the rewards of being different.

ANZ Financial Report 2006

ANZ

financial report

Income statements for the year ended 30 September

	Note	Consolidated 2006 $m	Consolidated 2005[3] $m	The Company 2006 $m	The Company 2005[3] $m
Total income	3	25,510	21,297	17,914	14,037
Interest income	3	22,301	17,719	14,618	10,948
Interest expense	4	(15,358)	(11,901)	(10,341)	(7,648)
Net interest income		6,943	5,818	4,277	3,300
Other operating income	3	3,015	3,377	3,296	3,089
Share of joint venture profit from ING Australia and ING New Zealand	3	138	149	–	–
Share of associates profit	3	56	52	–	–
Operating income		10,152	9,396	7,573	6,389
Operating expenses	4	(4,531)	(4,418)	(3,250)	(3,126)
Profit before credit impairment and income tax		5,621	4,978	4,323	3,263
Provision for credit impairment	16	(407)	(580)	(278)	(388)
Profit before income tax		5,214	4,398	4,045	2,875
Income tax expense	6	(1,522)	(1,220)	(871)	(700)
Profit for the year		3,692	3,178	3,174	2,175
Profit attributable to minority interests		4	3	–	–
Profit attributable to shareholders of the Company[1,2]		3,688	3,175	3,174	2,175
Earnings per ordinary share (cents)					
Basic	8	200.0	169.5	n/a	n/a
Diluted	8	194.0	164.4	n/a	n/a

The notes appearing on pages 6 to 108 form an integral part of these financial statements.

1 The results of 2006 include the impact of these significant items:
- Settlement of ANZ National Bank claims ($14 million profit after tax), Company (NIL)
- Settlement of NHB insurance claim ($79 million profit after tax), Group and Company

The results of 2005 include the impact of the significant item:
- Gain on sale of NBNZ Life ($14 million profit after tax), Company (NIL)

2 Includes NBNZ incremental integration costs of $26 million (2005: $52 million) after tax.

3 2005 comparatives are not restated for the financial instruments standards being AASB 132, AASB 139 and AASB 4, as permitted under the first time adoption transitional provisions.

Balance sheets as at 30 September

	Note	Consolidated 2006 $m	Consolidated 2005[1] $m	The Company 2006 $m	The Company 2005[1] $m
Assets					
Liquid assets	9	15,019	11,601	10,427	7,191
Due from other financial institutions	10	9,665	6,348	6,253	3,452
Trading securities[2]	11	9,179	6,285	7,508	5,309
Derivative financial instruments	12	9,164	6,511	8,787	6,027
Available-for-sale assets/investment securities[3]	13	10,653	10,042	8,657	5,301
Net loans and advances	14	255,410	232,490	172,155	153,361
Customer's liabilities for acceptances		13,435	13,449	13,425	13,449
Due from controlled entities		–	–	9,418	8,625
Regulatory deposits	17	205	159	132	113
Shares in controlled entities	18	–	–	11,424	11,998
Shares in associates and joint venture entities	18	2,200	1,926	307	92
Deferred tax assets	19	1,384	1,389	867	806
Goodwill and other intangible assets[4]	20	3,337	3,458	419	422
Other assets	21	5,011	6,173	2,690	2,833
Premises and equipment	22	1,109	1,054	527	495
Total assets		335,771	300,885	252,996	219,474
Liabilities					
Due to other financial institutions	23	14,118	12,027	11,652	9,029
Deposits and other borrowings	24	204,794	190,322	128,321	113,089
Derivative financial instruments	12	8,753	7,006	8,442	6,322
Liability for acceptances		13,435	13,449	13,425	13,449
Due to controlled entities		–	–	12,556	11,694
Current tax liabilities	25	569	199	701	281
Deferred tax liabilities	25	1,384	1,602	999	1,211
Payables and other liabilities	26	10,679	7,618	8,823	5,472
Provisions	27	957	914	688	650
Bonds and notes	28	50,050	39,073	39,839	32,739
Loan capital	29	11,126	9,137	10,251	8,452
Total liabilities		315,865	281,347	235,697	202,388
Net assets		19,906	19,538	17,299	17,086
Equity					
Ordinary share capital	30	8,271	8,053	8,271	8,053
Preference share capital	30	871	1,858	871	1,858
Reserves	31	(354)	(46)	(16)	(135)
Retained earnings	31	11,084	9,646	8,173	7,310
Share capital and reserves attributable to shareholders of the Company		19,872	19,511	17,299	17,086
Minority interests	32	34	27	–	–
Total Equity		19,906	19,538	17,299	17,086
Commitments	44				
Contingent liabilities, contingent assets and credit related commitments	45				

The notes appearing on pages 6 to 108 form an integral part of these financial statements.

1 2005 comparatives are not restated for the financial instruments standards being AASB 132, AASB 139 and AASB 4, as permitted under the first time adoption transitional provisions.
2 Includes bills held in portfolio $1,569 million (September 2005: $1,182 million).
3 In 2005 available-for-sale assets were reported as investment securities.
4 Excludes notional goodwill related to the ING Australia joint venture of $826 million (September 2005: $826 million) and the ING New Zealand joint venture of $79 million (September 2005: $82 million).

Statements of recognised income and expense for the year ended 30 September

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Items recognised directly in equity[1]				
Currency translation adjustments				
Exchange differences on translation of foreign operations taken to equity	(203)	(443)	97	(213)
Available-for-sale assets				
Valuation gain taken to equity	20	n/a	15	n/a
Cumulative (gain) transferred to the income statement on sale	(8)	n/a	(7)	n/a
Cash flow hedges				
Valuation gain taken to equity	121	n/a	36	n/a
Transferred to income statement for the year	(56)	n/a	(7)	n/a
Actuarial (loss)/gain on defined benefit plans	(55)	25	(54)	23
Net income/(loss) recognised directly in equity	(181)	(418)	80	(190)
Profit for the year	3,692	3,178	3,174	2,175
Total recognised income and expense for the year	3,511	2,760	3,254	1,985
Total recognised income and expense for the year attributable to minority interests	4	3	–	–
Total recognised income and expense for the year attributable to shareholders of the Company	3,507	2,757	3,254	1,985
Effect of adoption of AASB 139:[2]				
Available-for-sale reserve	(10)	n/a	(11)	n/a
Hedging reserve	162	n/a	11	n/a
Retained earnings	(431)	n/a	(201)	n/a
	(279)	n/a	(201)	n/a

The notes appearing on pages 6 to 108 form an integral part of these financial statements.

1 These items are disclosed net of tax (refer Note 6).
2 No portion is attributable to minority interests.

Cash flow statements for the year ended 30 September

	Note	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Cash flows from operating activities					
Interest received		23,014	17,868	14,623	10,926
Dividends received		53	144	1,151	475
Fee income received		2,082	2,303	1,434	1,340
Other income received		1,057	1,013	1,273	1,517
Interest paid		(14,676)	(11,414)	(9,311)	(7,541)
Personnel expenses paid		(2,737)	(2,498)	(1,887)	(1,702)
Premises expenses paid		(379)	(367)	(262)	(251)
Other operating expenses paid		(2,416)	(2,144)	(1,154)	(931)
Recovery from NHB litigation		114	–	114	–
Income taxes paid					
Australia		(788)	(572)	(793)	(434)
Overseas		(437)	(500)	(46)	(37)
Goods and services tax received (paid)		(18)	18	–	–
(Increase)/decrease in operating assets					
Liquid assets – greater than three months		(1,300)	(728)	(441)	(631)
Due from other financial institutions		1,318	(371)	177	(180)
Trading securities		(1,681)	(821)	(182)	(523)
Regulatory deposits		(42)	5	(17)	22
Loans and advances		(26,848)	(28,788)	(18,732)	(20,599)
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		16,129	19,856	14,736	14,085
Due to other financial institutions		1,859	4,972	2,462	3,422
Payables and other liabilities		541	(1,339)	1,221	(1,375)
Net cash (used in)/provided by operating activities	39(a)	(5,155)	(3,363)	4,366	(2,417)
Cash flows from investing activities					
Net (increase)/decrease					
Available-for-sale assets					
Purchases		(15,480)	(17,188)	(16,880)	(13,873)
Proceeds from sale or maturity		16,239	17,856	13,695	14,421
Controlled entities and associates					
Purchased (net of cash acquired)		(289)	(208)	(230)	–
Proceeds from sale (net of cash disposed)		14	360	10	–
Premises and equipment					
Purchases		(250)	(325)	(161)	(277)
Proceeds from sale		19	86	12	1
Other		1,697	(1,719)	(239)	(2,370)
Net cash provided by/(used in) investing activities		1,950	(1,138)	(3,793)	(2,098)
Cash flows from financing activities					
Net increase (decrease)					
Due from/to controlled entities		–	–	66	1,085
Bonds and notes					
Issue proceeds		17,506	17,968	14,316	13,691
Redemptions		(8,949)	(5,025)	(8,873)	(4,665)
Loan capital					
Issue proceeds		1,248	1,225	1,188	1,225
Redemptions		(656)	(93)	(626)	–
Change in minority interests		–	8	–	–
Dividends paid		(1,930)	(1,808)	(1,903)	(1,724)
Share capital issues		147	120	147	120
Share capital buyback		(146)	(204)	(146)	(204)
Euro Trust security issue		–	875	–	875
Euro Trust issue costs		–	(4)	–	(4)
Net cash provided by financing activities		7,220	13,062	4,169	10,399
Net cash (used in)/provided by operating activities		(5,155)	(3,363)	4,366	(2,417)
Net cash provided by/(used in) investing activities		1,950	(1,138)	(3,793)	(2,098)
Net cash provided by financing activities		7,220	13,062	4,169	10,399
Net increase in cash and cash equivalents		4,015	8,561	4,742	5,884
Cash and cash equivalents at beginning of year		13,702	7,854	7,899	4,242
Foreign currency translation on opening balances		2,627	(2,713)	929	(2,227)
Cash and cash equivalents at end of year	39(b)	20,344	13,702	13,570	7,899

The notes appearing on pages 6 to 108 form an integral part of these financial statements.

Notes to the financial statements

1: Significant Accounting Policies

i) Basis of preparation

These consolidated financial statements comprise a general purpose financial report and:

- comply with the accounts provisions of the Banking Act 1959
- have been prepared in accordance with the Australian equivalents to the International Financial Reporting Standards (AIFRS), other authoritive pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.
- are presented in Australian dollars
- have been prepared in accordance with the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments, including the fair value of any applicable underlying exposure; assets treated as available-for-sale; financial instruments held for trading; term funding instruments including specific bonds and notes; and defined benefit plan assets and liabilities.

The preparation of the financial report requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. Discussion of these critical accounting treatments, which include complex or subjective decisions or assessments, are covered within Note 2. Such estimates may require review in future periods.

The Parent entity is an entity of the kind referred to in Australian Securities and Investments Commission class order 98/100, dated 10 July 1998 (as amended). Consequently, amounts in the financial report have been rounded to the nearest million dollars except where otherwise indicated.

The financial report was authorised for issue by the directors on 1 November 2006.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards issued by the AASB, being AIFRS. The Group revised its accounting policies effective 1 October 2004 to enable the preparation of financial statements that comply with AIFRS. This is the Group's first annual financial report prepared in accordance with AIFRS. AASB 1: 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' has been applied in preparing these financial statements. An explanation of how the transition from superseded policies to AIFRS has impacted the Group's reported financial position, financial performance and cash flow, is set out in Note 51.

The accounting policies have been consistently applied by all consolidated entities and to all periods presented in the consolidated financial report, and the opening AIFRS balance sheet as at 1 October 2004, except for those policies relating to standards for which comparatives are not restated, as permitted under the first time adoption transitional provisions of AASB 1. The standards are AASB 132: 'Financial Instruments: Presentation and Disclosure', AASB 139: 'Financial Instruments: Recognition and Measurement', and AASB 4: 'Insurance Contracts'. Policies applied in respect of the period 1 October 2004 to September 2005 prior to the adoption of these standards are set out as 'comparative accounting policy' throughout this note.

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, 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: Presentation and Disclosure', 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 1 January 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 1 January 2006.
- AASB 2005-9: 'Amendments to Australian Accounting Standards' (September 2005) replacing the presentation requirements for financial instruments in AASB 132. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10: 'Amendments to Australian Accounting Standards' (September 2005) makes consequential amendments to AASB 132: 'Financial Instruments: Presentation and Disclosure', 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, AASB 4, AASB 1023: 'General Insurance Contracts' and AASB 1038: 'Life Insurance Contracts' arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 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 realised gains on the hedges of future years' revenues of approximately $141 million (net of tax) are included in the hedging reserve in equity at 30 September 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 1 October 2006.

Notes to the financial statements

1: Significant Accounting Policies (continued)

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the Group as the amendment could result in liabilities being recognised 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.

ii) Consolidation

The financial statements consolidate the financial statements of Australia and New Zealand Banking Group Limited (the Company) and all of its controlled entities where it is determined that there is a capacity to control.

Where controlled entities have been sold or acquired during the year, their operating results have been included to the date of disposal or from the date of acquisition.

Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually present when an entity has: power over more than one-half of the voting rights of the other entity; power to govern the financial and operating policies of the other entity; power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity. In addition, potential voting rights that are presently exercisable or convertible are taken into account. However, all the facts of a particular situation are considered when determining whether control exists. In relation to special purpose entities, such control is also deemed to exist even where an entity owns less than a majority of the shareholder or Board voting power of such companies, provided that the following factors exist:

- the majority of the benefits from their activities accrue to the entity
- the entity has the majority of the residual risks and rewards of the special purpose entity.

Further detail on special purpose entities is provided in note 2(i).

The Group adopts the equity method of accounting for associates and the Group's interest in joint venture entities.

The Group's share of results of associates and joint venture entities is included in the consolidated income statement. Shares in associates and joint venture entities are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition net assets. Interests in associates and joint ventures are reviewed annually for impairment primarily using a discounted cash flow methodology. In the course of completing this impairment review other methodologies are considered to determine the reasonableness of the valuation, including the multiples of earnings methodology.

In the Company's financial statements, investments in associates and joint venture entities are carried at cost.

All significant activities of the Group, with the exception of the ING Australia Joint Venture, are operated through wholly owned controlled entities.

Derecognition

The Group enters into transactions where it transfers assets recognised on its balance sheet but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. The main types of financial assets that do not qualify for derecognition are debt securities held by counterparties as collateral under repurchase agreements, equity securities lent under securities lending agreements and securitised assets.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

iii) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Translation differences on non-monetary items, such as derivatives measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items. For 2006, translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from (i) the settlement of such transactions, and (ii) the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

(i) assets and liabilities of each foreign operation are translated at the rates of exchange ruling at balance date;

(ii) revenue and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and

(iii) all resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from borrowings and other currency instruments designated as hedges of net investment in foreign operations, are taken to the foreign currency translation reserve.

1: Significant Accounting Policies (continued)

When a foreign operation is disposed, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate ruling at balance date.

iv) Interest income and interest expense

Current accounting policy

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

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial instrument. Income and expense on the financial instruments are recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

Loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the interest yield on the loan once drawn or immediately to the income statement for expired commitments.

Fees and commissions payable to brokers in respect of originating lending business, where these are direct and incremental costs related to the issue of a financial instrument, are deferred in other assets and recognised in interest income as part of the effective interest rate.

Comparative period policy

Interest on amounts outstanding is accounted for on an accruals basis with the exception of interest on non-accrual loans as set out in note 1(x) under comparative period policy.

v) Fee and commission income

Current accounting policy

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the determination of the effective interest rate.

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

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Comparative period policy

Fee and commission income is brought to account on an accruals basis. Certain yield-related front-end application fees received are deferred and accrued to income as an adjustment to yield over the period of the loan. Non yield-related application and activation lending fees received are recognised as income no later than when the loan is disbursed or the commitment to lend expires.

vi) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. At the Group level, this generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- where gains and losses relating to fair value hedges are assessed as being effective
- where gains and losses from a group of similar transactions are reported on a net basis, such as foreign exchange gains and losses
- where amounts are collected on behalf of third parties, where the Group is acting as an agent only, or
- where costs are incurred on behalf of customers from whom the Group is reimbursed.

vii) Trading securities and other financial assets at fair value through profit or loss

Current accounting policy

Trading securities and other financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking are initially recognised and subsequently measured in the balance sheet at their fair value. Additionally, this valuation basis is used as an alternative to hedge accounting for certain financial instruments where certain conditions are met.

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

Comparative period policy

Securities held for trading purposes are recorded at market value. Unrealised gains and losses on revaluation are taken to the income statement.

viii) Derivative financial instruments

Current accounting policy

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons), or for hedging purposes (where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Where the derivative is designated effective as a hedging instrument, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

- **Fair value hedge**
  Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

  Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity.

  If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

1: Significant Accounting Policies (continued)

- **Cash flow hedge**
  The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve which forms part of shareholders' equity. Any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place.

  When the hedge expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

  When a forecast transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.
- **Net investment hedge**
  Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss from remeasuring the fair value of the hedging instrument relating to the effective portion of the hedge is deferred in equity and the ineffective portion is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of funding instruments are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and unrealised interest is included in net interest income. The remainder of the fair value movement is included in other income.

Purchases and sales of derivatives that do not qualify for hedge accounting are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

Embedded derivatives

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value. The embedded derivative is measured at fair value with changes in fair value immediately recognised in the income statement.

Cash flow treatment

Movements in the derivative financial position are recorded in the cash flow statement when they are settled on the other financing and investing lines.

Set-off arrangements

Fair value gains/losses arising from trading derivatives are not offset against fair value gains/losses on the balance sheet unless a legal right of set-off exists.

For contracts subject to master netting agreements that create a legal right of set-off for which only the net revaluation amount is recognised in the income statement, unrealised gains on derivatives are recognised as part of other assets and unrealised losses are recognised as part of other liabilities.

Comparative accounting policy

Trading derivatives, comprising derivatives entered into for customer-related or for proprietary reasons or for hedging the trading portfolio, are measured at fair value and all gains and losses are taken to other operating income in the income statement.

Derivatives designated as hedges of underlying non-trading exposures are accounted for on the same basis as the underlying exposures. To be designated as a hedge, the fair value of the hedge must move inversely with changes in the fair value of the underlying exposure.

Gains and losses resulting from the termination of a derivative that was designated as a hedge of non-trading exposures are deferred and amortised over the remaining period of the original term covered by the terminated instrument where the underlying exposure still exists. The gains or losses are recorded in the income or expense line in which the underlying exposure movements are recorded. Where the underlying exposure no longer exists, the gains and losses are recognised in the income statement in the other operating income line.

Gains and losses on derivatives related to hedging exposures arising from anticipated transactions are deferred and recognised in the financial statements when the anticipated transaction occurs.

These gains and losses are deferred only to the extent that there is an offsetting unrecognised (unrealised) gain or loss on exposures being hedged. Deferred gains and losses are amortised over the expected term of the hedged exposure and are recorded in the results of operations in the same line as the underlying exposure. For hedging instruments designated as hedging interest rate risk, the amortised deferred gain or loss is posted to the net interest line; for items designated as hedging foreign currency exposures, the amortised deferred gain or loss is recorded in the other operating income line. The impact of hedges of foreign currency revenue is recorded in interest income. The deferred gain or loss is recorded in other liability or other assets in the balance sheet.

Gains and losses that arise prior to and upon maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur. If the forecasted transaction is no longer expected to occur, the gains and losses are recognised immediately in the income statement in other income.

ix) Available-for-sale assets

Current accounting policy

Available-for-sale assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances, and fixed term securities. They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity, the 'Available-for-sale revaluation reserve'. When the asset is sold the cumulative gain or loss relating to the asset is transferred to the income statement.

Where there is objective evidence of impairment on an available-for-sale asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement.

Notes to the financial statements

1: Significant Accounting Policies (continued)

Premiums and discounts are included within the calculation of the fair value of the security. Interest income is accrued on an effective yield basis and dividend income is recognised when the right to receive payment is established.

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

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

Comparative period policy

Investment securities are those which the Group has the ability to hold until maturity. Such securities are recorded at cost or at cost adjusted for amortisation of premiums or discounts.

Premiums and discounts are capitalised and amortised from the date of purchase to maturity. Interest and dividend income is accrued. Changes in market values of securities are not taken into account unless there is considered to be an other than temporary diminution in value. The market value of listed and unlisted investment securities used for considering other than temporary impairment and fair value market disclosures is determined using quoted market prices for securities with the same or similar credit, maturity and yield characteristics.

x) Net loans and advances

Current accounting policy

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method (refer note 1(iv)). They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

All loans are subject to scrutiny and graded according to the level of credit risk.

Net loans and advances includes direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills. Overdrafts, credit cards, term loans and commercial bills are carried at amortised cost.

Customer financing through redeemable preference shares is included within net loans and advances. Dividends received on redeemable preference shares are taken to the income statement as part of interest income.

Comparative accounting policy

Loans are classified as either productive or non-accrual. Non-accrual loans include loans where the accrual of interest and fees has ceased due to doubt as to full recovery, and loans that have been restructured with an effective yield below the Group's average cost of funds at the date of restructuring.

