased $11 million with a $7 million increase in Markets due to growth particularly in the currency trading business and a $5 million increase in Working Capital as a result of continuing growth particularly from international payments revenue.

- Profit on trading instruments increased $29 million:

- Corporate & Structured Financing increased $13 million as a result of mark to market gains on private equity securities held in a trading portfolio.

- Markets increased $10 million driven by good performance within the Rates business. Included within the Markets growth was a $23 million decrease due to unrealised positions which were offset in net interest income.

- Working Capital increased $5 million due to the mark to market of the credit derivative swap portfolio.

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

- Partnerships & Private Bank increased $30 million. INGA equity accounted income rose $17 million reflecting improved funds management and life risk performances, increased capital investment earnings and reduced remediation expenses. International Partnerships increased $11 million due mainly to equity accounted income from Bank of Tianjin (formerly Tianjin City Commercial Bank).

- Personal increased $35 million. Consumer Finance increased $17 million due mainly to the sale of MasterCard shares. Mortgages increased $11 million from higher sales volumes and associated LMI policy premiums.

- New Zealand increased $10 million due mainly to the sale of MasterCard shares.

- Non-continuing businesses decreased $13 million as the first half of 2006 included a $12 million gain from settlement of the sale warranties relating to the sale of the London headquartered project finance business.

- Institutional decreased $5 million largely in Corporate & Structured Financing as the first half of 2006 included a $6 million gain on sale of power assets.

- Movements in average exchange rates over the March 2006 half year decreased total other income by $22 million.

Total Markets income is impacted by mix impacts between the categories within other operating income and net interest income. The effect for the 2007 half year was to decrease total other income by $23 million (offset in net interest income).

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

Other operating income increased $388 million (24%). After adjusting for non-core items (refer pages 11 to 12), core other operating income increased $187 million (12%).

The following explanations are based on core other operating income:

- Fee income increased $27 million (2%). Growth is typically slower in the first half:

- Lending fee income increased $17 million (8%):

- Personal increased $11 million with Banking Products increasing $7 million as a result of growth in the number of transaction accounts and pricing initiatives.

- New Zealand increased $5 million due to pricing initiatives.

- Non-lending fee income increased $10 million (1%):

- New Zealand increased $7 million (NZD decreased $4 million) due to the impact of movements in exchange rates. The decrease in NZD terms is due to the highly competitive fee environment and the impact of a realignment of product and fee structures to improve customer offerings.

- Institutional increased $10 million (4%). Working Capital increased $10 million reflecting increased deposit volumes, higher commodity trade fees and higher volumes in custody and clearing.

- Non-continuing businesses decreased $9 million due to the sale of Esanda Fleetpartners.

- Foreign exchange earnings increased $17 million (8%). Institutional increased $16 million due to Markets increasing $12 million as a result of growth principally in the currency trading business, and Working Capital increasing $4 million as a result of continuing growth particularly from international payments revenue.

- Profit on trading instruments increased $108 million largely in Institutional. Markets increased $82 million driven by a strong performance within the Rates business. Included within the Markets growth was a $34 million increase due to unrealised gains which were offset in net interest income. Corporate & Structured Financing increased $12 million as a result of mark to market gains on private equity securities held in a trading portfolio and mark to market impacts of Working Capital s credit derivatives were up $13 million.

- Other operating income increased $35 million (19%):

- Partnerships & Private Bank increased $18 million. INGA equity accounted profits grew $12 million with a 12% increase in core operating profit and a 45% increase in capital investment earnings. International Partnerships increased $7 million due to a $5 million increase in Bank of Tianjin as the March 2007 half includes a full 6 months of equity accounted income.

- Personal increased $16 million. Consumer Finance increased $11 million due mainly to the sale of MasterCard shares.

- New Zealand increased $5 million due mainly to the sale of MasterCard shares.

- Institutional decreased $9 million largely in Markets as the second half of 2006 included $6 million from bond sales which was not repeated in 2007.

- Movements in average exchange rates over the September 2006 half increased total other income by $15 million.

The Markets mix impact increased total other income by $34 million (offset in net interest income).

Expenses

	Half year Mar 07 $M	Half year Sep 06 $M	Half year Mar 06 $M	Movt Mar 07 v. Sep 06 %	Movt Mar 07 v. Mar 06 %
Operating expenses					
Personnel expenses	1,451	1,390	1,365	4 %	6 %
Premises expenses	223	207	204	8 %	9 %
Computer expenses	278	284	258	-2 %	8 %
Other expenses	434	465	432	-7 %	0 %
Core operating expenses	2,386	2,346	2,259	2 %	6 %
Significant items - settlement of NHB insurance claim			(113)	n/a	-100 %
ANZ National Bank incremental integration costs(1)			39	n/a	-100 %
Total operating expenses	2,386	2,346	2,185	2 %	9 %
Total employees	33,183	32,256	31,063	3 %	7 %

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(1) For March 2006 these costs are personnel costs of $27 million, computer costs of $7 million, and other costs of $5 million. Refer pages 11 to 12 for a description of non-core items, including a discussion of why management believes measures of cash profit provide useful information to investors regarding ANZ s financial condition and results of operations

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

Operating expenses increased $201 million (9%) or $127 million (6%) adjusting for non-core items (refer pages 11 to 12). The following explanations exclude non-core items:

- Personnel costs were up $86 million (6%) with a 7% increase in staff numbers. Increases in staff numbers were mainly in the following business units:

- Personal staff numbers increased 8%. Retail Banking staff numbers increased 7% due to the opening of new branches under the Branch Investment Program together with extending opening hours of branches. Mortgages increased 11% due to increased volumes. Consumer Finance increased 12% to resource increased volumes, cards initiatives and additional collections staff.

- Institutional increased 11% due to a 15% increase in Working Capital reflecting new operations sites and Markets increasing 21% with higher levels of frontline staff to support the revenue strategy in Commodities, Corporate Sales and Asia business.

- New Zealand grew 4% due to increases in frontline staff to facilitate business growth and compliance staff required for Basel II projects.

- Partnership & Private Bank increased 43% driven mainly by the branch expansion program in Cambodia and increased specialist staff to further the growth agenda in Private Banking.

- Premises costs increased $19 million (9%) mainly driven by higher rental expense reflecting additional space requirements, opening of new branches and ATMs as well as market rental growth.

- Computer costs increased $20 million (8%) due to increased software purchases of $10 million which includes additional software and software licence fees and a $4 million increase in data communication costs.

- Other expenses were $2 million higher. Non lending losses decreased $20 million compared with the first half of 2006 due to Institutional and New Zealand (the latter included a NZD10 million New Zealand Commerce Commission settlement impact). Advertising spend decreased $9 million as a result of Consumer Finance cost initiatives and March 2006 half including the cost of launching ANZ Everyday Visa Debit. Travel expenses increased $10 million and professional fees rose $8 million with small increases spread across most business units. Freight costs grew $4 million, depreciation charges increased $3 million and indirect taxes increased $3 million.

- Movements in exchange rates decreased cost growth by $27 million.

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

Operating expenses increased $40 million (2%).

- Personnel expenses increased $61 million (4%) as a result of annual salary increases and a 3% increase in staff numbers mainly in the following business units:

- Personal staff numbers increased 4%. Mortgages increased 7% due to incre