Restructured loans are loans with an effective yield above the Group's cost of funds and below the yield applicable to a customer of equal credit standing.

Cash receipts on non-accrual loans are, in the absence of a contrary agreement with the customer, applied as income or fees in priority to being applied as a reduction in principal, except where the cash receipt relates to proceeds from the sale of security.

Finance lease receivables

Finance lease receivables include amounts due from lessees in relation to finance leases and hire purchase contracts.

A hire purchase contract is one where the Group (the 'owner') allows the customer (the 'hirer') the right to possess and use goods in return for regular payments. When all payments are made the title to the goods passes to the customer.

The gross amount of contractual payments regarding lease finance to business customers that have a fixed rate and a fixed term are recorded as gross lease receivables and the unearned interest component is recognised as income yet to mature.

Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments, plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction in the lease receivable over the term of the finance lease, reflecting a constant periodic rate of return on the net investment outstanding in respect of the lease. Any unguaranteed operating lease residual is recorded as other assets and not within net loans and advances.

At the end of the lease term, goods are disposed of and proceeds received are applied against the residual value. Any resulting gains or losses are recognised through the income statement.

xi) Impairment of loans and advances

Current accounting policy

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures, including off-balance sheet items such as commitments and guarantees, that are known to be impaired. 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 loss event or events has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed individually for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The estimated impairment losses are measured as the difference between the assets carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income. The process of estimating the amount and timing of cash flows involves considerable management judgment. These judgments are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the financial statements

1: Significant Accounting Policies (continued)

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Subsequent recoveries of amounts previously written-off are credited back to the income statement.

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

A provision is also raised for off balance sheet items such as commitments and guarantees that are considered to be onerous.

Comparative accounting policy

The Group recognises an expense for credit losses through a systematic approach drawing on historical loss experience, portfolio composition, internal rating statistics and overlaid by management judgement to ensure the estimated expense reflects current economic conditions and credit risks. The charge is booked to the General Provision which is maintained to cover losses inherent within the Group's existing loan portfolio.

The method used by the Group for determining this expense charge is referred to as 'economic loss provisioning' (ELP). The Group uses ELP models to calculate the incurred loss by considering:

- the history of credit loss for each type and risk rate of lending; and
- the size, composition and risk profile of the current loan portfolio.

The Group regularly reviews the assumptions used in the ELP models. These reviews are conducted in recognition of the subjective nature of ELP methodology. In addition, the robustness of outcomes is reviewed considering the Group's actual loss experience and losses sustained by other banks operating in similar markets.

To the extent that credit losses are not consistent with previous loss patterns used to develop the assumptions within the ELP methodology, the existing General Provision may be determined to be either in excess of or insufficient to cover credit losses not yet individually identified. As a result of the reassessments, ELP charge levels may be periodically increased or decreased.

Specific provisions are raised to cover expected losses, where full recovery of principal is doubtful. All known bad debts are written off in the year in which they are identified. The specific provision requirement (representing new and increased specific provisions less specific provision releases) is transferred from the General Provision to the Specific Provision. Recoveries, representing excess transfers to the Specific Provision, are credited to the General Provision.

Provisions for doubtful debts are deducted from loans and advances in the balance sheet.

xii) Leasing

Leases as lessee

Leases entered into by the Group as lessee are predominantly operating leases, and the operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leases as lessor

Contracts to lease assets, and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases. The policy for accounting for finance leases as lessor is explained in note 1(x) above.

xiii) Acceptances

Commercial bills accepted but not held in portfolio are accounted for as a liability with a corresponding contra asset. The liability is disclosed as liability for acceptances, and the asset is disclosed as Customer's liability for acceptances

The Group's own acceptances discounted are held as part of the trading securities portfolio.

xiv) Goodwill and other intangible assets

Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is recognised as an asset and not amortised, but assessed for impairment annually and whenever there is an indication that the goodwill may be impaired. This involves, where required, using the discounted cash flow (DCF) or the capitalisation of earnings methodology (CEM) to determine the expected future benefits of the cash-generating units. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the income statement.

Any impairment of goodwill is not subsequently reversed.

Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems ("software").

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years except for branch front-end applications where 7 years is used.

At each reporting date, software assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

xv) Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and impairment.

The gain or loss on the disposal of premises and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal.

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight-line method. The depreciation rates used for each class of asset are:

Buildings	1%
Building integrals	10%
Furniture & equipment	10%
Computer & office equipment	12.5%–33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful lives or remaining terms of the lease.

Notes to the financial statements

1: Significant Accounting Policies (continued)

Premises and equipment impairment assessment

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

xvi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group, and a counterparty liability is disclosed under the classifications of due to other financial institutions or payables and other liabilities. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as liquid assets, net loans and advances, or due from other financial institutions, depending on the term of the agreement and the counterparty. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

xvii) Capitalised expenses

Direct external expenses, comprising direct and incremental costs related to the acquisition of interest earning assets, including structured institutional lending, mortgages and finance leases, are initially recognised as part of the cost of acquiring the asset and amortised as part of expected yield over its expected life using the effective interest method. The write-off is to interest income as part of the effective interest rate. For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience assessed on a regular basis. Impairment of capitalised expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

xviii) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures and other related interest bearing financial instruments. They are measured at amortised cost. The interest expense is recognised using the effective interest method as explained in note 1(iv).

xix) Bonds, notes and loan capital

Bonds, notes and loan capital are accounted for in the same way as deposits and other borrowings, except for those bonds and notes which are stated at fair value, with fair value movements recorded in the income statement.

xx) Employee benefits

Leave benefits

The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes and also contributes, according to local law, in the various countries in which it operates, to government and other plans that have the characteristics of defined contribution schemes. The Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

Defined benefit superannuation schemes

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

The Group operates a number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries. Initially, a defined benefit liability is recognised, to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in a benefit to the Group, a defined benefit asset is recognised. In each subsequent reporting period, ongoing movements in the defined benefit liability or asset carrying value is treated as follows:

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

Share-based compensation

The Group has various equity settled share-based compensation plans. These are described in Note 47 of the 2006 annual financial report and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ ordinary shares: The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed immediately when shares vest immediately or on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in equity.

Notes to the financial statements

1: Significant Accounting Policies (continued)

Share options: The fair value of share options is measured at grant date, using an option pricing model. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in the share options reserve. The option pricing model takes into account the exercise price of the option, the risk-free interest rate, the expected volatility of ANZ ordinary share price and other factors. Market vesting conditions are taken into account in estimating the fair value.

Performance rights: From October 2005, ANZ has granted Performance Rights to certain employees. A Performance Right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and performance hurdles. Upon exercise, each Performance Right entitles the holder to one ordinary share in ANZ. The fair value of Performance Rights is determined at grant date using an option pricing model, taking into account market conditions. The fair value is expensed over the relevant vesting period. This is recognised as an employee expense with a corresponding increase in equity.

Other adjustments: The amount recognised as an expense is adjusted to reflect the actual number of shares or share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

xxi) Provisions

The Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Any expected third party recoveries are recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

xxii) Offsetting of assets and liabilities

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

- a current enforceable legal right to offset the asset and liability, and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

xxiii) Loss contingencies

These items are recorded as liabilities on the balance sheet when the following requirements are met:

- the transaction is probable in that the contingency is likely to occur; and
- the contingency can be reasonably estimated.

Further disclosure is made in note 45, where the above requirements are not met but there is a possible obligation that is higher than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

xxiv) Income tax

Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date, including any adjustment for tax payable in previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those in relation to taxable temporary differences arising from goodwill.

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

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

For details of Tax Consolidation, refer note 6.

xxv) Change in accounting policy

In the current reporting period the Group has adopted AASB 132: 'Financial Instruments: Presentation and Disclosure', AASB 139: 'Financial Instruments: Recognition and Measurement' and AASB 4: 'Insurance Contracts'. This change in accounting policy has been adopted in accordance with the transitional rules of AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132, AASB 139 and AASB 4. The impact of this change in accounting policy in the current reporting period is detailed in note 51.

Notes to the financial statements

2: Critical Estimates and Judgements Used 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:

Critical Accounting Estimates and Assumptions

Provisions for credit impairment

The accounting policy, as explained in note 1(xi), relating to measuring the impairment of loans and advances, requires the Group to assess impairment regularly. The credit provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

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 historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Individual provisioning is applied when the full collectibility of one of the Group's loans is identified as being doubtful.

Individual and collective provisioning is calculated using discounted expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

Critical judgements in applying the entity's accounting policies

i) Special purpose and off balance sheet entities

The Group may invest in or establish special purpose entities (SPEs) to enable it to undertake specific types of transactions. The main types of these SPEs are securitisation vehicles, structured finance entities, entities used to sell credit protection and managed funds.

Where the Group has established SPEs which are controlled by the Group to facilitate transactions undertaken for Group purposes, these are consolidated in the Group's financial statements.

The Group does not consolidate SPEs that it does not control in accordance with the Group's policy outlined in note 1(ii). As it can sometimes be difficult to determine whether the Group has control of an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

The table below summarises the main types of SPEs that are not consolidated into the Group, the reason for their establishment, and the key risks associated with them.

			SPE Assets	
Type of SPE	Reason for establishment	Key Risks	2006 $m	2005 $m
Securitisation 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 securitisation 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 (30 September 2005: $1,243 million).

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

ii) Valuation of investment in ING Australia Limited (INGA)

The Group adopts the equity method of accounting for its 49% interest in INGA. As at 30 September 2006, the Group's carrying value was $1,462 million (September 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 [ABC] Limited (EY [ABC]) to provide an independent valuation of INGA for 31 March 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 cashflow approach, with allowance for the cost of capital. EY [ABC] 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 31 March 2006.

At 30 September 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.

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

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

As at 30 September 2006, the Group's carrying value was $146 million (September 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 31 March 2006 assessment purposes. The valuation was based on a discounted cashflow approach. PwC presented a valuation range as at 31 December 2005 of $337 million to $371 million (at 30 September 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 31 December 2005 and 31 March 2006 in order to provide an assessment as at 31 March 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 31 March 2006.

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

iv) 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 30 September 2006, the balance of goodwill recorded as an asset in ANZ National Bank Ltd was $2,828 million (30 September 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 capitalisation 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, judgement is applied when assessing comparable companies and transactions, particularly with respect to the mix of business, geographic location, growth prospects, riskiness of future earnings and size of the overall business.

The results of the independent valuation carried out as at 31 March 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 30 September 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.

Notes to the financial statements

3: Income

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Interest income				
Other financial institutions	407	258	254	127
Trading securities	526	303	384	254
Available-for-sale assets	736	519	448	242
Loans and advances	18,802	16,178	11,791	9,826
Acceptances	969	–	969	–
Other	861	461	507	286
	22,301	17,719	14,353	10,735
Controlled entities	–	–	265	213
Total interest income	22,301	17,719	14,618	10,948
Other operating income				
Lending[1]	430	1,043	336	856
Non lending fees and commissions	1,956	1,800	1,343	1,190
	2,386	2,843	1,679	2,046
Controlled entities	–	–	173	218
Total fee and commission income	2,386	2,843	1,852	2,264
Fee and commission expense	(241)	(232)	(175)	(169)
Net fee and commission income	2,145	2,611	1,677	2,095
ii) Other income				
Net foreign exchange earnings	447	454	203	351
Net gains/(losses) from trading securities[2]	(7)	33	(17)	40
Net gains/(losses) from trading derivatives	216	101	167	77
Fair value movements on financial instruments measured at fair value through profit or loss[3]	49	–	36	–
Significant item: Net profit before tax from the sale of NBNZ Life to new joint venture ING NZ	–	14	–	–
Significant item: Settlement of ANZ National Bank Limited claims	14	–	–	–
Life insurance margin on services operating income	–	18	–	–
Profit (loss) on sale of premises[4]	2	6	–	(3)
Rental income	2	2	2	2
Dividends received from controlled entities	–	–	1,145	478
Other	147	138	83	49
Total other income	870	766	1,619	994
Total other operating income	3,015	3,377	3,296	3,089
Share of joint venture profit from ING Australia and ING NZ[5] (refer note 42)	138	149	–	–
Share of associates profit (net of write-offs) (refer note 41)	56	52	–	–
Total share of joint venture and associates profit	194	201	–	–
Total income[6]	25,510	21,297	17,914	14,037

1 Lending fees in 2006 exclude fees treated as part of the effective yield calculation and included in interest income (refer note 1(iv)).
2 Does not include interest income.
3 Includes any fair value movements (excluding realised and accrued interest) on derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, not designated as accounting hedges, ineffective portions of cashflow hedges, and fair value movements in bonds and notes designated at fair value.
4 Gross proceeds on sale of premises is $4 million (2005: $9 million).
5 A joint venture entity from 30 September 2005.
6 Total income includes external dividend income of $53 million (2005: $106 million) for the Group and $6 million (2005: $7 million) for the Company.

Notes to the financial statements

4: Expenses

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Interest expense				
Financial institutions	636	345	527	251
Deposits	8,000	6,732	5,296	4,337
Borrowing corporations' debt	652	643	–	–
Commercial paper	1,440	1,135	245	133
Acceptances	809	–	809	–
Loan capital, bonds and notes	3,387	2,477	2,537	2,070
Other	434	569	299	453
	15,358	11,901	9,713	7,244
Controlled entities	–	–	628	404
Total interest expense	15,358	11,901	10,341	7,648
Operating expenses				
i) Personnel				
Employee entitlements and taxes	207	190	137	130
Salaries and wages	1,746	1,625	1,201	1,071
Superannuation costs – defined benefit plans (refer note 46)	11	16	6	10
Superannuation costs – defined contribution plans	160	143	121	105
Equity-settled share-based payments (refer note 47)	76	80	65	71
Temporary staff	121	111	75	66
Other	408	364	297	274
Total personnel expenses	2,729	2,529	1,902	1,727
ii) Premises				
Amortisation of leasehold improvements (refer note 22)	18	16	12	9
Depreciation of buildings and integrals (refer note 22)	15	11	2	2
Rent	228	213	146	137
Utilities and other outgoings	128	122	92	91
Other	25	32	24	23
Total premises expenses	414	394	276	262
iii) Computer				
Computer contractors	47	53	39	49
Data communication	57	60	33	34
Depreciation and amortisation[1]	208	235	170	182
Rentals and repairs	68	58	49	48
Software purchased	117	115	84	84
Other	52	37	29	14
Total computer expenses	549	558	404	411
iv) Other				
Advertising and public relations	175	161	123	92
Amortisation of other intangible assets (refer note 20)	3	3	3	3
Audit fees (refer note 5)	9	7	6	4
Depreciation of furniture and equipment (refer note 22)	48	43	36	29
Freight and cartage	47	45	40	36
Loss on sale of equipment	4	9	2	4
Non-lending losses, frauds and forgeries	55	62	18	45
Postage and stationery	116	113	73	67
Professional fees	127	123	96	93
Significant item: Settlement of NHB insurance claim	(113)	–	(113)	–
Telephone	56	55	30	29
Travel	136	124	89	76
Other	125	140	224	201
Total other expenses	788	885	627	679
v) Restructuring	51	52	41	47
Total operating expenses	4,531	4,418	3,250	3,126
Total expenses	19,889	16,319	13,591	10,774

1 Comprises software amortisation of $114 million (2005: $125 million), refer note 20 and computer depreciation of $94 million (2005: $110 million), refer note 22. The Company comprises software amortisation of $100 million (2005: $106 million), refer note 20 and computer depreciation of $70 million (2005: $76 million), refer note 22.

Notes to the financial statements

5: Compensation of Auditors

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
KPMG Australia				
Audit or review of financial reports of the Company or any entity in the Group[1]	6,462	4,981	5,572	3,732
Other audit-related services[2]	1,152	1,150	878	712
Other assurance services[3]	209	1,296	209	1,296
Total	7,823	7,427	6,659	5,740
Overseas Related practices of KPMG Australia				
Audit or review of financial reports of Group entities	2,654	2,343	527	655
Other audit-related services[2]	1,031	1,292	497	487
Other assurance services[3]	38	5	–	5
	3,723	3,640	1,024	1,147
Taxation[3]	–	4	–	–
Total	3,723	3,644	1,024	1,147
Total compensation of auditors	11,546	11,071	7,683	6,887

It is Group policy that KPMG Australia or any of its related practices may provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by the Company's regulators such as the Australian Prudential Regulation Authority. KPMG Australia or any of its related practices may not provide services that are perceived to be materially in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be materially in conflict with the role of auditor may be provided by KPMG Australia or any of its related practices subject to the approval of the Audit Committee.

1 2006 and 2005 includes services in relation to the transition to Australian equivalents to International Financial Reporting Standards. 2006 includes additional audit fees in relation to Sarbanes-Oxley matters. In 2005 KPMG provided Sarbanes-Oxley advisory services which have been included within other assurance services, refer footnote 3 below.
2 Includes prudential supervision reviews for central banks and prospectus reviews.
3 Other assurance services includes:

Consolidated	2006 $'000	2005 $'000
Tax compliance and related services	–	4
Controls and process reviews	–	254
Sarbanes-Oxley matters	–	885
Accounting advice	–	74
Sustainability review	203	82
Training course	44	-
Other	–	6
Total	**247**	**1,305**

6: Income Tax Expense

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
(a) Income tax recognised in the Income Statement				
Tax expense/(income) comprises:				
Income tax expense/(income)	1,754	1,046	1,206	541
Adjustments recognised in the current year in relation to the current tax of prior years	(4)	(2)	–	(1)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(225)	176	(333)	160
Benefits arising from previously unrecognised tax losses, tax credits, or temporary differences of a prior period that is used to reduce: - current tax expense	(3)	–	(2)	–
Total income tax expense charged in the Income Statement	1,522	1,220	871	700
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement.				
Operating profit before income tax	5,214	4,398	4,045	2,875
Prima facie income tax expense at 30%	1,564	1,320	1,214	863
Change in income tax expense due to:				
Overseas tax rate differential	25	22	(5)	(2)
Rebateable and non-assessable dividends	(6)	(23)	(345)	(141)
Other non-assessable income	(9)	(32)	–	(3)
Profit from associated and joint venture entities	(57)	(59)	–	–
Life insurance accounting	–	(5)	–	–
Other	9	(1)	7	(16)
	1,526	1,222	871	701
Income tax under/(over) provided in previous years	(4)	(2)	–	(1)
Total income tax expense charged in the Income Statement	1,522	1,220	871	700
Effective Tax Rate	29.2%	27.7%	21.5%	24.3%
Australia	984	803	784	625
Overseas	538	417	87	75
(b) Income tax recognised directly in equity The following income tax amounts were charged directly to equity during the period	2	23	(3)	9

Tax consolidation

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group in accordance with the arrangement.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations.

Notes to the financial statements

7: Dividends

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Ordinary dividends				
Interim dividend	1,024	930	1,024	930
Final dividend	1,078[1]	983[1]	1,078[1]	983[1]
Bonus option plan adjustment	(34)	(36)	(34)	(36)
Dividends on ordinary shares	2,068	1,877	2,068	1,877

1 Dividends are not accrued and are recorded when determined. Final dividend of $1,267 million for 2006 is not included in the table above.

A final dividend of 69 cents, fully franked, is proposed to be paid on each fully paid ordinary share on 15 December 2006 (2005: final dividend of 59 cents, paid 16 December 2005, fully franked). The 2006 interim dividend of 56 cents, paid 3 July 2006, was fully franked (2005: interim dividend of 51 cents, paid 1 July 2005, fully franked).

The tax rate applicable to the franking credits attached to the interim dividend and to be attached to the proposed final dividend is 30% (2005: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2006 and 2005 were as follows:

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Paid in cash	1,903	1,724	1,903	1,724
Satisfied by issue of shares	165	153	165	153
	2,068	1,877	2,068	1,877

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Preference dividends				
ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)[1]	–	66	–	–
Euro Trust Securities	27	18	–	–
Dividends on preference shares	27	84	–	–

1 Under AIFRS, the ANZ Stapled Exchangeable Preferred Securities are now treated as loan capital (refer note 29), with distributions being reported as an interest expense in the financial year ended 30 September 2006.

ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)

On 23 September 2003, the Group issued 10 million ANZ StEPS at $100 each, raising $1 billion ($987 million net of issue costs of $13 million). ANZ StEPS comprise 2 fully paid securities – an interest paying unsecured note issued by a New Zealand subsidiary (ANZ Holdings (New Zealand) Limited) which is stapled to a fully paid preference share issued by the Company.

Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on ANZ StEPS, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or below the preference share component of ANZ StEPS. Distributions are reported as interest expense from 1 October 2005, due to the reclassification of the preference securities as loan capital under AIFRS.

Further details in relation to ANZ StEPS are set out in note 29.

7: Dividends (continued)

Euro Trust Securities

On 13 December 2004, the Group issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1,000 each into the European market, raising €500 million (A$871 million at the spot rate at the date of issue, net of issue costs). The Euro Trust Securities comprise 2 fully paid securities – an interest paying unsecured note issued by a United Kingdom subsidiary (ANZ Jackson Funding PLC) and a fully paid €1,000 preference share issued by the Company, which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears (on 15 March, 15 June, 15 September, 15 December of each year) based upon a floating distribution rate equal to 3 month EURIBOR rate plus a 66 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on Euro Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or below the preference share component. (Refer to note 30 for further details.)

Dividend Franking Account

The amount of franking credits available to the Company for the subsequent financial year is $341 million (2005: $78 million) after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 2006 financial year, $543 million of franking credits which will be utilised in franking the proposed final dividend and franking credits that may not be accessible by the Company at present.

Restrictions which Limit the Payment of Dividends

There are presently no significant restrictions on the payment of dividends from controlled entities to the Company. Various capital adequacy, liquidity, statutory reserve and other prudential requirements must be observed by certain controlled entities and the impact on these requirements caused by the payment of cash dividends is monitored.

There are presently no restrictions on payment of dividends by the Company. Reductions of shareholders' equity through payment of cash dividends is monitored having regard to the regulatory requirements to maintain a specified capital adequacy ratio. In particular, the Australian Prudential Regulation Authority has advised that a bank under its supervision must consult with it before declaring a coupon payment on a Tier 1 instrument, including a dividend if the bank has incurred a loss, or proposes to pay coupon payments on Tier 1 instruments (including dividends), which exceed the level of current year profits.

Dividend Reinvestment Plan

During the year, 3,545,901 ordinary shares were issued at $23.85 per share, and 3,039,401 ordinary shares at $26.50 per share, under the dividend reinvestment plan (2005: 3,900,116 ordinary shares at $19.95 per share, and 3,406,775 ordinary shares at $21.85 per share). All eligible shareholders can elect to participate in the dividend reinvestment plan.

Bonus Option Plan

Dividends paid during the year have been reduced as a result of certain shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued bonus shares.

During the year, 1,384,144 ordinary shares were issued under the bonus option plan (2005: 1,749,584 ordinary shares).

	Determined dividend $m	Bonus option plan adjustment $m	Amount paid $m
Final dividend 2005	1,078	(18)	1,060
Interim dividend 2006	1,024	(16)	1,008
	2,102	(34)	2,068

Notes to the financial statements

8: Earnings per Ordinary Share

	Consolidated 2006	Consolidated 2005
Basic earnings per share (cents)	200.0	169.5
Earnings reconciliation ($millions)		
Profit for the year	3,692	3,178
Less: net profit attributable to minority interests	4	3
Less: preference share dividend paid	27	84
Earnings used in calculating basic earnings per share	3,661	3,091
Weighted average number of ordinary shares (millions)	1,830.3	1,823.7
Diluted earnings per share (cents)	194.0	164.4
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	3,661	3,091
Add: US Trust Securities interest expense	53	48
Add: ANZ StEPS interest expense	45	44
Earnings used in calculating diluted earnings per share	3,759	3,183
Weighted average number of ordinary shares (millions)		
Used in calculating basic earnings per share	1,830.3	1,823.7
Add: potential conversion of options to ordinary shares	13.9	9.7
potential conversion of US Trust Securities to ordinary shares	54.8	60.1
potential conversion of ANZ StEPS to ordinary shares	38.2	42.7
Used in calculating diluted earnings per share	1,937.2	1,936.2

The weighted average number of converted and lapsed options, weighted with reference to the date of conversion or lapse, and included in the calculation of diluted earnings per share is approximately 1.6 million.

9: Liquid Assets

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia				
Coins, notes and cash at bankers	1,286	888	1,242	865
Money at call, bills receivable and remittances in transit	938	1,013	892	958
Securities purchased under agreement to resell in less than 90 days	4,776	1,405	4,776	1,394
	7,000	3,306	6,910	3,217
New Zealand				
Coins, notes and cash at bankers	913	242	–	–
Money at call, bills receivable and remittances in transit	1,398	1,405	–	–
Other banks' certificates of deposit	1,351	1,896	–	–
Securities purchased under agreement to resell in less than 90 days	260	249	–	–
	3,922	3,792	–	–
Overseas markets				
Coins, notes and cash at bankers	251	232	111	119
Money at call, bills receivable and remittances in transit	2,279	2,302	1,946	1,980
Other banks' certificates of deposit	1,566	1,969	1,460	1,875
Securities purchased under agreement to resell in less than 90 days	1	–	–	–
	4,097	4,503	3,517	3,974
Total liquid assets	15,019	11,601	10,427	7,191
Maturity analysis based on original term to maturity				
Less than 90 days	11,633	9,600	8,050	5,315
More than 90 days	3,386	2,001	2,377	1,876
Total liquid assets	15,019	11,601	10,427	7,191

10: Due from Other Financial Institutions

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia	3,090	917	3,068	899
New Zealand	3,236	2,731	–	–
Overseas markets	3,339	2,700	3,185	2,553
Total due from other financial institutions	9,665	6,348	6,253	3,452
Maturity analysis based on original term to maturity				
Less than 90 days	8,711	4,102	5,520	2,584
More than 90 days	954	2,246	733	868
Total due from other financial institutions	9,665	6,348	6,253	3,452

Notes to the financial statements

11: Trading Securities

Trading securities are allocated between Australia, New Zealand and Overseas markets based on the domicile of the issuer

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Listed – Australia				
Other securities and equity securities	5	–	5	–
	5	–	5	–
Listed – Overseas markets				
Other government securities	44	–	44	–
	44	–	44	–
Total listed	49	–	49	–
Unlisted – Australia				
Commonwealth securities	328	551	328	551
Local, semi-government and other government securities	2,635	1,646	2,635	1,646
ANZ accepted bills	1,569	1,182	1,569	1,182
Other securities and equity securities	2,639	1,594	2,363	1,490
	7,171	4,973	6,895	4,869
Unlisted – New Zealand				
Other government securities	210	343	37	–
Other securities and equity securities	1,220	551	–	24
	1,430	894	37	24
Unlisted – Overseas markets				
Other government securities	–	27	–	27
Other securities and equity securities	529	391	527	389
	529	418	527	416
Total unlisted	9,130	6,285	7,459	5,309
Total trading securities	9,179	6,285	7,508	5,309

12: Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities. Derivatives are also used to manage the Group's own exposure to fluctuations in exchange and interest rates as part of its asset and liability management activities and are classified as other than trading. Derivatives are subject to the same types of credit and market risk as other financial instruments, and the Group manages these risks in a consistent manner.

The principal exchange rate contracts used by the Group are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The principal interest rate contracts used by the Group are forward rate agreements, interest rate futures, interest rate swaps and options. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Interest rate options provide the buyer with the right but not the obligation either to receive or pay interest at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The principal credit contracts used by the Group are default swaps. Default swaps are contracts that provide for a specified payment to be made to the purchaser of the swap following a defined credit event.

The credit risk of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligation. Credit risk arises when market movements are such that the derivative has a positive value to the Group. It is the cost of replacing the contract in the event of counterparty default. The Group limits its credit risk within a conservative framework by dealing with creditworthy counterparties, setting credit limits on exposures to counterparties, and obtaining collateral where appropriate.

12: Derivative Financial Instruments (continued)

The Group further restricts its exposure to credit losses by entering into master agreements with counterparties with which it undertakes a significant volume of transactions. The use of a master agreement does not generally result in an offset of balance sheet assets and liabilities. However, the credit risk is reduced by a master agreement to the extent that if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Despite this, as a result of the number of transactions that are usually subject to such master agreements, the Group's overall exposure to credit risk on derivative instruments can change substantially within a short period.

The following table provides an overview of the Group's and the Company's foreign exchange rate, credit, commodity and interest rate derivatives. It includes all trading and other than trading contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held and notional principal amounts are set out below.

	Sept–06											Sept–05	
		Fair value											
				Hedging						Total fair value of derivatives			
Consolidated at 30 September 2006	Notional principal amount $m	Trading Assets $m	Trading Liabilities $m	Fair value Assets $m	Fair value Liabilities $m	Cash flow Assets $m	Cash flow Liabilities $m	Net investment in foreign operations Assets $m	Net investment in foreign operations Liabilities $m	Assets $m	Liabilities $m	Notional principal amount $m	Net Fair value Assets $m
Foreign exchange and commodities contracts													
Spot and forward contracts	217,522	2,054	(2,195)	–	–	–	–	1	(34)	2,055	(2,229)	184,958	(413)
Swap agreements	110,638	2,714	(2,247)	114	(64)	–	–	–	–	2,828	(2,311)	68,892	(746)
Futures contracts	557	45	(29)	–	–	–	–	–	–	45	(29)	256	4
Options purchased	9,166	259	–	–	–	–	–	–	–	259	–	9,340	186
Options sold	13,916	–	(202)	–	–	–	–	–	–	–	(202)	14,925	(174)
Other contracts	7,397	1,055	(916)	–	–	–	–	–	–	1,055	(916)	4,963	(2)
Collateral[1]	–	(1,279)	1,256	–	–	–	–	–	–	(1,279)	1,256	–	586
	359,196	4,848	(4,333)	114	(64)	–	–	1	(34)	4,963	(4,431)	283,334	(559)
Interest rate contracts													
Forward rate agreements	96,147	14	(10)	–	–	–	–	–	–	14	(10)	47,734	1
Swap agreements	589,135	3,296	(3,566)	212	(263)	211	(61)	–	–	3,719	(3,890)	405,152	431
Futures contracts	99,184	249	(242)	–	–	2	(2)	–	–	251	(244)	35,111	8
Options purchased	17,733	141	–	–	–	–	–	–	–	141	–	12,810	62
Options sold	33,638	–	(100)	–	–	–	–	–	–	–	(100)	16,715	(42)
	835,837	3,700	(3,918)	212	(263)	213	(63)	–	–	4,125	(4,244)	517,522	460
Credit contracts													
Credit default swaps	23,965	76	(78)	–	–	–	–	–	–	76	(78)	15,437	(1)
	1,218,998	8,624	(8,329)	326	(327)	213	(63)	1	(34)	9,164	(8,753)	816,293	(100)

1 Collateral relates predominantly to Foreign Exchange contracts.

Notes to the financial statements

12: Derivative Financial Instruments (continued)

		Sept–06 Fair value								Sept–05	
				Hedging				Total fair value of derivatives			
		Trading		Fair value		Cash flow					
Company at 30 September 2006	Notional principal amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Notional principal amount $m	Net Fair value Assets $m
Foreign exchange and commodities contracts											
Spot and forward contracts	201,577	1,902	(1,948)	–	–	–	–	1,902	(1,948)	174,092	(607)
Swap agreements	149,823	3,086	(2,292)	112	(64)	–	–	3,198	(2,356)	64,990	(618)
Futures contracts	557	45	(29)	–	–	–	–	45	(29)	256	4
Options purchased	8,798	250	–	–	–	–	–	250	–	9,111	178
Options sold	13,654	–	(193)	–	–	–	–	–	(193)	14,748	(166)
Other contracts	7,678	1,056	(917)	–	–	–	–	1,056	(917)	4,963	(2)
Collateral[1]	–	(1,279)	571	–	–	–	–	(1,279)	571	–	586
	382,087	5,060	(4,808)	112	(64)	–	–	5,172	(4,872)	268,160	(625)
Interest rate contracts											
Forward rate agreements	85,514	7	(6)	–	–	–	–	7	(6)	38,554	–
Swap agreements	460,101	2,843	(2,992)	121	(106)	194	(45)	3,158	(3,143)	312,205	459
Futures contracts	84,259	248	(241)	–	–	2	(2)	250	(243)	25,141	9
Options purchased	17,863	124	–	–	–	–	–	124	–	13,712	54
Options sold	34,092	–	(100)	–	–	–	–	–	(100)	17,906	(45)
	681,829	3,222	(3,339)	121	(106)	196	(47)	3,539	(3,492)	407,518	477
Credit contracts											
Credit default swaps	23,940	76	(78)	–	–	–	–	76	(78)	15,412	(1)
	1,087,856	8,358	(8,225)	233	(170)	196	(47)	8,787	(8,442)	691,090	(149)

1 Collateral relates predominantly to Foreign Exchange contracts.

Notes to the financial statements

12: Derivative Financial Instruments (continued)

Cashflow Hedges (consolidated)

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve which forms part of shareholders' equity. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place. As at 30 September 2006, net gains on derivative financial instruments designated as cash flow hedges deferred to the hedging reserve were $227 million.

Concentrations of Credit Risk (consolidated)

Concentrations of credit risk exist for groups of counterparties when they have similar economic characteristics. Major concentrations of credit risk arise by location and type of customer.

The following table shows the concentrations of credit risk, by class of counterparty and by geographic location, measured by credit equivalent amount.

Approximately 72% (2005: 57%) of the Group's exposures are with counterparties which are either Australian banks or banks based in other OECD countries.

Consolidated at 30 September 2006	OECD governments $m	Australian and OECD banks $m	Corporations, non-OECD banks and others $m	Total credit equivalent amount $m
Australia	133	10,099	3,900	14,132
New Zealand	57	2,134	736	2,927
Overseas markets	19	912	359	1,290
	209	13,145	4,995	18,349

Consolidated at 30 September 2005	OECD governments $m	Australian and OECD banks $m	Corporations, non-OECD banks and others $m	Total credit equivalent amount $m
Australia	140	6,185	4,997	11,322
New Zealand	55	1,610	606	2,271
Overseas markets	31	236	224	491
	226	8,031	5,827	14,084

Notes to the financial statements

13: Available-for-sale Assets/Investment Securities

	Consolidated		The Company	
	Available-for-sale assets 2006 $m	Investment securities[1] 2005 $m	Available-for-sale assets 2006 $m	Investment securities[1] 2005 $m
Investment securities and available-for-sale are allocated between Australia, New Zealand and Overseas markets based on the domicile of the issuer				
Listed – Australia				
Other securities and equity investments	6	–	6	–
	6	–	6	–
Listed – Overseas Markets				
Other government securities	102	196	102	196
Other securities and equity investments	2,198	1,411	2,198	1,410
	2,300	1,607	2,300	1,606
Total listed	2,306	1,607	2,306	1,606
Unlisted – Australia				
Local and semi-government securities	1,908	1,412	1,908	1,412
Other securities and equity investments	2,971	4,886	2,421	2,168
Loans and advances	1,946	–	1,946	–
	6,825	6,298	6,275	3,580
Unlisted – New Zealand				
New Zealand government securities	285	1,096	–	–
Other securities and equity investments	29	173	–	–
	314	1,269	–	–
Unlisted – Overseas markets				
Other government securities	532	431	71	108
Other securities and equity investments	676	437	5	7
	1,208	868	76	115
Total unlisted	8,347	8,435	6,351	3,695
Total investment securities and available-for-sale assets	10,653	10,042	8,657	5,301

1 Investment securities have been classified as available-for-sale assets following the adoption of AIFRS on 1 October 2005. Investment securities were recorded at cost or at cost adjusted for amortisation of premiums or discounts. Changes in market values of investment securities were not taken into account unless there was considered to be other than temporary diminution in value.

No impairment loss was recognised or reversed in the Income Statement.

Notes to the financial statements

13: Available-for-sale Assets/Investment Securities (continued)

Available-for-sale assets by maturities and yields

Based on remaining term to maturity at 30 September 2006

	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Australia							
Local and semi-government securities	1,224	684	–	–	–	–	1,908
Other securities and equity investments	2,544	–	308	–	107	18	2,977
Loans and advances	1,080	359	507	–	–	–	1,946
	4,848	1,043	815	–	107	18	6,831
Overseas							
New Zealand government securities	273	–	12	–	–	–	285
Other government securities	474	108	51	–	1	–	634
Other securities and equity investments	342	622	1,460	96	336	47	2,903
	1,089	730	1,523	96	337	47	3,822
Total (fair value)	5,937	1,773	2,338	96	444	65	10,653

Weighted average yields[1]

	Less than 1 year %	Between 1 year and 5 years %	Between 5 year and 10 years %	After 10 years %
Australia				
Local and semi-government securities	6.08	–	–	–
Other securities and equity investments	6.14	6.41	–	8.37
Loans and advances	6.77	6.99	–	–
Overseas				
New Zealand government securities	7.19	6.90	–	–
Other government securities	5.20	4.20	–	7.50
Other securities and equity investments	3.94	5.18	4.86	4.54

1 Based on effective yields for loans and advances, fixed interest and discounted securities and dividend yield for equity investments at 30 September 2006.

13: Available-for-sale Assets/Investment Securities (continued)

Investment securities by maturities and yields

Based on remaining term to maturity at 30 September 2005

At book value	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total $m	Market value $m
Australia								
Local and semi-government securities	972	440	–	–	–	–	1,412	1,412
Other securities and equity investments	4,390	280	100	–	107	9	4,886	4,862
	5,362	720	100	–	107	9	6,298	6,274
Overseas								
New Zealand government securities	760	333	–	3	–	–	1,096	1,096
Other government securities	452	100	75	–	–	–	627	630
Other securities and equity investments	197	370	1,279	40	135	–	2,021	2,020
	1,409	803	1,354	43	135	–	3,744	3,746
Total book value	6,771	1,523	1,454	43	242	9	10,042	n/a
Total market value	6,773	1,520	1,457	42	219	9	n/a	10,020

Weighted average yields[1]

	Less than 1 year %	Between 1 year and 5 years %	Between 5 year and 10 years %	After 10 years %
Australia				
Local and semi-government securities	5.55	–	–	–
Other securities and equity investments	5.71	6.37	–	7.14
Overseas				
New Zealand government securities	6.51	–	7.20	–
Other government securities	3.98	6.78	–	–
Other securities and equity investments	4.86	3.99	2.00	2.68

1 Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2005.

Notes to the financial statements

14: Net Loans and Advances

Loans and advances are classified between Australia, New Zealand and Overseas markets based on the domicile of the lending point

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia				
Overdrafts	6,237	5,276	6,237	5,276
Credit card outstandings	6,190	5,434	6,190	5,434
Term loans – housing	101,945	91,196	100,874	89,558
Term loans – non-housing	53,905	48,893	49,774	44,086
Lease receivables (refer below)	2,580	2,854	1,006	1,222
Other	9,650	9,636	1,482	2,216
	180,507	163,289	165,563	147,792
New Zealand				
Overdrafts	1,666	1,647	–	–
Credit card outstandings	1,081	1,026	–	–
Term loans – housing	37,845	34,859	–	–
Term loans – non-housing	26,979	25,012	–	–
Lease receivables (refer below)	421	639	–	–
Other	937	1,207	–	–
	68,929	64,390	–	–
Overseas markets				
Overdrafts	518	303	333	213
Credit card outstandings	198	134	8	7
Term loans – housing	766	592	599	466
Term loans – non-housing	8,347	7,510	7,160	6,428
Lease receivables (refer below)	179	217	112	97
Commercial bills	192	62	192	62
Other	2	7	2	6
	10,202	8,825	8,406	7,279
Total gross loans and advances	259,638	236,504	173,969	155,071
Less: Provision for credit impairment (refer note 16)	(2,226)	(2,440)	(1,566)	(1,709)
Less: Unearned income	(2,002)	(1,574)	(248)	(1)
	(4,228)	(4,014)	(1,814)	(1,710)
Total net loans and advances	255,410	232,490	172,155	153,361
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	606	924	140	238
1 to 5 years	1,488	1,432	751	693
Later than 5 years	256	515	227	386
Less: unearned future finance income on finance leases	(474)	(375)	(248)	(1)
Net investment in finance lease receivables	1,876	2,496	870	1,316
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	411	397	–	1
1 to 5 years	398	430	–	1
Later than 5 years	21	12	–	–
	830	839	–	2
Total lease receivables	2,706	3,335	870	1,318
Present value of net investment in finance lease receivables				
Less than 1 year	516	639	55	237
1 to 5 years	1,172	1,345	657	692
Later than 5 years	188	512	158	387
	1,876	2,496	870	1,316

Notes to the financial statements

15: Impaired Financial Assets

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Summary of impaired financial assets				
Non-performing loans	661	642	452	380
Restructured loans	–	28	–	28
Unproductive facilities	37	43	30	36
Gross impaired financial assets	698	713	482	444
Individual provisions				
Non-performing loans	(279)	(256)	(179)	(135)
Unproductive facilities	(7)	(17)	(6)	(10)
Net impaired financial assets	412	440	297	299
Restructured loans	–	28	–	28
Real estate or other assets acquired through the enforcement of security In the event of customer default, any loan security is held as mortgagee in possession and therefore the Group does not hold any real estate or other assets acquired through the enforcement of security	–	–	–	–
Accruing loans past due 90 days or more[1] These amounts are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held on an accrual basis for up to 180 days past due	499	381	381	267

Interest and other income forgone on impaired financial assets

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

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Gross interest and other income receivable on non-performing loans, restructured loans and unproductive facilities				
Australia	34	26	29	21
New Zealand	13	9	–	–
Overseas markets	7	16	2	11
Total gross interest and other income receivable on non-performing loans, restructured loans and unproductive facilities	54	51	31	32
Interest recognised[2]				
Australia	(20)	(10)	(20)	(10)
New Zealand	(6)	(5)	–	–
Overseas markets	–	(10)	–	(8)
Total interest recognised	(26)	(25)	(20)	(18)
Net interest and other income not recognised				
Australia	14	16	9	11
New Zealand	7	4	–	–
Overseas markets	7	6	2	3
Total net interest and other income not recognised	28	26	11	14

1 Includes unsecured credit card and personal loans 90 day past due accounts which are allowed by APRA to be retained on a performing basis for up to 180 days past due amounting to $64 million (2005: $51 million). The remainder of 90 day past due accounts are predominately 'well secured', for example no loss of principal or interest is expected.
2 The impairment loss on a non-performing loan is calculated as the difference between the asset's carrying amount and the estimated future cashflows discounted to their present value. As this discount unwinds during the period it is recognised as interest income. Refer note 1(xi) for explanation on how it arises. The comparatives do not reflect this change and represent interest and other income received.

16: Provision for Credit Impairment

Movement in provision for credit impairment

	Consolidated 2006 $m	Consolidated Previous AGAAP 2005 $m	The Company 2006 $m	The Company Previous AGAAP 2005 $m
Collective provision				
Balance at start of year	2,167	1,992	1,564	1,381
Adjustment due to adoption of accounting standard AASB139	(288)	–	(238)	–
Provisions acquired (disposed)	–	(13)	–	(13)
Adjustment for exchange rate fluctuations	(8)	(35)	3	(24)
Charge to income statement	69	580	52	388
Transfer to individual provision[1]	–	(471)	–	(250)
Recoveries[1]	–	114	–	82
Total collective provision[2]	1,940	2,167	1,381	1,564
Individual provision				
Balance at start of year	273	384	145	274
Adjustment due to adoption of accounting standard AASB139	(1)	–	4	–
Charge to income statement	338	–	226	–
Adjustment for exchange rate fluctuations	(4)	(11)	(1)	(3)
Discount unwind	(26)	–	(20)	–
Bad debts written off	(421)	(571)	(259)	(376)
Recoveries of amounts previously written off	127	–	90	–
Transfer from collective provision[1]	–	471	–	250
Total individual provision	286	273	185	145
Total provision for credit impairment	**2,226**	**2,440**	**1,566**	**1,709**

	Consolidated 2006 $m	Consolidated Previous AGAAP 2005 $m	The Company 2006 $m	The Company Previous AGAAP 2005 $m
Provision movement analysis				
New and increased provisions				
Australia	508	378	417	312
New Zealand	81	146	–	–
Asia	24	19	–	4
Other overseas markets	5	61	2	29
	618	604	419	345
Provision releases	(153)	(133)	(103)	(95)
	465	471	316	250
Recoveries of amounts previously written off	(127)	(114)	(90)	(82)
Individual provision charge	338	357	226	168
Net credit to collective provision	69	223	52	220
Charge to income statement	**407**	**580**	**278**	**388**
Ratios	%	%	%	%
Provisions[3] as a % of total advances[4]				
Individual	0.1	0.1	0.1	0.1
Collective	0.7	0.9	0.7	0.9
Provisions[3] as a % of risk weighted assets				
Individual	0.1	0.1	0.1	0.1
Collective	0.8	1.0	0.8	1.0
Bad debts written off as a % of total advances	0.2	0.2	0.1	0.2

1 Under AIFRS, the impairment calculation results in a nil amount for these lines from 1 October 2005.
2 The Collective Provision includes amounts for off balance sheet credit exposures, $260 million at September 2006 ($255 million at 1 October 2005). The charge to the income statement for the year ended 30 September 2006 relating to off balance sheet credit exposures was $5 million.
3 Excludes provisions for unproductive facilities.
4 See Glossary on page 120.

Notes to the financial statements

17: Regulatory Deposits

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Overseas central banks	205	159	132	113
Maturity:				
Less than 90 days	70	62	61	54
After 5 years	135	97	71	59
	205	159	132	113

18: Shares in Controlled Entities, Associates and Joint Venture Entities

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Total shares in controlled entities	–	–	11,424	11,998
Total shares in associates[1] (refer note 41)	592	265	307	92
Total shares in joint venture entities[2] (refer note 42)	1,608	1,661	–	–
Total shares in controlled entities, associates and joint venture entities	2,200	1,926	11,731	12,090

1 Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity
2 Investments in joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity

ACQUISITIONS OF CONTROLLED ENTITIES

The following securitisation special purpose entities were consolidated as part of the Group from 1 October 2004 because of the application of UIG Interpretation 112: 'Consolidation – Special Purpose Entities'.

- Arc Funding Pty Ltd
- Eos Trust
- Kingfisher Trust No 1
- Kingfisher Trust No 2
- Kingfisher Trust 2001–1G
- Kingfisher Trust 2004–1G
- Kingfisher Securitisation Pty Ltd
- Omeros Trust
- Omeros II Trust
- Solera Trust
- Stellar Funding Pty Ltd
- Coral Finance Ltd

The impact of the consolidation of these entities is explained in note 51.

There were no material controlled entities acquired during the years ended 30 September 2006 and 2005.

DISPOSAL OF CONTROLLED ENTITIES

There were no material controlled entities disposed of during the year ended 30 September 2006.

In respect of the year ended 30 September 2005, ANZ National Bank Limited entered into a joint venture with ING Insurance International Limited (INGII) in September 2005. The joint venture, ING (NZ) Holdings Ltd (INGNZ), is 49% owned by ANZ National Bank Ltd and 51% owned by INGII.

On 30 September 2005:

- ANZ National Bank Limited and INGII invested NZD163 million and NZD170 million respectively into INGNZ.
- ANZ National Bank Limited sold NBNZ Life Insurance Limited and NBNZ Investment Services Limited to INGNZ for NZD158 million resulting in the following impact on the Group's financial statements:
  - reduction in unamortised goodwill of NZD114 million;
  - recognition of approximately NZD16 million ($14 million) profit on sale of 51% of the NBNZ Life and Funds Management businesses;
  - an investment in INGNZ of NZD145 million.
- INGNZ acquired at market value the New Zealand-based businesses previously owned by INGA. The profit on sale of the New Zealand-based businesses of approximately $40 million is recognised in INGA, however, ANZ's share of this profit is eliminated on consolidation.

Notes to the financial statements

19: Deferred Tax Assets

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Deferred tax assets recognised in profit and loss				
Collective provision for impaired loans and advances	596	719	417	505
Deferred fee revenue	92	–	70	–
Provision for employee entitlements	107	105	75	73
Other provisions	270	230	182	145
Other	247	304	56	39
	1,312	1,358	800	762
Deferred tax assets recognised directly in equity				
Defined benefit obligations	67	44	66	44
Available for sale reserve	2	–	1	–
Foreign currency translation reserve	3	(13)	–	–
	72	31	67	44
Total deferred tax assets	1,384	1,389	867	806
Movements				
Restated balance 1 October	1,389	1,514	806	797
Change on adoption of accounting policy AASB 139	64	n/a	41	n/a
Movements in temporary differences during the year	(69)	(125)	20	9
Closing balance at 30 September	1,384	1,389	867	806
Deferred tax assets by geography				
Australia	924	874	732	686
New Zealand	296	377	–	–
Overseas markets	164	138	135	120
Total deferred tax assets	1,384	1,389	867	806

Unrecognised deferred tax assets

The following deferred tax assets will only be obtained if:

- assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Unused realised tax losses (on revenue account)	20	23	9	11
Unused realised capital losses	63	66	63	66
Total unrecognised deferred tax assets	83	89	72	77

Notes to the financial statements

20: Goodwill and Other Intangible Assets

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Goodwill				
Gross carrying amount				
Restated balance at start of year	3,015	3,210	15	15
Additions through business combinations	2	–	–	–
Derecognised on disposal	–	(112)	–	–
Foreign currency exchange differences	(117)	(87)	–	–
Other	–	4	–	–
Balance at end of year[1]	2,900	3,015	15	15
Software and other intangible assets				
Gross carrying amount				
Restated balance at start of year	898	844	793	727
Impact of adoption of AIFRS (refer to note 51)	(38)	–	(38)	–
Additions	2	3	2	3
Additions from internal developments	135	96	128	94
Foreign currency exchange differences	(3)	(2)	–	–
Other	(7)	(43)	(12)	(31)
Balance at end of year	987	898	873	793
Accumulated amortisation and impairment				
Restated balance at start of year	455	351	386	292
Impact of adoption of AIFRS (refer to note 51)	(23)	–	(23)	–
Amortisation expense[2] (refer note 4)	117	128	103	109
Foreign currency exchange differences	(1)	(1)	–	–
Other	2	(23)	3	(15)
Balance at end of year	550	455	469	386
Net book value				
Balance at start of year	443	493	407	435
Balance at end of year	437	443	404	407
Goodwill, software and other intangible assets				
Net book value				
Balance at start of the year	3,458	3,703	422	450
Balance at end of the year[1]	3,337	3,458	419	422

1 Excludes notional goodwill related to the ING Australia joint venture of $826 million (September 2005: $826 million) and the ING New Zealand joint venture of $79 million (September 2005: $82 million).
2 Includes software amortisation expense of $114 million (September 2005: $125 million) and amortisation of other intangible assets $3 million (September 2005: $3 million). The Company includes software amortisation expense of $100 million (September 2005: $106 million) and amortisation of other intangible assets $3 million (September 2005: $3 million).

Goodwill allocated to cash-generating units

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003. Discussion of the goodwill and impairment testing for the cash generating unit containing this goodwill is discussed in note 2(iv).

Notes to the financial statements

21: Other Assets

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Accrued interest/prepaid discounts	1,569	1,443	1,088	1,164
Accrued commission	102	78	74	47
Defined benefit superannuation plan surplus (see note 46)	5	7	–	–
Prepaid expenses	69	153	30	46
Issued securities settlements	1,377	2,144	1,074	785
Operating leases residual value	799	712	3	2
Capitalised expenses	570	524	189	176
Other	520	1,112	232	613
Total other assets	5,011	6,173	2,690	2,833

22: Premises and Equipment

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Freehold and leasehold land and buildings				
At cost	632	639	80	83
Depreciation	(195)	(201)	(36)	(40)
	437	438	44	43
Leasehold improvements				
At cost	253	239	159	147
Amortisation	(158)	(149)	(93)	(84)
	95	90	66	63
Furniture and equipment				
At cost	734	691	538	499
Depreciation	(467)	(445)	(332)	(308)
	267	246	206	191
Computer and office equipment				
At cost	906	924	674	625
Depreciation	(688)	(700)	(505)	(454)
	218	224	169	171
Capital works in progress				
At cost	92	56	42	27
Total premises and equipment	1,109	1,054	527	495

22: Premises and Equipment (continued)

Reconciliations of the carrying amounts for each class of premises and equipment are set out below:

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Freehold and leasehold land and buildings[1]				
Carrying amount at beginning of year	438	498	43	40
Additions	21	22	4	6
Disposals	(5)	(68)	–	–
Depreciation	(15)	(11)	(2)	(2)
Foreign currency exchange difference	(2)	(3)	(1)	(1)
Carrying amount at end of year	437	438	44	43
Leasehold improvements				
Carrying amount at beginning of year	90	61	63	39
Additions	26	46	16	33
Disposals	(5)	–	(5)	–
Amortisation	(18)	(16)	(12)	(9)
Foreign currency exchange difference	2	(1)	4	–
Carrying amount at end of year	95	90	66	63
Furniture and equipment				
Carrying amount at beginning of year	246	251	191	161
Additions	72	81	53	64
Disposals	(3)	(41)	(2)	(5)
Depreciation	(48)	(43)	(36)	(29)
Foreign currency exchange difference	–	(2)	–	–
Carrying amount at end of year	267	246	206	191
Computer and office equipment				
Carrying amount at beginning of year	224	252	171	185
Additions	95	92	73	65
Disposals	(6)	(8)	(5)	(3)
Depreciation	(94)	(110)	(70)	(76)
Foreign currency exchange difference	(1)	(2)	–	–
Carrying amount at end of year	218	224	169	171
Capital works in progress				
Carrying amount at beginning of year	56	35	27	21
Net additions	36	21	15	6
Carrying amount at end of year	92	56	42	27
Total premises and equipment	1,109	1,054	527	495

1 Includes integrals.

Notes to the financial statements

23: Due to Other Financial Institutions

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia	6,656	3,396	6,654	3,394
New Zealand	2,448	2,976	–	–
Overseas markets	5,014	5,655	4,998	5,635
Total due to other financial institutions	14,118	12,027	11,652	9,029

24: Deposits and Other Borrowings

Deposits and other borrowings are classified between Australia, New Zealand and Overseas markets based on the location of the deposit taking point.

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia				
Certificates of deposit	16,650	17,512	16,650	17,512
Term deposits	26,219	25,829	27,206	26,642
Other deposits bearing interest	61,245	50,707	61,245	50,707
Deposits not bearing interest	4,749	4,310	4,749	4,310
Commercial paper	8,092	8,994	3,842	2,929
Borrowing corporations' debt[1]	8,843	9,338	–	–
Other borrowings	458	308	458	308
	126,256	116,998	114,150	102,408
New Zealand				
Certificates of deposit	3,428	4,211	–	–
Term deposits	23,128	21,056	–	–
Other deposits bearing interest	17,335	14,843	–	–
Deposits not bearing interest	3,421	4,021	–	–
Commercial paper	6,028	8,434	–	–
Borrowing corporations' debt[2]	1,813	1,938	–	–
	55,153	54,503	–	–
Overseas markets				
Certificates of deposit	3,170	901	3,117	845
Term deposits	10,329	8,948	9,165	8,198
Other deposits bearing interest	1,538	1,259	1,062	806
Deposits not bearing interest	1,182	1,064	788	752
Commercial paper	6,630	6,569	–	–
Other borrowings	536	80	39	80
	23,385	18,821	14,171	10,681
Total deposits and other borrowings	204,794	190,322	128,321	113,089

1 Included in this balance is debenture stock of controlled entities. $7.9 billion of debenture stock of the consolidated subsidiary company Esanda, together with accrued interest thereon, is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entity other than land and buildings ($14.1 billion). All controlled entities of Esanda (except for some controlled entities which have been placed or are expected to be placed in voluntary deregistration and have minimal book value) have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda. The only loans pledged as collateral are those in Esanda and its subsidiaries.

2 This balance represents NZD2.1 billion of secured debenture stock of the consolidated subsidiary UDC Finance Limited and the accrued interest thereon which are secured by a floating charge over all assets of UDC Finance Limited and its subsidiaries (NZD2.4 billion).

25: Income Tax Liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Australia				
Current tax payable	700	294	698	269
Deferred tax liabilities	1,075	1,341	912	1,099
	1,775	1,635	1,610	1,368
New Zealand				
Current tax payable	(163)	(129)	–	–
Deferred tax liabilities	211	138	–	–
	48	9	–	–
Overseas markets				
Current tax payable	32	34	3	12
Deferred tax liabilities	98	123	87	112
	130	157	90	124
Total current and deferred income tax liability	1,953	1,801	1,700	1,492
Total current tax payable	569	199	701	281
Deferred tax liabilities recognised in profit and loss				
Lease Finance	252	229	82	89
Treasury instruments	385	687	388	687
Capitalised expenses	131	131	44	47
Other	576	555	465	388
	1,344	1,602	979	1,211
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	40	–	20	–
	40	–	20	–
Total deferred tax liability	1,384	1,602	999	1,211
Movements				
Opening balance at 1 October	1,602	1,579	1,211	1,030
Change on adoption of AIFRS	25	7	(49)	14
Movements in temporary differences during the year	(243)	16	(163)	167
Closing Balance at 30 September	1,384	1,602	999	1,211
Unrecognised deferred tax liabilities				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences	33	25	–	–
Total unrecognised deferred tax liabilities	33	25	–	–

26: Payables and Other Liabilities

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Creditors	4,282	2,949	4,030	2,723
Accrued interest and unearned discounts	2,488	2,002	1,832	1,400
Defined benefit plan obligations (see note 46)	229	154	229	154
Accrued charges	604	596	392	377
Security settlements	1,236	317	1,104	–
Other liabilities	1,840	1,600	1,236	818
Total payables and other liabilities	10,679	7,618	8,823	5,472

Notes to the financial statements

27: Provisions

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Employee entitlements[1]	366	360	267	260
Restructuring costs and surplus leased space[2]	74	77	61	57
Non-lending losses, frauds and forgeries[3]	187	184	125	136
Other[4]	330	293	235	197
Total provisions	957	914	688	650

Reconciliations of the carrying amounts of each class of provision, except for employee entitlements, are set out below:

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Restructuring costs and surplus leased space[2]				
Carrying amount at beginning of the year	77	106	57	66
Provision made during the year	51	52	41	47
Payments made during the year	(43)	(47)	(33)	(34)
Transfer/release of provision	(10)	(33)	(4)	(22)
Adjustment for exchange rate fluctuations	(1)	(1)	–	–
Carrying amount at the end of the year	74	77	61	57
Non-lending losses frauds and forgeries[3]				
Carrying amount at beginning of the year	184	171	136	125
Provision made during the year	52	37	17	23
Transfer/release of provision	(19)	(8)	(3)	(2)
Release of provisions	(30)	(16)	(25)	(10)
Carrying amount at the end of the year	187	184	125	136
Other provisions[4]				
Carrying amount at beginning of the year	293	235	197	179
Provision made during the year	235	222	197	142
Payments made during the year	(161)	(132)	(137)	(93)
Transfer/release of provision	(37)	(31)	(23)	(31)
Adjustment for exchange rate fluctuations	–	(1)	1	–
Carrying amount at the end of the year	330	293	235	197

1 The aggregate liability for employee benefits largely comprises employee entitlements provisions for annual leave and long service leave.
2 Restructuring costs and surplus leased space provisions arise from exit activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and includes termination benefits. Costs related to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated.
3 Non-lending losses, frauds and forgeries provisions arise from inadequate or failed internal processes and systems, or from external events.
4 Other provisions comprise various other provisions including loyalty programs, workers' compensation and make-good provisions on leased premises.

28: Bonds and Notes

		Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Bonds and notes by currency					
USD	United States dollars	16,957	11,401	11,004	8,598
GBP	Great British pounds	6,528	5,268	5,423	4,343
AUD	Australian dollars	1,371	1,138	1,371	1,133
NZD	New Zealand dollars	1,350	1,140	303	323
JPY	Japanese yen	787	1,173	685	1,173
EUR	Euro	14,821	11,138	13,337	9,794
HKD	Hong Kong dollars	3,153	3,381	2,633	2,941
CHF	Swiss francs	2,216	1,929	2,216	1,929
CAD	Canadian dollars	2,631	2,284	2,631	2,284
NOK	Norwegian krone	85	81	85	81
SGD	Singapore dollars	73	71	73	71
CZK	Czech koruna	78	69	78	69
Total bonds and notes		50,050	39,073	39,839	32,739

Notes to the financial statements

29: Loan Capital

			Interest rate %	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Hybrid loan capital (subordinated)							
ANZ Stapled Exchangeable Preferred securities (ANZ StEPS)[1,2]			BBSW + 1.00	1,000	–	1,000	–
US Trust Securities							
USD 350m non-cumulative trust securities due 2053			4.484	468	459	468	459
USD 750m non-cumulative trust securities due 2053			5.36	1,003	984	1,003	984
				2,471	1,443	2,471	1,443
Perpetual subordinated notes							
USD	300m	floating rate notes	LIBOR + 0.15	401	394	401	394
				401	394	401	394
Subordinated notes							
USD	500m	fixed notes due 2006	7.55	–	654	–	654
USD	4.4m	floating rate notes due 2007	LIBOR + 0.50	6	11	6	11
JPY	279.9m	floating rate notes due 2007	LIBOR + 0.50	3	6	3	6
USD	6.1m	floating rate notes due 2008	LIBOR + 0.50	8	10	8	10
USD	79m	floating rate notes due 2008	LIBOR + 0.53	106	103	106	103
JPY	434.1m	floating rate notes due 2008	LIBOR + 0.55	5	6	5	6
AUD	400m	floating rate notes due 2010	BBSW + 0.29	400	400	400	400
NZD	100m	fixed notes due 2011[3] (called April 2006)	6.87	–	91	–	–
AUD	400m	fixed notes due 2012[4]	6.75	400	400	400	400
AUD	100m	floating rate notes due 2012[3]	BBSW + 0.57	100	100	100	100
NZD	300m	fixed notes due 2012[3]	7.04	263	273	–	–
NZD	125m	fixed notes due 2012[3]	7.61	109	115	–	–
NZD	125m	fixed notes due 2012[3]	7.40	109	115	–	–
USD	550m	floating rate notes due 2013[3]	LIBOR + 0.55	735	722	735	722
NZD	100m	fixed notes due 2013[3]	6.46	88	91	–	–
EUR	300m	floating rate notes due 2013[3]	EURIBOR + 0.375	510	474	510	474
AUD	380m	floating rate notes due 2014[3]	BBSW + 0.41	380	380	380	380
AUD	350m	fixed notes due 2014[4]	6.50	350	350	350	350
USD	400m	floating rate notes due 2015[3]	LIBOR + 0.20	535	525	535	525
AUD	300m	fixed notes due 2015[4]	6.00	295	300	295	300
GBP	200m	floating rate notes due 2015[3]	5.625	506	462	506	462
EUR	500m	fixed notes due 2015[4]	4.45	861	791	861	791
AUD	300m	fixed notes due 2016[4]	6.25	298	–	298	–
AUD	300m	floating rate notes due 2016[3]	BBSW + 0.22	300	–	300	–
GBP	250m	fixed notes due 2016[4]	4.75	613	–	613	–
NZD	350m	fixed notes due 2016[4]	7.16	306	–	–	–
GBP	400m	fixed notes due 2018[4]	4.75	968	921	968	921
				8,254	7,300	7,379	6,615
Total loan capital				11,126	9,137	10,251	8,452
Loan capital by currency							
AUD	Australian dollars			3,523	1,930	3,523	1,930
NZD	New Zealand dollars			875	685	–	–
USD	United States dollars			3,262	3,862	3,262	3,862
GBP	Great British pounds			2,087	1,383	2,087	1,383
EUR	Euro			1,371	1,265	1,371	1,265
JPY	Japanese yen			8	12	8	12
				11,126	9,137	10,251	8,452

1 On 23 September 2008 the margin of 1.00% can be reduced if the security is not redeemed or converted.
2 Under AIFRS, ANZ StEPS securities are now classified Loan Capital instead of Share Capital.
3 Callable five years prior to maturity.
4 Callable five years prior to maturity and reverts to floating rate notes.

Loan capital is subordinated in right of payment to the claims of depositors and all other creditors of the Company and its controlled entities which have issued the notes. The loan capital, except for the ANZ StEPS and US Trust Securities, constitutes Tier 2 capital as defined by the Australian Prudential Regulation Authority (APRA) for capital adequacy purposes. ANZ StEPS and the US Trust Securities constitutes Tier 1 capital, as defined by APRA, for capital adequacy purposes.

29: Loan Capital (continued)

ANZ STAPLED EXCHANGEABLE PREFERRED SECURITIES (ANZ STEPS)

On 23 September 2003, the Company issued 10 million ANZ StEPS at $100 each pursuant to a prospectus dated 14 August 2003 raising $1 billion (excluding issue costs of $13 million: net raising $987 million). ANZ StEPS comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Holdings (New Zealand) Limited, a New Zealand subsidiary of the Company) stapled to a fully paid $100 preference share (issued by the Company).

Distributions on ANZ StEPS are non-cumulative and are payable quarterly in arrears based upon a floating distribution rate equal to the 90 day bank bill rate plus a 100 basis point margin. At each payment date the 90 day bank bill rate is reset for the next quarter. Distributions are subject to certain payment tests (ie APRA requirements and distributable profits being available) and the basis for their calculation may change on any reset date. Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on ANZ StEPS, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

On any reset date, ANZ may change certain terms (subject to certain restrictions) including the next reset date, market reset (from floating rate to a fixed rate, or vice versa), margin and the frequency and timing of the distribution payment dates. The first reset date is 15 September 2008. Holders of ANZ StEPS can require exchange on any reset date or earlier if certain specified events occur. On exchange, a holder will receive (at the Company's discretion) either $100 cash for each ANZ StEPS exchanged or a number of ordinary shares calculated in accordance with a conversion ratio based on $100 divided by the market price of ordinary shares at the date of conversion less 2.5%. In certain circumstances, the Company may also require exchange other than on a reset date.

Upon the occurrence of an assignment event, ANZ StEPS become unstapled. In this case, the note will be assigned to a subsidiary of the company, however, the holder will retain the preference share and the rights to exchange the preference share.

The preference shares forming part of ANZ StEPS rank equally with the preference shares issued in connection with US Trust Securities and Euro Trust Securities in all respects. Except in certain limited circumstances, holders of ANZ StEPS do not have any right to vote in general meetings of the Company.

On a winding up of the Company, the rights of ANZ StEPS holders will be determined by the preference share component of ANZ StEPS. Those preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

ANZ StEPS qualify as Tier 1 capital as defined by the Australian Prudential Regulation Authority.

US TRUST SECURITIES

On 27 November 2003, the Company issued 1.1 million USD non-cumulative Trust Securities ("US Trust Securities") at USD1000 each pursuant to offering memorandum dated 19 November 2003 raising USD1.1 billion. US Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by Samson Funding Limited, a wholly owned NZ subsidiary of the Company) and a fully paid USD1,000 preference share (issued by the Company), which are stapled together and issued as a US Trust Security by ANZ Capital Trust I or ANZ Capital Trust II (the "Trusts"). Investors have the option to redeem the US Trust Security from the Trusts and hold the underlying stapled security.

The issue was made in two tranches:

- USD350 million tranche with a coupon of 4.48% and was issued through ANZ Capital Trust I. After 15 January 2010 and at any coupon date thereafter, ANZ has the discretion to redeem the US Trust Security for cash. If it does not exercise this discretion, the investor is entitled to require ANZ to exchange the US Trust Security into a number of ordinary shares based on the formula in the offering memorandum.
- USD750 million tranche with a coupon of 5.36% and was issued through ANZ Capital Trust II. It has the same conversion features as the USD350 million tranche but from 15 December 2013.

Distributions on US Trust Securities are non-cumulative and are payable half yearly in arrears and are funded by payments received by the respective Trusts on the underlying note. Distributions are subject to certain payment tests (eg. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on the US Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company's discretion or upon the occurrence of certain other "conversion events", such as the failure of the respective Trust to pay in full a distribution within seven business days of the relevant distribution payment date, the notes that are represented by the relevant US Trust Securities will be automatically assigned to a subsidiary of the Company and the preference shares that are represented by the relevant US Trust Securities will be distributed to investors in redemption of such US Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the US Trust Securities for which the preference shares were distributed. If the US Trust Securities are not redeemed or bought back prior to the 15 December 2053, they will be converted into preference shares, which in turn will be mandatorily converted into a number of ordinary shares based upon the formula in the offering memorandum.

The preference shares forming part of the US Trust Securities rank equal to the preference shares issued in connection with the ANZ StEPS and Euro Trust Securities in all respects. Except in limited circumstances, holders of US Trust Securities do not have any right to vote in general meetings of the company.

On winding up of the Company, the rights of US Trust Security holders will be determined by the preference share component of US Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The US Trust Securities qualify as Tier 1 capital as defined by the Australian Prudential Regulation Authority.

Notes to the financial statements

30: Share Capital

Number of issued shares	The Company 2006	2005
Ordinary shares each fully paid	1,836,572,115	1,826,449,480
Preference shares each fully paid	500,000	10,500,000
Total number of issued shares	1,837,072,115	1,836,949,480

ORDINARY SHARES

Ordinary shares have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of the shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

Number of issued shares	The Company 2006	2005
Balance at start of year	1,826,449,480	1,818,401,807
Bonus option plan[1]	1,384,144	1,749,584
Dividend reinvestment plan[1]	6,585,302	7,306,891
ANZ employee share acquisition plan[2]	1,590,457	1,979,649
ANZ share option plan[2]	6,654,818	6,642,326
Share capital buyback[3]	(6,092,086)	(9,630,777)
Balance at end of year	1,836,572,115	1,826,449,480

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Ordinary share capital				
Balance at start of year	8,053	7,943	8,053	7,943
Dividend reinvestment plan[1]	165	153	165	153
ANZ employee share acquisition plan[2]	90	57	90	57
ANZ share option plan[2]	109	104	109	104
Share Capital buyback[3]	(146)	(204)	(146)	(204)
Balance at end of year	8,271	8,053	8,271	8,053

1 Refer to note 7 for details of plan.
2 Refer to note 47 for details of plan.
3 Between January 2005 to March 2006, the Group bought back ordinary shares for a total value of $350 million.

Notes to the financial statements

30: Share Capital (continued)

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, the Company issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1000 each pursuant to the offering circular dated 9 December 2004, raising $871 million (at the spot rate at the date of issue, net of issue costs). Euro Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Jackson Funding PLC, a United Kingdom subsidiary of the Company) and a fully paid, €1000 preference share (issued by the Company), which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III (the "Trust"). Investors have the option to redeem the Euro Trust Security from the Trust and hold the underlying stapled security.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears and are funded by payments received by the Trust on the underlying note and or preference share. The distribution is based upon a floating distribution rate equal to the 3 month EURIBOR rate plus a 66 basis point margin up until 15 December 2014, after which date the distribution rate is the 3 month EURIBOR rate plus a 166 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Distributions are subject to certain payment tests (eg APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference shares while they are stapled to the note, except for the period after 15 December 2014 when the preference share will pay 100bpts to fund the increase in the margin. If distributions are not paid on Euro Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time at ANZ's discretion or upon the occurrence of certain other "conversion events", such as the failure of the Trust to pay in full a distribution within seven business days of the relevant distribution payment date or the business day prior to 15 December 2053, the notes that are represented by the relevant Euro Trust Securities will be automatically assigned to a Branch of the Company and the preference shares that are represented by the relevant Euro Trust Securities will be distributed to investors in redemption of such Euro Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the Euro Trust Securities for which the preference shares were distributed.

The preference shares forming part of the Euro Trust Security rank equal to the preference shares issued in connection with the ANZ StEPS and US Trust Securities in all respects. Except in limited circumstances, holders of Euro Trust Securities do not have any right to vote in general meetings of the Company.

On winding up of the Company, the rights of Euro Trust Security holders will be determined by the preference share component of the Euro Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The transaction costs arising on the issue of these instruments were recognised directly in equity as a reduction to the proceeds of the equity instruments to which the costs relate.

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Preference share balance at start of year				
- Euro Trust Securities[1]	871	–	871	–
- ANZ StEPS[2]	987	987	987	987
	1,858	987	1,858	987
Less ANZ StEPS securities reclassified under AIFRS[2]	(987)	n/a	(987)	n/a
Adjusted preference share balance at start of year	871	987	871	987
Preference share net proceeds from new issues during the year				
- Euro Trust Securities[1]	–	871	–	871
	871	1,858	871	1,858
Preference share balance at end of year				
- Euro Trust Securities[1]	871	871	871	871
- ANZ StEPS[2]	–	987	–	987
Balance at end of year	871	1,858	871	1,858

1 There was no transaction cost relating to the Euro Trust Securities in the financial year ended 30 September 2006 (2005: $5 million).
2 Under AIFRS, ANZ StEPS securities are now classified as loan capital (refer note 29).

Notes to the financial statements

31: Reserves and Retained Earnings

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
a) Asset revaluation reserve				
Restated balance at beginning of year	–	–	–	–
b) Foreign currency translation reserve				
Restated balance at beginning of year	(443)	–	(213)	–
Currency translation adjustments net of hedges	(203)	(443)	97	(213)
Total foreign currency translation reserve	(646)	(443)	(116)	(213)
c) Share option reserve[1]				
Restated balance at beginning of year	67	44	67	44
Share-based payments	(3)	23	(3)	23
Transfer (to) retained earnings	(1)	–	(1)	–
Total share option reserve	63	67	63	67
d) Available-for-sale revaluation reserve				
Balance at start of year	n/a	n/a	n/a	n/a
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139[2]	(10)	n/a	(11)	n/a
Restated balance at beginning of year	(10)	n/a	(11)	n/a
Valuation gain recognised after tax	20	n/a	15	n/a
Cumulative (gain) transferred to the income statement on sale of financial assets	(8)	n/a	(7)	n/a
Total available-for-sale revaluation reserve	2	n/a	(3)	n/a
e) Hedging reserve				
Balance at start of year	n/a	n/a	n/a	n/a
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139[2]	162	n/a	11	n/a
Restated balance at beginning of year	162	n/a	11	n/a
Gain (loss) recognised after tax	121	n/a	36	n/a
Transferred (to) income statement	(56)	n/a	(7)	n/a
Total hedging reserve	227	n/a	40	n/a
f) General reserve				
Balance at start of year	181	181	11	11
Transfer (to) retained earnings[3]	(181)	–	(11)	–
Total general reserve	–	181	–	11
g) Capital reserve				
Balance at start of year	149	149	–	–
Transfer (to) retained earnings[3]	(149)	–	–	–
Total capital reserve	–	149	–	–
Total reserves	(354)	(46)	(16)	(135)

Notes to the financial statements

31: Reserves and Retained Earnings (continued)

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Retained earnings				
Restated balance at start of year	9,646	8,407	7,310	6,989
Adjustment on adoption of accounting policies specified by AASB 4, AASB 132 and AASB 139[4]	(431)	n/a	(201)	n/a
Restated balance at beginning of year	9,215	8,407	7,109	6,989
Profit attributable to shareholders of the Company	3,688	3,175	3,174	2,175
Transfers from (to) reserves	331	–	12	–
Actuarial gain (loss) on defined benefit plans after tax[5]	(55)	25	(54)	23
Ordinary share dividends paid	(2,068)	(1,877)	(2,068)	(1,877)
Preference share dividends paid	(27)	(84)	–	–
Retained earnings at end of year	11,084	9,646	8,173	7,310
Total reserves and retained earnings	10,730	9,600	8,157	7,175

1 Further information about share based payments to employees is disclosed in note 47 to the financial statements.
2 ANZ has taken the election, pursuant to accounting standard AASB 1 (36A), to not comply with accounting standards AASB 132 and AASB 139 in the comparative information in its first AIFRS financial report. Therefore the 2005 year is nil for this line item.
3 The transfer of balances from the general and capital reserves to retained earnings represent items of a distributable nature.
4 Comprises:
- Remeasurement of the carrying value of the Group's investment in INGA as at 1 October 2005
- Adjustment in respect of hedging derivative financial instruments as at 1 October 2005
- Recognition of the fair value of derivatives relating to securitisation and structured finance transactions as at 1 October 2005
- Deferral of previously recognised fees now treated as an adjustment to yield on 1 October 2005
- Recalculation of the loan impairment provision on 1 October 2005 in line with change in policy as covered in note 1(xi).

5 ANZ has taken the option available under AASB 119 to recognise actuarial gains/losses on defined benefit superannuation plans directly in retained profits (refer note 1(xx) and note 46).

a) Asset Revaluation Reserve

The asset revaluation reserve related to the revaluation of premises and equipment and investments in shares in controlled entities. The impact of adoption of AIFRS reset the asset revaluation reserve to nil.

b) Foreign Currency Translation Reserve

The translation reserve comprises exchange differences, net of hedges, arising on translation of the financial statements of foreign operations, as described in note 1(iii). Refer note 51(v) for the impact of adopting AIFRS on the foreign currency translation reserve. When a foreign operation is sold, attributable exchange differences are recognised in the income statement.

c) Share Option Reserve

The share options reserve arises on the grant of share options to selected employees under the ANZ share option plan. Amounts are transferred out of the reserve and into share capital when the options are exercised. Refer to note 1(xx).

d) Available-for-sale Revaluation Reserve

Changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets are taken to the available-for-sale revaluation reserve. Where a revalued available-for-sale financial asset is sold, that portion of the reserve which relates to that financial asset, is realised and recognised in the income statement. Where the available-for-sale financial asset is impaired, that portion of the reserve which relates to that asset is recognised in the income statement. Refer to note 1(ix).

e) Hedging Reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cashflow hedges. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement. Refer to note 1(viii).

f) General Reserve and g) Capital Reserve

The transfer of balances from the general and capital reserves to retained earnings represent items of a distributable nature.

32: Minority Interests

	Consolidated 2006 $m	Consolidated 2005 $m
Share capital	14	11
Retained profits	20	16
Total minority interests	34	27

33: Average Balance Sheet and Related Interest

Averages used in the following table are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Impaired loans are included under the interest earning asset category 'loans and advances'. Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments. The data in the table below is not comparable as the 2005 comparatives have not been restated to reflect the impact of AASB 132 – "Financial Instruments: Presentation and Disclosure" and AASB 139 – "Financial Instruments: Recognition and Measurement".

	2006			2005		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Interest earning assets						
Due from other financial institutions						
Australia	1,442	71	4.9	807	42	5.2
New Zealand	2,236	146	6.5	2,242	126	5.6
Overseas markets	4,061	190	4.7	2,664	90	3.4
Trading and available-for-sale assets/investment securities						
Australia	15,957	946	5.9	10,799	589	5.5
New Zealand	2,459	182	7.4	2,226	133	6.0
Overseas markets	2,883	134	4.6	2,992	100	3.3
Loans and advances						
Australia	170,118	12,478	7.3	152,912	10,671	7.0
New Zealand	65,134	5,653	8.7	61,035	5,071	8.3
Overseas markets	9,538	671	7.0	9,060	461	5.1
Customer's liabilities for acceptances[1]						
Australia	13,786	958	6.9	–	–	–
Overseas markets	216	11	5.1	–	–	–
Other assets						
Australia	3,833	317	8.3	2,215	110	5.0
New Zealand	4,361	283	6.5	2,912	162	5.6
Overseas markets	4,155	261	6.3	3,319	189	5.7
Intragroup assets						
Overseas markets	11,501	559	4.9	9,473	330	3.5
	311,680	22,860		262,656	18,074	
Intragroup elimination	(11,501)	(559)		(9,473)	(330)	
	300,179	22,301	7.4	253,183	17,744	7.0
Non-interest earning assets						
Derivative financial instruments						
Australia	9,600			5,082		
New Zealand	2,593			1,645		
Overseas markets	(579)			(404)		
Customer's liabilities for acceptances[1]	–			13,240		
Premises and equipment	1,074			1,094		
Other assets	13,223			13,100		
Provision for credit impairment						
Australia	(1,567)			(1,823)		
New Zealand	(419)			(608)		
Overseas markets	(191)			(15)		
	23,734			31,311		
Total assets	323,913			284,494		
Total average assets						
Australia	220,710			190,595		
New Zealand	81,072			74,473		
Overseas markets	33,632			28,899		
	335,414			293,967		
Intragroup elimination	(11,501)			(9,473)		
	323,913			284,494		
% of total average assets attributable to overseas activities	31.9%			33.0%		

1 Customer's liabilities for acceptances have been classified as interest earning assets following the adoption of AIFRS on 1 October 2005. This is consistent with the reclassification of commercial bill margins from fees to net interest.

Notes to the financial statements

33: Average Balance Sheet and Related Interest (continued)

	2006 Average balance $m	2006 Interest $m	2006 Average rate %	2005 Average balance $m	2005 Interest $m	2005 Average rate %
Interest bearing liabilities						
Time deposits						
Australia	42,907	2,445	5.7	39,388	2,126	5.4
New Zealand	26,363	1,839	7.0	25,582	1,659	6.5
Overseas markets	13,699	646	4.7	11,075	383	3.5
Savings deposits						
Australia	15,087	480	3.2	13,896	413	3.0
New Zealand	6,841	305	4.5	7,210	291	4.0
Overseas markets	566	10	1.8	417	3	0.7
Other demand deposits						
Australia	38,935	1,751	4.5	33,950	1,432	4.2
New Zealand	8,494	502	5.9	7,992	412	5.2
Overseas markets	1,003	22	2.2	794	13	1.6
Due to other financial institutions						
Australia	4,151	223	5.4	1,456	86	5.9
New Zealand	1,961	107	5.5	1,680	93	5.5
Overseas markets	5,965	306	5.1	4,642	166	3.6
Commercial paper						
Australia	10,858	637	5.9	7,879	443	5.6
New Zealand	6,315	470	7.4	7,717	521	6.8
Overseas markets	7,373	333	4.5	6,260	171	2.7
Borrowing corporations' debt						
Australia	9,117	522	5.7	9,336	518	5.5
New Zealand	1,863	130	7.0	1,954	125	6.4
Liability for acceptances[1]						
Australia	13,786	799	5.8	–	–	–
Overseas markets	216	10	4.6	–	–	–
Loan capital, bonds and notes						
Australia	45,244	2,677	5.9	38,305	2,138	5.6
New Zealand	9,293	703	7.6	4,757	335	7.0
Overseas markets	135	7	5.2	137	4	2.9
Other liabilities						
Australia	5,122	304	n/a	4,593	451	n/a
New Zealand	149	94	n/a	106	101	n/a
Overseas markets	510	36	n/a	90	17	n/a
Intragroup liabilities						
Australia	5,146	169	3.3	3,648	(13)	(0.4)
New Zealand	6,355	390	6.1	5,825	343	5.9
	287,454	15,917		238,689	12,231	
Intragroup elimination	(11,501)	(559)		(9,473)	(330)	
	275,953	15,358	5.6	229,216	11,901	5.2

1 Liability for acceptances have been classified as interest bearing liabilities following the adoption of AIFRS on 1 October 2005. This is consistent with the reclassification of commercial bill margins from fees to net interest.

33: Average Balance Sheet and Related Interest (continued)

	2006 Average balance $m	2005 Average balance $m
Non-interest bearing liabilities		
Deposits		
Australia	4,412	4,147
New Zealand	3,682	3,535
Overseas markets	1,123	976
Derivative financial instruments		
Australia	8,642	4,519
New Zealand	2,663	2,104
Overseas markets	(635)	(483)
Liability for acceptances[1]	–	13,240
Other liabilities	9,457	8,607
	29,344	36,645
Total liabilities	305,297	265,861
Total average liabilities		
Australia	210,364	180,325
New Zealand	75,331	70,038
Overseas markets	31,103	24,971
	316,798	275,334
Intragroup elimination	(11,501)	(9,473)
	305,297	265,861
Total average shareholders' equity		
Ordinary share capital[2]	17,745	16,949
Preference share capital	871	1,684
	18,616	18,633
Total average liabilities and shareholders' equity	323,913	284,494
% of total average liabilities attributable to overseas activities	32.8%	33.5%

1 Liability for acceptances have been classified as interest bearing liabilities following the adoption of AIFRS on 1 October 2005. This is consistent with the reclassification of commercial bill margins from fees to net interest.
2 Includes reserves and retained earnings.

Notes to the financial statements

34: Interest Spreads and Net Interest Average Margins

	2006 $m	2005 $m
Net interest income[1,4]		
Australia	4,763	3,818
New Zealand	1,724	1,612
Overseas markets	456	413
	6,943	5,843
Average interest earning assets		
Australia	205,136	166,733
New Zealand	74,190	68,415
Overseas markets	32,354	27,508
Intragroup elimination	(11,501)	(9,473)
	300,179	253,183
	%	%
Gross earnings rate[2,4]		
Australia	7.20	6.84
New Zealand	8.44	8.03
Overseas markets	5.64	4.25
Group	7.43	7.01
Interest spreads and net interest average margins may be analysed as follows[4]		
Australia		
Gross interest spread	1.95	1.87
Interest forgone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.94	1.86
Interest attributable to net non-interest bearing items	0.38	0.43
Net interest average margin – Australia	2.32	2.29
New Zealand		
Gross interest spread	1.74	1.86
Interest forgone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.73	1.85
Interest attributable to net non-interest bearing items	0.59	0.51
Net interest average margin – New Zealand	2.32	2.36
Overseas markets		
Gross interest spread	1.02	1.04
Interest forgone on impaired assets[3]	(0.02)	(0.02)
Net interest spread	1.00	1.02
Interest attributable to net non-interest bearing items	0.41	0.48
Net interest average margin – Overseas markets	1.41	1.50
Group		
Gross interest spread	1.87	1.83
Interest forgone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.86	1.82
Interest attributable to net non-interest bearing items	0.45	0.48
Net interest average margin – Group	2.31	2.30

1 On a tax equivalent basis.
2 Average interest rate received on interest earning assets. Overseas markets includes intragroup assets.
3 Refer note 15.
4 Interest in the 2006 year includes deferred fees and costs that are considered part of the effective yield and have therefore been reclassified as interest.

35: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Group's balance sheet. These risks and the Group's policies and objectives for managing such risks are outlined below. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses derivative financial instruments such as foreign exchange contracts, and interest rate contracts to hedge certain risk exposures. This is outlined in Note 12.

CREDIT RISK

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual loan or credit equivalent obligations.

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.

Credit Risk Management

This risk management framework exists across the Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objective set by the Board. The framework is top-down and focuses on policies, people, skills, vision, values, controls, concentrations and portfolio balance. It is supported by portfolio analysis and asset-writing strategies which assist asset-writing direction and identify areas requiring attention. The effectiveness of the framework is validated through a series of compliance and monitoring processes overseen within a risk committee structure.

All credit decisions greater than a predetermined amount require approval by both business writers and independent risk personnel.

The Group sets strict limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on a counterparty's assessed capacity to meet contractual obligations, in particular interest and capital repayments. Obtaining collateral further supports this.

Credit Risk Measurement

The relative 'Probability of Default' (PD) for all counterparties is captured by the Group's Credit Rating process, which assigns an internal risk rating to all borrowers and counterparties. The risk rating assessment utilises quantitative and independently validated measurement tools and each internal risk rating corresponds to the statistical probability of a customer (in that rating class) defaulting within the next 12-month period. This is the foundation of the Group's risk grade profile.

The Group's risk grade profiles are subject to change through new counterparty acquisitions and/or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments and individual counterparty reviews in segments with larger single name borrowers.

Credit Risk Mitigation

The Credit Risk objectives of the Group are set by the Board and are strategically implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations. Credit Risk is mitigated by the independence of the Credit chain and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its portfolio, largely comprising net loans and advances, customer's liabilities for acceptances and available-for-sale loan assets, to assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks.

Notes to the financial statements

35: Financial Risk Management (continued)

Concentrations of credit risk by industry and geographic analysis:
Based on carrying amount at 30 September 2006 and 30 September 2005

Consolidated	Net loans and advances 2006 $m	Net loans and advances 2005 $m	Customer liability for acceptances 2006 $m	Customer liability for acceptances 2005 $m	Available-for-sale loans and advances 2006 $m	Available-for-sale loans and advances 2005 $m	Total 2006 $m	Total 2005 $m
Australia								
Agriculture, forestry, fishing and mining	7,079	5,626	1,116	1,023	1,030	–	9,225	6,649
Business service	4,882	4,151	687	600	12	–	5,581	4,751
Construction	3,757	3,270	202	173	146	–	4,105	3,443
Entertainment, leisure and tourism	4,408	3,861	1,186	1,201	243	–	5,837	5,062
Financial, investment and insurance	4,795	4,924	970	1,215	132	–	5,897	6,139
Government and official institutions	52	65	7	4	–	–	59	69
Lease finance	2,580	2,854	–	–	–	–	2,580	2,854
Manufacturing	7,050	6,087	1,508	1,759	113	–	8,671	7,846
Personal[1]	15,579	13,702	239	251	–	–	15,818	13,953
Real estate – commercial[2]	10,229	10,970	4,108	4,079	–	–	14,337	15,049
Real estate – mortgage[3]	100,362	89,909	–	–	–	–	100,362	89,909
Retail and wholesale trade	9,811	9,074	2,155	1,942	–	–	11,966	11,016
Other	9,923	8,796	1,060	1,074	270	–	11,253	9,870
	180,507	163,289	13,238	13,321	1,946	–	195,691	176,610
New Zealand								
Agriculture, forestry, fishing and mining	11,180	10,310	–	–	–	–	11,180	10,310
Business service	627	662	–	–	–	–	627	662
Construction	554	625	–	–	–	–	554	625
Entertainment, leisure and tourism	756	877	–	–	–	–	756	877
Financial, investment and insurance	2,573	2,011	–	–	–	–	2,573	2,011
Government and official institutions	656	319	–	–	–	–	656	319
Lease finance	421	639	–	–	–	–	421	639
Manufacturing	1,991	2,224	–	–	–	–	1,991	2,224
Personal[1]	3,041	2,626	–	–	–	–	3,041	2,626
Real estate – commercial[2]	5,071	4,453	–	–	–	–	5,071	4,453
Real estate – mortgage[3]	37,063	34,593	–	–	–	–	37,063	34,593
Retail and wholesale trade	1,540	1,578	–	–	–	–	1,540	1,578
Other	3,456	3,473	–	–	–	–	3,456	3,473
	68,929	64,390	–	–	–	–	68,929	64,390
Overseas Markets								
Agriculture, forestry, fishing and mining	718	558	9	–	–	–	727	558
Business service	209	134	–	–	–	–	209	134
Construction	73	141	–	–	–	–	73	141
Entertainment, leisure and tourism	681	219	4	–	–	–	685	219
Financial, investment and insurance	536	345	68	16	–	–	604	361
Government and official institutions	237	285	–	–	–	–	237	285
Lease finance	179	133	–	–	–	–	179	133
Manufacturing	2,562	2,250	86	37	–	–	2,648	2,287
Personal[1]	651	475	–	6	–	–	651	481
Real estate – commercial[2]	205	213	–	–	–	–	205	213
Real estate – mortgage[3]	881	743	–	–	–	–	881	743
Retail and wholesale trade	1,137	940	30	68	–	–	1,167	1,008
Other	2,133	2,389	–	1	–	–	2,133	2,390
	10,202	8,825	197	128	–	–	10,399	8,953
Gross total	259,638	236,504	13,435	13,449	1,946	–	275,019	249,953
Individual provision for credit impairment	(286)	(273)	–	–	–	–	(286)	(273)
Collective provision for credit impairment[4]	(1,940)	(2,167)	–	–	–	–	(1,940)	(2,167)
	(2,226)	(2,440)	–	–	–	–	(2,226)	(2,440)
Income yet to mature	(2,002)	(1,574)	–	–	–	–	(2,002)	(1,574)
Net total	255,410	232,490	13,435	13,449	1,946	–	270,791	245,939

1 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
2 Real Estate Commercial includes all business lending relating to commercial property.
3 Real Estate Mortgage includes all consumer lending secured by a mortgage.
4 2005 comparatives are calculated under previous AGAAP.

35: Financial Risk Management (continued)

Aggregate concentrations of credit risk by industry analysis[1]

Consolidated	2006 $m	2005 $m
Agriculture, forestry, fishing and mining	21,132	17,517
Business service	6,417	5,547
Construction	4,732	4,209
Entertainment, leisure and tourism	7,278	6,158
Financial, investment and insurance	9,074	8,511
Government and official institutions	952	673
Lease finance	3,180	3,626
Manufacturing	13,310	12,357
Personal[2]	19,510	17,060
Real estate – commercial[3]	19,613	19,715
Real estate – mortgage[4]	138,306	125,245
Retail and wholesale trade	14,673	13,602
Other	16,842	15,733
	275,019	249,953

1 Calculated prior to deduction for provisions and unearned income.
2 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
3 Real Estate commercial includes all business lending relating to commercial property.
4 Real Estate mortgage includes all consumer lending secured by a mortgage.

MARKET RISK

Market risk is the risk to the Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices.

Market risk management and control responsibilities

To facilitate the management, control, measurements and reporting of market risk, ANZ has grouped market risk into two broad categories:

a) Traded market risk:-

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where ANZ acts as principal with clients or with the market.

The principal risk categories monitored are:

- *Currency risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- *Interest rate risk* is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- *Credit Spread risk* is the potential loss arising from a decline in value of an instrument due to a deterioration in the credit worthiness of the issuer of the instrument.

b) Non-traded market risk (or balance sheet risk):-

This embraces the management of non-traded interest rate risk, liquidity, and the risk to the AUD denominated value of the Group's capital and earnings as a result of foreign exchange rate movements.

The Board of Directors through the Risk Committee, a Committee of the Board, has responsibility for oversight of market risk within the Group. Routine management of market risk is delegated to two senior management committees. The Credit and Trading Risk Committee, chaired by the Chief Risk Officer, is responsible for traded market risk, while the Group Asset and Liability Committee, chaired by the Chief Financial Officer, is responsible for non-traded market risk (or balance sheet risk).

The Credit and Trading Risk Committee monitors traded market risk exposures (including Value at Risk and Stress Testing) and is responsible for authorising the trading risk limit framework. In addition, the Group Asset and Liability Committee delegates to the Credit and Trading Risk Committee responsibility for the monthly monitoring of non-traded market risk exposures. The Group Asset and Liability Committee reviews balance sheet based risk measures and strategies quarterly, or more frequently if required.

Notes to the financial statements

35: Financial Risk Management (continued)

Value at Risk (VaR) measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is 97.5% or 99% probability that the loss will not exceed the VaR estimate on any given day. The 99% confidence level encompasses a wider range of potential outcomes.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates and prices over the previous 500 business days.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (eg. stress testing) and associated detailed control limits to measure and manage market risk.

Traded and non-traded market risks are considered separately below.

Traded Market Risks

Trading activities are focused on customer trading, distribution and underwriting of a range of securities and derivative instruments. The principal activities include foreign exchange, interest rate and debt markets. These activities are managed on a global product basis.

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the Group's principal trading centres.

	As at Sep 06 $m	High for year Sep 06 $m	Low for year Sep 06 $m	Average for year Sep 06 $m	As at Sep 05 $m	High for year Sep 05 $m	Low for year Sep 05 $m	Average for year Sep 05 $m
Value at risk at 97.5% confidence								
Foreign exchange	0.5	1.6	0.3	0.7	0.8	1.7	0.3	0.8
Interest rate	1.7	3.2	0.8	1.8	1.3	2.2	0.2	0.9
Credit spread	1.1	1.7	0.7	1.1	0.8	1.5	0.2	0.8
Diversification benefit	(1.4)	n/a	n/a	(1.5)	(1.2)	n/a	n/a	(0.9)
Total VaR	1.9	3.6	0.9	2.1	1.7	3.0	0.8	1.6
Value at risk at 99% confidence								
Foreign exchange	0.6	2.0	0.3	0.8	0.9	2.1	0.4	1.1
Interest rate	2.0	4.4	1.3	2.4	1.7	2.8	0.2	1.2
Credit spread	2.8	3.6	1.1	2.3	1.4	2.4	0.4	1.2
Diversification benefit	(2.9)	n/a	n/a	(2.6)	(1.8)	n/a	n/a	(1.3)
Total VaR	2.5	4.9	1.2	2.9	2.2	4.0	1.0	2.2

VaR is calculated separately for Foreign Exchange/Commodities and for Interest Rate/Debt Markets businesses as well as for the Group. The diversification benefit reflects the correlation implied by historical rates between Foreign Exchange/Commodities and Interest Rate/Debt Markets.

35: Financial Risk Management (continued)

NON-TRADED MARKET RISKS (BALANCE SHEET RISK)

The principal objectives of balance sheet management are to manage interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Group's capital. Liquidity risk is dealt with in the next section.

Interest Rate Risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and disclosure of the interest rate sensitivity gap (refer note 36).

a) VaR Interest Rate Risk

Below are aggregate VaR figures covering non-traded interest rate risk.

	As at Sep 06 $m	High for year Sep 06 $m	Low for year Sep 06 $m	Average year Sep 06 $m	As at Sep 05 $m	High for year Sep 05 $m	Low for year Sep 05 $m	Average year Sep 05 $m
Value at risk at 97.5% confidence								
Group	17.7	19.3	13.7	16.2	14.2	24.0	13.7	18.1

b) Scenario Analysis – A 1% Shock on the Next 12 Months' Net Interest Income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	Consolidated 2006	Consolidated 2005
Impact of 1% Rate Shock		
As at 30 September	1.50%	1.73%
Maximum exposure	1.85%	1.87%
Minimum exposure	0.81%	0.25%
Average exposure (in absolute terms)	1.51%	1.21%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing. For example, when wholesale market rates are anticipating an official rate increase the Group does not reprice certain customer business until the first repricing date after the official rate rise.

The majority of the Group's non-traded interest exposure exists in Australia and New Zealand. In these centres, a separate balance sheet simulation process supplements this static gap information. This allows the net interest income outcomes of a number of different scenarios – with different market interest rate environments and future balance sheet structures – to be identified. This better enables the Group to accurately quantify the interest rate risks associated with the balance sheet and to formulate strategies to manage current and future risk profiles.

Foreign Currency Related Risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

The Group's investment of capital in non-Australian operations generates an exposure to changes in the relative value of individual currencies against the Australian Dollar. Variations in the value of these foreign currency investments are reflected in the foreign currency translation reserve.

The Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from non-Australian business units. This risk is routinely monitored and hedging is conducted in accordance with policy and where it is likely to add shareholder value.

35: Financial Risk Management (continued)

LIQUIDITY RISK

The primary 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 following key principles underpin the Group's Board-approved liquidity management framework.

- The Group aims to adopt a conservative, low risk approach to liquidity management.
- The Group holds a portfolio of high quality liquid assets to buffer it against short term adverse conditions and to support day-to-day operations.
- Liquidity management reporting includes scenario analyses which quantify the Group's forecast position under both normal and extreme, name-crisis conditions.
- The Group has detailed contingency plans in the event of a liquidity crisis.
- The Group targets a diversified funding base, avoiding undue concentrations by investor type, maturity, source and currency.
- Minimum compositional requirements based on the liquidity term of the Group's funding base are established and regularly monitored to ensure that the Group remains well positioned relative to the other major Australian trading banks.

Analysis of the Group's liquidity position under differing scenarios is an important part of daily liquidity risk management. Future cashflows are projected under two scenarios: a) a short term crisis which assumes that a number of extreme liquidity events occur concurrently putting pressure on the Group's ability to meet its obligations to depositors; and b) normal business conditions which projects cashflows on the basis that future business conditions will be much the same as now.

These cashflow projections make use of contractual liquidity information to which are applied assumptions about the likely behaviour of individual customer product classes under each scenario.

Maturity analysis of the Group's assets and liabilities

The tables below analyse the Group's assets and liabilities, as required by AASB 130 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions', into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

This is not how the Group manages its liquidity risk. The management of this risk is detailed above.

Maturity analysis for selected assets and liabilities at 30 September 2006:

Consolidated	Less than[1] 3 months $m	3 to 12[2] months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Assets						
Due from other financial institutions	8,420	820	372	53	–	9,665
Available-for-sale assets	5,937	1,773	2,338	540	65	10,653
Net loans and advances	24,545	36,139	48,227	146,499	–	255,410
Customer's liabilities for acceptances	13,435	–	–	–	–	13,435
Liabilities						
Due to other financial institutions	13,407	659	10	42	–	14,118
Deposits and other borrowings	165,145	27,094	12,383	15	157	204,794
Bonds and notes	662	5,633	41,984	1,771	–	50,050
Loan capital	–	–	528	10,197	401	11,126

Maturity analysis for selected assets and liabilities at 30 September 2005:

Consolidated	Less than[1] 3 months $m	3 to 12[2] months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Assets						
Due from other financial institutions	4,393	424	393	1,138	–	6,348
Available-for-sale assets	6,771	1,523	1,454	285	9	10,042
Net loans and advances	22,432	30,337	46,788	132,933	–	232,490
Customer's liabilities for acceptances	13,449	–	–	–	–	13,449
Liabilities						
Due to other financial institutions	10,013	1,029	123	862	–	12,027
Deposits and other borrowings	157,135	22,432	10,580	21	154	190,322
Bonds and notes	1,823	6,463	29,249	1,538	–	39,073
Loan capital	–	654	536	7,553	394	9,137

1 Includes credit cards.
2 Includes revolving facilities.

36: Interest Rate Risk

The Group has an exposure to the effects of fluctuations in market interest rates on both cashflow and fair value risks associated with its financial assets and liabilities. Interest margins are impacted as a result of such changes and there are Group strategies in place to manage these risks.

The tables following summarises the Group's exposure to interest rate risks as at 30 September 2006 and 30 September 2005.

The tables show the interest rate sensitivity (or repricing profile) of the Group's financial assets and liabilities based on the earlier of contractual maturity or repricing.

Repricing gaps are based upon the earliest of contractual repricing or maturity dates information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity (eg. those assets and liabilities priced at the Group's discretion). In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Repricing gaps arise from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions which have been approved by the Board.

The majority of the Group's loan/deposit business is conducted in the domestic balance sheets of Australia and New Zealand and is priced on a floating rate basis. The mix of repricing maturities in these books is influenced by the underlying financial needs of customers.

Offshore operations, which are generally wholesale in nature, are able to minimise interest rate sensitivity through closely matching the maturity of loans and deposits. Given both the size and nature of their business, the interest rate sensitivities of these balance sheets contribute little to the aggregate risk exposure, which is primarily a reflection of the positions in Australia and New Zealand.

In Australia and New Zealand, a combination of pricing initiatives and derivatives is used in the management of interest rate risk. For example, where a strong medium to long term rate view is held, hedging and pricing strategies are used to modify the profile's rate sensitivity so that it is positioned to take advantage of the expected movement in interest rates. However, such positions are taken within the overall risk limits specified by policy.

The objectives and policies in managing the interest risks are also covered under note 35 'Financial Risk Management', under the heading 'Market risk'.

At 30 September 2006	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	Between 1 year and 5 years $m	After 5 years $m	Not bearing interest $m	Total $m
Liquid assets and due from other financial institutions	21,572	1,121	175	200	–	1,616	24,684
Trading and available-for-sale assets	11,493	1,874	697	4,051	1,697	20	19,832
Derivative financial instruments	–	–	–	–	–	9,164	9,164
Net loans and advances	176,511	9,250	14,327	54,244	1,078	–	255,410
Other assets[1]	13,890	32	55	336	49	12,319	26,681
Total assets	223,466	12,277	15,254	58,831	2,824	23,119	335,771
Certificates of deposit and term deposits	58,543	11,209	6,985	6,142	25	20	82,924
Other deposits	71,394	776	1,556	5,025	1	10,718	89,470
Other borrowings and due to other financial institutions	31,808	4,994	3,874	3,996	875	971	46,518
Derivative financial instruments	–	–	–	–	–	8,753	8,753
Other liabilities[1]	17,230	3	3	658	291	8,839	27,024
Bonds, notes and loan capital	35,858	1,961	1,014	19,850	2,493	–	61,176
Total liabilities	214,833	18,943	13,432	35,671	3,685	29,301	315,865
Total equity	–	–	–	–	–	19,906	19,906
Derivative items affecting interest rate sensitivity	(563)	8,896	596	(10,789)	1,860	–	–
Interest sensitivity gap							
– net	8,070	2,230	2,418	12,371	999	(26,088)	–
– cumulative	8,070	10,300	12,718	25,089	26,088	–	–

1 Customer's liabilities for acceptances have been classified as interest earning assets following the adoption of AIFRS on 1 October 2005.

Notes to the financial statements

36: Interest Rate Risk (continued)

At 30 September 2005	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	Between 1 years and 5 years $m	After 5 years $m	Not bearing interest $m	Total $m
Liquid assets and due from other financial institutions	13,511	984	286	259	1,082	1,827	17,949
Trading and investment securities	11,044	1,263	627	2,489	807	97	16,327
Derivative financial instruments	–	–	–	–	–	6,511	6,511
Net loans and advances	164,892	8,621	14,061	45,461	1,032	(1,577)	232,490
Other assets	318	55	111	570	77	26,477	27,608
Total assets	189,765	10,923	15,085	48,779	2,998	33,335	300,885
Certificates of deposit and term deposits	58,515	10,176	5,190	4,565	11	–	78,457
Other deposits	58,497	898	1,771	4,614	46	10,378	76,204
Other borrowings and due to other financial institutions	35,113	4,055	3,007	2,495	1,020	1,998	47,688
Derivative financial instruments	–	–	–	–	–	7,006	7,006
Other liabilities	169	1	14	479	286	22,833	23,782
Bonds, notes and loan capital	28,207	2,585	1,235	11,830	4,353	–	48,210
Total liabilities	180,501	17,715	11,217	23,983	5,716	42,215	281,347
Total equity	–	–	–	–	–	19,538	19,538
Derivative items affecting interest rate sensistivity	2,013	9,271	(2,879)	(11,737)	3,332	–	–
Interest sensitivity gap							
– net	11,277	2,479	989	13,059	614	(28,418)	–
– cumulative	11,277	13,756	14,745	27,804	28,418	–	–

37: Fair Value of Financial Assets and Financial Liabilities

AIFRS requires disclosure of the fair value of financial instruments. The disclosures exclude all non-financial instruments, such as income taxes and regulatory deposits. The aggregate fair value amounts do not represent the underlying value of the Group.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Quoted market prices, where available, are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present value estimates or other valuation techniques. For the majority of short-term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the fair value was assumed to equate to the carrying amount in the Group's balance sheet.

The fair values are based on relevant information available as at 30 September 2006. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The fair value amounts have not been updated for the purposes of these financial statements since 30 September 2006, and therefore the fair value of the financial instruments subsequent to 30 September 2006 may be different from the amounts reported.

Financial assets have been classed into categories following the adoption of AIFRS on 1 October 2005, namely amortised cost, financial assets at fair value through profit and loss, and available-for-sale financial assets. Similarly financial liabilities have been classified into two categories, namely amortised cost and financial liabilities at fair value through profit and loss.

The significant accounting policies in note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised. The carrying amount and fair value (2005: net fair value) of the Group's financial assets and financial liabilities are set out below.

	Carrying amount				Fair value					
Consolidated	At amortised cost 2006 $m	At fair value through profit or loss 2006 $m	Available-for-sale assets 2006 $m	Total 2006 $m	At amortised cost 2006 $m	At fair value through profit or loss 2006 $m	Available-for-sale assets 2006 $m	Total 2006 $m	Total carrying amount 2005 $m	Net fair value 2005 $m
Financial assets										
Liquid assets	15,019	–	–	15,019	15,019	–	–	15,019	11,601	11,601
Due from other financial institutions	9,665	–	–	9,665	9,665	–	–	9,665	6,348	6,348
Trading securities	–	9,179	–	9,179	–	9,179	–	9,179	6,285	6,285
Derivative financial instruments	–	9,164	–	9,164	–	9,164	–	9,164	6,511	7,103
Available-for-sale assets	–	–	10,653	10,653	–	–	10,653	10,653	10,042	10,020
Net loans and advances[1]	255,410	–	–	255,410	255,072	–	–	255,072	232,490	232,299
Shares in associates and joint venture entities	2,200	–	–	2,200	2,807	–	–	2,807	1,926	2,309
Customer's liabilities for acceptances	13,435	–	–	13,435	13,435	–	–	13,435	13,449	13,449
Other financial assets	5,379	–	–	5,379	5,379	–	–	5,379	6,464	6,464
Total financial assets	301,108	18,343	10,653	330,104	301,377	18,343	10,653	330,373	295,116	295,878
Financial liabilities										
Due to other financial institutions	14,118	–	–	14,118	14,118	–	–	14,118	12,027	12,027
Derivative financial instruments	–	8,753	–	8,753	–	8,753	–	8,753	7,006	7,203
Deposits and other borrowings	204,794	–	–	204,794	204,752	–	–	204,752	190,322	190,274
Liability for acceptances	13,435	–	–	13,435	13,435	–	–	13,435	13,449	13,449
Payables and other liabilities	9,910	–	–	9,910	9,910	–	–	9,910	6,914	6,914
Bonds and notes[1]	46,439	3,611	–	50,050	46,440	3,611	–	50,051	39,073	39,137
Loan capital[1]	8,348	2,778	–	11,126	8,344	2,778	–	11,122	9,137	9,215
Total financial liabilities	297,044	15,142	–	312,186	296,999	15,142	–	312,141	277,928	278,219

1 Fair value hedging is applied to financial assets within net loans and advances and liabilities within bonds and notes and loan capital. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

Notes to the financial statements

37: Fair Value of Financial Assets and Financial Liabilities (continued)

LIQUID ASSETS AND DUE FROM/TO OTHER FINANCIAL INSTITUTIONS

The carrying values on these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand.

TRADING SECURITIES

Trading securities are carried at fair value. Fair value is generally based on quoted market prices, broker or dealer price quotations, or prices for securities with similar credit risk, maturity and yield characteristics.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments such as interest rate swaps and currency swaps are calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. Foreign exchange contracts and interest rate option contracts are valued using market prices and options valuation models as appropriate.

AVAILABLE-FOR-SALE ASSETS AND INVESTMENT SECURITIES

Fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

NET LOANS AND ADVANCES AND ACCEPTANCES

The carrying value of loans and advances and acceptances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. The estimated fair value of loans, advances and acceptances is based on the discounted amount of estimated future cash flows and accordingly has not been adjusted for provision for credit impairment.

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value.

For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate, which includes a premium for the uncertainty of the flows.

The difference between estimated fair values for loans and advances and acceptances and their carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

SHARES IN ASSOCIATES AND JOINT VENTURE ENTITIES

Net fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available, net fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, independent valuation, or by reference to the net tangible asset backing of the investee.

OTHER FINANCIAL ASSETS

Included in this category are accrued interest and fees receivable. The carrying values of accrued interest and fees receivable are considered to approximate their net fair values as they are short term in nature or are receivable on demand.

DEPOSITS AND OTHER BORROWINGS

The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

For interest bearing fixed maturity deposits and other borrowings and acceptances without quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows.

BONDS AND NOTES AND LOAN CAPITAL

The aggregate fair value of bonds and notes and loan capital is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument is used.

PAYABLES AND OTHER FINANCIAL LIABILITIES

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate the fair value.

COMMITMENTS AND CONTINGENCIES

As outlined in note 45, the Group has various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

TRANSACTION COSTS (USED IN THE NET FAIR VALUE CALCULATION AS AT 30 SEPTEMBER 2005)

The fair value of financial instruments required to be disclosed under US accounting standard, Statement of Financial Accounting Standards No. 107 'Disclosures about Fair Value of Financial Instruments' (SFAS 107) is calculated without regard to estimated transaction costs. Such transaction costs are not material, and accordingly the fair values shown above as at 30 September 2005 would not differ materially from fair values calculated in accordance with SFAS 107.

38: Segment Analysis

For management purposes the Group is organised into three major business segments being Personal, Institutional and New Zealand Business. An expanded description of the principal activities for each of the business segments is contained in the Glossary on pages 120 to 121.

A summarised description of each business segment is shown below:

Personal	Provides:	■ Regional, Commercial and Agribusiness Products, Banking Products, Consumer Finance, Investment and Insurance Products, Mortgages and other (including the branch network) in Australia; ■ Retail banking services in the Pacific region, including ANZ's share of PT Panin Bank Indonesia; and ■ Vehicle and equipment finance, rental services and fixed and at call investments.
Institutional	Provides:	■ A full range of financial services to the Group's business banking, corporate and institutional customers including Corporate and Structured Financing, Client Relationship Group, Markets and Trade and Transaction Services; and ■ Retail banking services in the Asia region.
New Zealand Businesses	Provides:	■ A full range of banking services for personal, small business and corporate customers in New Zealand. ■ Comprises ANZ Retail, NBNZ retail Corporate Banking, Investment Insurance Products, Rural Banking and Central Support.

As the composition of segments was amended during the year, September 2005 comparatives have been adjusted to be consistent with the 2006 segment definitions.

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated At 30 September 2006	Personal $m	Institutional $m	New Zealand Businesses $m	Other[3] $m	Consolidated total $m
External interest income	9,323	7,393	5,421	164	22,301
External interest expense	(2,663)	(4,774)	(3,450)	(4,471)	(15,358)
Adjust for intersegment interest	(3,647)	(550)	(452)	4,649	–
Net interest income	3,013	2,069	1,519	342	6,943
Other external operating income	1,180	1,245	463	127	3,015
Share of net profit/(expense) of equity accounted investments	7	15	20	152	194
Net intersegment income	34	(70)	(2)	38	–
Segment revenue	4,234	3,259	2,000	659	10,152
Other external expenses	(1,745)	(1,020)	(984)	(782)	(4,531)
Net intersegment expenses	(358)	(193)	(2)	553	–
Operating expenses	(2,103)	(1,213)	(986)	(229)	(4,531)
Impairment losses on loans and advances	(341)	(58)	(6)	(2)	(407)
Segment result	1,790	1,988	1,008	428	5,214
Income tax expense	(533)	(588)	(325)	(76)	(1,522)
Minority interests	(1)	(4)	–	1	(4)
Profit after income tax attributable to shareholders of the company	1,256	1,396	683	353	3,688
Non-Cash Expenses					
Depreciation & amortisation	(126)	(26)	(43)	(97)	(292)
Equity-settled share-based payment expenses	(25)	(30)	(9)	(12)	(76)
Provision for credit impairment	(341)	(58)	(6)	(2)	(407)
Provisions for employee entitlements	(21)	(13)	(51)	(10)	(95)
Provision for restructuring	(4)	–	(1)	(46)	(51)
Financial Position					
Total external assets[4]	136,730	119,104	66,064	13,873	335,771
Share of associate and joint venture companies	22	152	164	1,862	2,200
Total external liabilities[5]	67,449	108,686	57,153	82,577	315,865
Goodwill	39	13	20	2,828	2,900
Intangibles	269	95	19	54	437

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes Partnerships & Private Bank, Treasury, Operations, Technology & Shared Services, Corporate Centre, Risk Management, 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.
4 Includes deferred tax assets of $0.2 billion in Personal, $0.1 billion in Institutional and $0.1 billion in New Zealand Businesses.
5 Includes income tax liabilities of $0.4 billion In Personal, $1.1 billion in Institutional and nil in New Zealand Businesses.

Notes to the financial statements

38: Segment Analysis (continued)

The following analysis details financial information by business segment.

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated At 30 September 2005	Personal $m	Institutional $m	New Zealand Business $m	Other[3] $m	Consolidated total $m
External interest income	7,996	4,603	4,779	341	17,719
External interest expense	(2,294)	(3,721)	(3,058)	(2,828)	(11,901)
Adjust for intersegment interest	(3,113)	508	(223)	2,828	–
Net interest income	2,589	1,390	1,498	341	5,818
Other external operating income	1,117	1,680	530	50	3,377
Share of net profit of equity accounted investments	7	5	8	181	201
Net intersegment income/expense	41	(75)	4	30	–
Segment revenue	3,754	3,000	2,040	602	9,396
Other external expenses	(1,580)	(922)	(984)	(932)	(4,418)
Net intersegment expenses	(350)	(157)	(13)	520	–
Operating expenses	(1,930)	(1,079)	(997)	(412)	(4,418)
Impairment losses on loans and advances	(261)	(195)	(102)	(22)	(580)
Segment result	1,563	1,726	941	168	4,398
Income tax expense	(467)	(511)	(302)	60	(1,220)
Minority interests	(1)	(2)	–	–	(3)
Profit after income tax attributable to the shareholders of the Company	1,095	1,213	639	228	3,175
Non-Cash Expenses					
Depreciation & amortisation	(144)	(26)	(49)	(89)	(308)
Equity-settled share-based payment expenses	24	28	7	21	80
Provision for credit impairment	(261)	(195)	(102)	(22)	(580)
Provisions for employee entitlements	(18)	(12)	(42)	(9)	(81)
Provision for restructuring	(1)	–	1	(52)	52
Financial Position					
Total external assets[4]	122,372	105,455	61,980	11,078	300,855
Share of associate and joint venture entities	17	92	2	1,815	1,926
Total external liabilities[5]	60,350	91,755	55,458	73,784	281,347
Goodwill	51	–	21	2,943	3,015
Intangibles	301	57	18	67	443

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes Partnerships & Private Bank, Treasury, Operations, Technology & Shared Services, Corporate Centre, 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.
4 Includes deferred tax assets of $0.1 billion in Personal, $0.1 billion in Institutional and $0.2 billion in New Zealand Businesses.
5 Includes income tax liabilities of $0.3 billion In Personal, $0.8 billion in Institutional and $0.1 billion in New Zealand Businesses.

38: Segment Analysis (continued)

The following analysis details financial information by geographic location.

GEOGRAPHIC SEGMENT ANALYSIS[1, 2]

Consolidated	2006 $m	2006 %	2005 $m	2005 %
Income				
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%
Total 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%
Profit before tax[3]				
Australia	3,472	67%	2,950	67%
New Zealand	1,241	24%	1,000	23%
Overseas markets	501	9%	448	10%
	5,214	100%	4,398	100%

1 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
2 The geographic segments represent the locations in which the transaction was booked.
3 Includes minority interests.

Notes to the financial statements

39: Notes to the Cash Flow Statements

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
a) Reconciliation of net profit after income tax to net cash provided by operating activities				
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Operating profit after income tax attributable to shareholders of the Company	3,688	3,175	3,174	2,175
Adjustments to reconcile operating profit after income tax to net cash provided by operating activities				
Provision for credit impairment	407	580	278	388
Depreciation and amortisation	292	484	223	230
Provision for employee entitlements, restructuring and other provisions	250	556	106	363
Payments from provisions	(223)	(498)	(83)	(334)
(Profit)/loss on sale of premises and equipment	4	22	5	25
Liquid assets greater than three months	(1,300)	(728)	(441)	(631)
(Increase)/decrease in Due from other banks-more than 90 days	1,318	(371)	177	(180)
(Increase) in loans and advances	(26,848)	(28,788)	(18,732)	(20,599)
Regulatory deposits	(42)	5	(17)	22
Profit /(loss) on sale of available for sale securities	(2)	–	1	–
Net (increase)/decrease				
Share based payments	31	–	31	–
Trading securities	(1,681)	(821)	(182)	(523)
Interest receivable	(119)	88	4	(8)
Accrued income	(24)	4	(27)	8
Current tax liability	297	162	32	246
Deposits and other borrowings	16,129	19,856	14,736	14,085
Due to other financial institutions	1,859	4,972	2,462	3,422
Payables and other liabilities	541	(1,339)	1,221	(1,375)
Amortisation of discounts/premiums included in investing activities	(151)	(93)	–	(12)
Net increase/(decrease)				
Interest payable	482	214	830	105
Accrued expenses	10	52	13	82
Other	(73)	(895)	555	94
Total adjustments	(8,843)	(6,538)	1,192	(4,592)
Net cash provided by operating activities	(5,155)	(3,363)	4,366	(2,417)

b) Reconciliation of cash and cash equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions with an original term to maturity of less than 90 days. Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the statements of financial position as follows

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Liquid assets – less than 90 days (refer note 9)	11,633	9,600	8,050	5,315
Due from other financial institutions – less than 90 days (refer note 10)	8,711	4,102	5,520	2,584
Cash and cash equivalents in the statement of cashflows	20,344	13,702	13,570	7,899

39: Notes to the Cash Flow Statements (continued)

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m

c) Acquisitions and disposals

No material acquisitions and disposals have occured in 2006 or 2005

d) Non-cash financing and investing activities

	2006 $m	2005 $m	2006 $m	2005 $m
Share capital issues				
Dividend reinvestment plans	165	153	165	153

e) Financing arrangements

	2006		2005	
	Available $m	Unused $m	Available $m	Unused $m
Credit standby arrangements				
Standby Lines	827	821	865	851
Other financing arrangements				
Overdraft and other financing arrangements	3,466	985	3,694	890
Total finance available	4,293	1,806	4,559	1,741

Notes to the financial statements

40: Controlled Entities

	Incorporated in	Nature of Business
Ultimate parent of the Group		
Australia and New Zealand Banking Group Limited	Australia	Banking
All controlled entities are 100% owned unless otherwise noted.		
The material controlled entities of the Group are:		
Amerika Samoa Bank	American Samoa	Banking
ANZ Capel Court Limited	Australia	Investment Banking
ANZ Capital Funding Pty Ltd	Australia	Funding
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZcover Insurance Pty Ltd	Australia	Captive-Insurance
ANZ (Delaware) Inc	USA	Finance
ANZ Executors & Trustee Company Limited	Australia	Trustee/Nominee
ANZ Financial Products Pty Ltd	Australia	Investment
ANZ Funds Pty Ltd	Australia	Holding Company
ANZ Bank (Europe) Limited*	England	Banking
ANZ Bank (Samoa) Limited*	Samoa	Banking
ANZ Holdings (New Zealand) Limited*	New Zealand	Holding Company
ANZ National Bank Limited*	New Zealand	Banking
ANZ Investment Services (New Zealand)*	New Zealand	Fund Manager
ANZ National (Int'l) Limited*	New Zealand	Finance
Arawata Finance Limited*	New Zealand	Finance
Cortland Finance Limited*	New Zealand	Investment
Arawata Holdings Limited*	New Zealand	Holding Company
Harcourt Corporation Limited*	New Zealand	Investment
Airlie Investments Limited*	New Zealand	Investment
Nerine Finance No. 2[1]	New Zealand	Finance
Arawata Trust Company*	New Zealand	Finance
Arawata Trust*	New Zealand	Finance
Endeavour Finance Limited*	New Zealand	Finance
Tui Endeavour Limited*	New Zealand	Finance
National Bank of New Zealand Custodians Limited*	New Zealand	Custodians
Alos Holdings Limited*	New Zealand	Investment
NBNZ Holdings Ltd*	New Zealand	Holding Company
Private Nominees Limited*	New Zealand	Nominee
UDC Finance Limited*	New Zealand	Finance
Truck Leasing Limited*	New Zealand	Leasing
ANZ International (Hong Kong) Limited*	Hong Kong	Holding Company
ANZ Asia Limited*	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited*	Vanuatu	Banking
ANZ International Private Limited*	Singapore	Holding Company
ANZ Singapore Limited*	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited*[1]	Cambodia	Banking
Bank of Kiribati Ltd*[1]	Kiribati	Banking
LFD Limited	Australia	Holding Company
ANZ Investment Holdings Pty Ltd	Australia	Holding Company
530 Collins Street Property Trust	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Limited	Australia	Mortgage Insurance
ANZ Nominees Limited	Australia	Nominee
ANZ Orchard Investments Pty Ltd	Australia	Holding Company
ANZ Rural Products Pty Ltd	Australia	Investment
Australia and New Zealand Banking Group (PNG) Limited*	Papua New Guinea	Banking
Coral Finance Limted[1]	England	Securitisation
Esanda Finance Corporation Limited	Australia	General Finance
Fleet Partners Pty Limited[2]	Australia	Finance
Kingfisher Trust 2004-1G[1]	Australia	Securitisation
NMRSB Pty Ltd	Australia	Investment
PT ANZ Panin Bank*[1]	Indonesia	Banking

* Audited by overseas KPMG firms.

1 Minority interests hold ordinary shares or units in the controlled entities listed above as follows: Bank of Kiribati - 150,000 $1 ordinary shares (25%) (2005 : 150,000 $1 ordinary shares 25%); PT ANZ Panin Bank – 7,500 IDR 1M shares (15%) (2005: 7,500 IDR 1M shares 15%); Nerine Finance No. 2 – 3,650 NZD100,000 redeemable preference shares and 35 NZD1 Class 'A' shares (42%) (2005: 3,650 NZD100,000 redeemable preference shares and 35 NZD1 Class 'A' shares (42%)); ANZ Royal Bank (Cambodia) Limited – 99,000 $100 USD ordinary shares (45%) (2005: 81,000 100 USD ordinary shares (45%)); Coral Finance Limted – GBP 1 ordinary share (67%) (2005: GBP 1 ordinary share (67%)) and Kingfisher Trust 2004 – 1G $5 residual capital unit (50%) (2005: $5 residual capital unit (50%)).

2 Sold after year end, see note 52.

Notes to the financial statements

41: Associates

Significant associates of the Group are as follows:

	Ownership interest held	Voting interest	Incorporated in	Carrying value[5] $m	Fair value[6] $m	Reporting date	Principal activity
P.T. Bank Pan Indonesia[1]	29%	29%	Indonesia	222	321	31 December	Banking
Tianjin City Commercial Bank[2]	20%	20%	Peoples Republic of China	164	n/a	31 December	Banking
Metrobank Card Corporation Inc[3]	40%	40%	Philippines	28	n/a	31 December	Cards Issuing
ETrade Australia Limited[4]	34%	34%	Australia	22	79	30 June	Online Stockbroking
Other associates				156	n/a		
Total shares in associates				592			

1 An associate from 1 April 2001.
2 An associate from 13 June 2006.
3 An associate from 9 October 2003.
4 An associate from 1 October 2002.
5 2005 carrying values as follows: P.T. Bank Pan Indonesia $133 million, Metrobank Card Corporation Inc $18 million, ETrade $17 million, and Other associates $97million. Total $265 million.
6 Applicable to those investments in associates where there are published price quotations.

	2006 $m	2005 $m
Aggregate assets of significant associates	16,784	15,669
Aggregate liabilities of significant associates	15,356	14,426
Aggregate revenue of significant associates	586	557

	Consolidated 2006 $m	Consolidated 2005 $m
Results of Associates		
Share of associates profit before income tax	70	70
Share of income tax expense	(17)	(19)
Share of associates net profit – as disclosed by associates	53	51
Adjustments		
- withholding tax	(2)	(4)
- provisioning	4	–
- other	1	5
Share of associates net profit accounted for using the equity method	56	52

42: Interests in Joint Venture Entities

The Group has interests in joint venture entities as follows:

	Ownership interest held	Voting interest held	Incorporated in	Carrying value[6] $m	Reporting dates	Principal activity
ING Australia Limited[1, 5]	49%[2]	49%[2]	Australia	1,462	31 December	Funds Management and Insurance
ING (NZ) Holdings Limited[3,5]	49%[4]	50%[4]	New Zealand	146	31 December	Funds Management and Insurance
Total interests in Joint Venture entities				1,608		

1 A joint venture entity from 1 May 2002.
2 This represents the Group's 49% share of the assets and liabilities of ING Australia Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING Australia Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (ie require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key issues (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Accounting Estimate item (ii) for details regarding valuation of investment in ING Australia Limited.

The Joint Venture includes the majority of the Group's and ING's funds management and insurance activities in Australia.
3 A joint venture entity from 30 September 2005.
4 This represents the Group's 49% share of assets and liabilities of ING (NZ) Holdings Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING (NZ) Holdings Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (ie require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key decisions (including business plans, major capital expenditure, acquisitions etc) require unanimous board approval.
- Refer to Critical Accounting Policies item (iii) for details regarding valuation of investment in ING (NZ) Holdings Limted

The joint venture includes the majority of the Group's and ING's funds management and insurance activities in New Zealand.
5 ING Australia Limited and ING (NZ) Holdings Limited have different reporting dates than the Consolidated Group to align with the ING Group parent entity.
6 2005 carrying values as follows: ING Australia Limited $1,530 million; and ING (NZ) Holdings Limited $131 million.

Notes to the financial statements

42: Interests in Joint Venture Entities (continued)

	ING Australia Limited		ING (NZ) Holdings Limited		Consolidated Total	
	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Retained profits attributable to the joint venture entity						
At the beginning of the year	183	116	–	–	183	116
At the end of the year	256	183	19	–	275	183
Movement in the carrying amount of the joint venture entity						
Carrying amount at the commencement of the year/from acquisition	1,530	1,697	131	–	1,661	1,697
Carrying amount at the commencement of the joint venture entity	n/a	n/a	n/a	131	n/a	131
Share of net profit	119	149	19	–	138	149
Dividend received	(46)	(82)	–	–	(46)	(82)
Capital return	–	(245)	–	–	–	(245)
Movement in reserves	(3)	2	–	–	(3)	2
IFRS opening balance sheet adjustments	(138)	9	–	–	(138)	9
Adjustment for exchange rate fluctuations	–	–	(4)	–	(4)	–
Carrying amount at the end of the year	1,462	1,530	146	131	1,608	1,661
Share of assets and liabilities[1]						
Investments	12,493	11,347	70	98	12,563	11,445
Other assets	1,570	851	154	133	1,724	984
Share of total assets	14,063	12,198	224	231	14,287	12,429
Policy holder liabilities	12,430	10,656	45	60	12,475	10,716
Other liabilities	735	697	16	23	751	720
Share of total liabilities	13,165	11,353	61	83	13,226	11,436
Share of net assets	898	845	163	148	1,061	993
Share of revenues, expenses and results						
Revenues	372	383	59	–	431	383
Expenses	(216)	(184)	(39)	–	(255)	(184)
Profit before income tax	156	199	20	–	176	199
Income tax expense	(37)	(50)	(1)	–	(38)	(50)
Profit after income tax	119	149	19	–	138	149
Net equity accounted profit	119	149	19	–	138	149
Share of commitments						
Lease commitments	154	163	3	3	157	166
Other commitments	18	9	–	–	18	9
Share of total expenditure commitments	172	172	3	3	175	175
Share of contingent liabilities						
In relation to its interest in the joint venture entity[2]	65	80	–	–	65	80
	65	80	–	–	65	80

1 This represents the Group's share of the assets and liabilities of ING Australia Limited and ING (NZ) Holdings Limited, less minority interests and including goodwill on acquisition of ANZ Funds Management entities.
2 This represents Deeds of Subordination with ASIC and buyer of last resort.

43: Fiduciary Activities

The Group conducts various fiduciary activities as follows:

Investment fiduciary activities for trusts

The Group conducts investment fiduciary activities for trusts, including deceased estates. These trusts have not been consolidated as the Company does not have direct or indirect control.

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, where the primary obligation is incurred in an agency capacity as trustee of the trust rather than on the Group's own account, a right of indemnity exists against the assets of the applicable funds or trusts. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Company or its controlled entities will be required to settle the liabilities, the liabilities are not included in the financial statements.

The aggregate amounts of funds concerned are as follows:

	Consolidated	
	2006 $m	2005 $m
Trusteeships	2,080	1,927

Funds management activities

Funds management activities are conducted through the ING Australia Limited and ING (NZ) Holdings Limited Joint Ventures. As stated in note 1 (ii), shares in joint venture entities are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition earnings. Funds under management on behalf of customers are not consolidated.

As at 30 September 2006, the ING Australia Limited Joint Venture had funds under management of $42,783 million (30 September 2005: $34,569 million), the ING (NZ) Holdings Limited Joint Venture had funds under management of $7,256 million (30 September 2005: $6,839 million) and certain subsidiaries of ANZ National Bank Limited had funds under management of $3,721 million (30 September 2005: $3,371 million).

Custodian services activities

Custodian services are conducted through ANZ Custodian Services. ANZ Custodian Services holds investment assets under custody on behalf of external customers and as a consequence the assets are not consolidated in the Group's accounts. As at 30 September 2006, ANZ Custodian Services had funds under custody of $120.2 billion (30 September 2005: $98.3 billion).

44: Commitments

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Capital expenditure				
Contracts for outstanding capital expenditure				
Not later than 1 year	55	80	16	26
Total capital expenditure commitments[1]	55	80	16	26
Lease rentals				
Future rentals in respect of leases				
Land and buildings				
Not later than 1 year	227	205	151	136
Later than 1 year but not later than 5 years	567	547	399	390
Later than 5 years	433	431	399	405
	1,227	1,183	949	931
Furniture and equipment				
Not later than 1 year	24	17	17	13
Later than 1 year but not later than 5 years	19	17	10	13
Later than 5 years	1	–	–	–
	44	34	27	26
Total lease rental commitments	1,271	1,217	976	957
Total commitments	1,326	1,297	992	983

1 Relates to premises and equipment.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments

CUSTOMER RELATED CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

Facilities provided

	Consolidated 2006 Contract amount $m	Consolidated 2005 Contract amount $m	The Company 2006 Contract amount $m	The Company 2005 Contract amount $m
Undrawn facilities[1]	98,554	87,319	77,720	68,491
Australia	62,746	55,451	61,741	54,485
New Zealand	18,840	17,001	–	–
Overseas markets	16,968	14,867	15,979	14,006
Total	98,554	87,319	77,720	68,491

1 The credit risk of the undrawn facilities may be less than the contract amount, however the credit risk has been taken to be the contract amount. The majority of undrawn facilities are subject to customers maintaining specific credit standards. The amount does not necessarily represent future cash requirements as many of these facilities are expected to be partially used or to expire unused.

Contingent liabilities

The qualitative details of the estimated maximum amount of contingent liabilities that may become payable relate to non-customer contingent liabilities. These contingent liabilities relate to transactions that the Group has entered into as principal. By contrast, the quantitative tabular presentation below relates to customer contingent liabilities, ie direct credit substitutes and trade and performance related items.

Guarantees, Standby letters of credit, Bill endorsements and Other are classified by APRA as direct credit substitutes and exhibit the same credit risk characteristics as a direct extension of credit. The maximum potential amount of future payments represents the contract amount that could be lost if the counterparty fails to meet its financial obligations.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

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.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

	Consolidated		The Company	
	2006 Contract amount $m	2005 Contract amount $m	2006 Contract amount $m	2005 Contract amount $m
Guarantees	4,690	4,878	4,611	4,744
Standby letters of credit	1,468	1,446	1,296	1,277
Bill endorsements	100	125	100	125
Documentary letters of credit	3,078	3,015	2,939	2,763
Performance related contingencies	11,710	10,160	11,265	9,864
Other	1,009	1,433	628	1,128
Total customer contingent liabilities	22,055	21,057	20,839	19,901
Australia	9,473	9,448	9,462	9,445
New Zealand	1,011	1,006	–	–
Overseas markets	11,571	10,603	11,377	10,456
Total customer contingent liabilities	22,055	21,057	20,839	19,901

ASSETS PLEDGED AS SECURITY AND SECURED LIABILITIES

Assets are pledged as collateral:

- mandatory reserve deposits held with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations; and
- in relation to debenture undertakings covering the assets of Esanda and its subsidiaries and UDC Finance Limited. The debenture stock of Esanda and its subsidiaries and UDC Finance Limited is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking of all the assets of the entity, other than land and buildings. All controlled entities of Esanda and UDC Finance Limited have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda and UDC Finance Limited respectively. Note that the only loans pledged are those in Esanda and UDC Finance Limited.

The value of assets pledged as security is as follows:

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Regulatory deposits	205	159	132	113
Assets pledged as collateral under debenture undertakings[1]	16,028	15,482	–	–
	16,233	15,641	132	113

1 Related liabilities is $9,757 million (2005: $9,639 million).

The Group has accepted collateral that it is permitted to sell or repledge in connection with its stock-lending activities. The fair value of the collateral accepted is $3.3 billion (2005: $3.1 billion) and this equates to our obligation to our counterparties.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

OTHER BANK RELATED CONTINGENT LIABILITIES

The details and estimated maximum amount of contingent liabilities that may become payable are set out below.

i) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited (APCA) Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution; and
- in the Austraclear System Regulations and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution.

For both the APCA HVCS and Austraclear, the obligation arises only in limited circumstances.

ii) Nominee activities

The Group will indemnify each customer of controlled entities engaged in nominee activities against loss suffered by reason of such entities failing to perform any obligation undertaken by them to a customer.

iii) Interbank deposit agreement

ANZ has entered into an Interbank Deposit Agreement with the major banks in the payments system. This agreement is a payment system support facility certified by the Australian Prudential Regulation Authority, where the terms are such that if any bank is experiencing liquidity problems, the other participants are required to deposit equal amounts of up to $2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

iv) Contingent tax liability

The Group in Australia was during 2005 subjected to client risk reviews by the Australian Taxation Office (ATO) across a broad spectrum of matters, as part of normal ATO procedures. The reviews mainly covered years up to 2003. Some matters listed by the ATO for further investigation remain outstanding.

The ATO is also reviewing the taxation treatment of certain other transactions, including legacy structured finance transactions, undertaken by the Group in the course of normal business activities.

The ATO's review of the sale of Grindlays in 2000 and of the transfer of the life and funds management businesses into the joint venture with ING Australia in 2002 was finalised during the year.

The Inland Revenue Department (IRD) in New Zealand is reviewing a number of conduit-relieved structured finance transactions as part of normal revenue authority audit procedures. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand. The IRD has issued Notices of Proposed Adjustment (the 'Notices') in respect of some of those structured finance transactions. The Notices are not tax assessments and do not establish a tax liability, but are the first step in a formal dispute process. In addition, some tax assessments have been received. Should the same position be adopted by the IRD on the remaining transactions of that kind as reflected in the Notices and in the tax assessments received, the maximum potential tax liability would be approximately NZD469 million (including interest tax effected) for the period to 30 September 2006. Of that maximum potential liability, approximately NZD133 million is subject to tax indemnities provided by Lloyds TSB Bank PLC under the agreement by which ANZ acquired the National Bank of New Zealand and which relate to transactions undertaken by the National Bank of New Zealand before December 2003. All of these conduit-relieved transactions have now been either matured or been terminated.

Additional or issue-specific audits and other investigations are being undertaken by the New Zealand IRD, and by revenue authorities in the United States, the United Kingdom and in other jurisdictions as part of normal revenue authority activity in those countries.

The Company has assessed these and other taxation claims arising in Australia, New Zealand and elsewhere, including seeking independent advice where appropriate, and considers that it holds appropriate provisions.

v) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issues below have not impacted the reported results. All settlements and costs have been covered within the provisions established at the time. ANZ may be held liable in relation to the following:

FERA

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities have served notices on Grindlays and certain of its officers in India that could lead to possible penalties. Criminal prosecutions have also been foreshadowed and, in the case of two former officers and the bank, commenced. Grindlays is contesting the validity of these prosecutions.

Differential Cheques

In June 2003, Grindlays was successful in its appeal against orders to repay, with interest, two payments it received from a stockbroker in 1991 in connection with securities transactions. These orders had directed repayment of Indian Rupees 24 million (plus interest accruing at 24% since 1991). Since the appeal decision was handed down, no further action has been taken against Grindlays in relation to notices in respect of a further eleven payments received by it in 1991 in similar circumstances totalling Indian Rupees 225 million.

In addition, ANZ provided an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities were not provided for in the Grindlays accounts as at 31 July 2000. Claims have been made under this indemnity also, with no material impact on the Group expected.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

vi) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and publication of individual financial statements. The results of these companies are included in the consolidated Group results. The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- Alliance Holdings Pty Ltd[1]
- ANZ Orchard Investments Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.

It is the condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee under the class order was executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The consolidated statement of financial performance and consolidated statement of financial position of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee are:

	Consolidated 2006 $m	Consolidated 2005 $m
Profit before tax	4,161	3,107
Income tax expense	(922)	(754)
Profit after income tax	3,239	2,353
Retained profits at start of year[1]	7,103	6,825
Total available for appropriation	10,342	9,178
Ordinary share dividends provided for or paid	(2,068)	(1,877)
Transfer from reserves	49	–
Adjustment on adoption of AIFRS	(83)	–
Retained profits at end of year	8,240	7,301
Assets		
Liquid assets	10,428	7,193
Available-for-sale assets/investment securties	5,388	5,398
Net loans and advances	172,155	153,461
Other assets	54,533	40,591
Premises and equipment	603	1,132
Total assets	243,107	207,775
Liabilities		
Deposits and other borrowings	128,321	113,089
Income tax liability	1,799	1,566
Payables and other liabilities	95,000	74,746
Provisions	688	650
Total liabilities	225,808	190,051
Net assets	17,299	17,724
Shareholders' equity[2]	17,299	17,724

1 The Companies included in the class order changed in 2006, accordingly retained profits did not carry forward in 2006.
2 Shareholders' equity excludes retained profits and reserves of controlled entities within the class order.

Pursuant to a Revocation Deed dated 1 March 2006, earlier Deeds of Cross Guarantee dated 9 September 2003 and 21 August 2005, to which the Company and certain wholly-owned controlled entities were parties, have been revoked. The revocation became effective on 1 September 2006. The controlled entities in respect of which this revocation was effective are the controlled entities (listed above) that are parties to the Deed of Cross Guarantee dated 1 March 2006, and the following additional controlled entities:

- ANZ Infrastructure Investments Limited
- ANZ Nominees Limited
- ES & A Holdings Pty Ltd
- Jikk Pty Ltd

Because these last four controlled entities were not parties to a Deed of Cross Guarantee as at 30 September 2006, they are ineligible for the relief under the class order.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

vii) Commercial paper notes

The Company has guaranteed payment on maturity of the principal and accrued interest of commercial paper notes issued by ANZ (Delaware) Inc. of $6,667 million as at 30 September 2006 (2005: $6,400 million).

viii) Underpinning agreement – ANZ National Bank Limited

The Company is party to an underpinning agreement with ANZ National Bank Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by ANZ National Bank Limited to individual customers which exceed 35% of ANZ National Bank Limited's capital base.

ix) Underpinning agreement – Australia and New Zealand Banking Group (PNG) Limited

The Company is party to an underpinning agreement with Australia and New Zealand Banking Group (PNG) Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by Australia and New Zealand Banking Group (PNG) Limited to individual customers which exceed 25% of Australia and New Zealand Banking Group (PNG) Limited's capital base.

GENERAL

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. The gross amounts of accruals made for material litigation contingencies is $405 million (2005: $233 million).

CONTINGENT ASSETS

National Housing Bank

In 1992, Grindlays received a claim aggregating to approximately Indian Rupees 5.06 billion from the National Housing Bank (NHB) in India. The claim arose out of cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited to the account of a Grindlays customer.

Grindlays won an arbitration award in March 1997, under which NHB paid Grindlays an award of Indian Rupees 9.12 billion. NHB subsequently won an appeal to the Special Court of Mumbai, after which Grindlays filed an appeal with the Supreme Court of India. Grindlays paid the disputed money including interest into court. Ultimately, the parties settled the matter and agreed to share the moneys paid into court which by then totalled Indian Rupees 16.45 billion ($661 million at 19 January 2002 exchange rates), with Grindlays receiving Indian Rupees 6.20 billion ($248 million at 19 January 2002 exchange rates) of the disputed monies. ANZ in turn received a payment of USD124 million (USD equivalent of the Indian Rupees received by Grindlays) from Standard Chartered Bank under the terms of an indemnity given in connection with the sale of Grindlays to Standard Chartered Bank.

ANZ Claims

ANZ has pursued two separate actions arising from the above.

(a) A $130 million plus interest claim against its insurers. $130 million being the balance of the limit of indemnity under ANZ's insurance arrangements for the 1991–92 policy year.

ANZ settled the claim for $114 million which has been recognised in these accounts, less an amount of $1 million which was recognised in the accounts at 30 September 2005.

(b) ANZ is entitled to share with NHB in the proceeds of any recovery from the estate of the customer whose account was credited with the cheques drawn by NHB. However, the Indian Taxation Department is claiming a statutory priority to all of the funds available for distribution to creditors of that customer. Proceedings are currently on foot in the Special Court, Mumbai to determine these issues.

Harris Scarfe

The Receiver and Manager of Harris Scarfe Limited (HSL) and related companies, together with ANZ, have initiated proceedings in the Supreme Court of South Australia to recover damages for breach of contract, negligence and statutory causes of action against the former auditors of HSL. These proceedings are continuing. It is not practicable to reliably estimate the financial effect of these proceedings.

46: Superannuation and Other Post Employment Benefit Schemes

Description of the Group's post employment benefit schemes

The Group has established a number of pension, superannuation and post retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and provisions of trust deeds. Legal enforceability is dependent on the terms of the legislation and trust deeds.

The major schemes with assets in excess of $25m are:

			Contribution levels	
Country	Scheme	Scheme type	Employee/participant	Employer
Australia	ANZ Australian Staff Superannuation Scheme[1,2]	Defined contribution scheme Section C[3] *or*	Optional[8]	Balance of cost[10]
		Defined contribution scheme Section A *or*	Optional	9% of salary[11]
		Defined benefit scheme Pension Section[4]	Nil	Balance of cost[12]
New Zealand	ANZ Group (New Zealand) Staff Superannuation Scheme[1,2]	Defined benefit scheme[5] *or*	Nil	Balance of cost[13]
		Defined contribution scheme	Minimum of 2.5% of salary	7.5% of salary[14]
	National Bank Staff Superannuation Fund[1,2]	Defined benefit scheme[6] *or*	5.0% of salary	Balance of cost[15]
		Defined contribution scheme[7]	Minimum of 2.0% salary	11.5% of salary[16]
England	ANZ UK Staff Pension Scheme[1]	Defined benefit scheme[7]	5.0% of salary[9]	Balance of cost[17]

Balance of cost: the Group's contribution is assessed by the actuary after taking account of members' contributions and the value of the schemes' assets.

1 These schemes provide for pension benefits.
2 These schemes provide for lump sum benefits.
3 Closed to new members in 1997.
4 Closed to new members. Operates to make pension payments to retired members or their dependants.
5 Closed to new members on 31 March 1990. Operates to make pension payments to retired members of that section of the scheme or their dependants.
6 Closed to new members on 1 October 1991.
7 Closed to new members on 1 October 2004.
8 Optional but with minimum of 1% of salary.
9 From 1 October 2003, all members contributions are at a rate of 5% of salary.
10 As determined by the Trustee on the recommendation of the actuary - currently 9% (2005: 9%) of members' salaries.
11 2005: 9% of salary.
12 As determined by the Trustee on the recommendation of the actuary - currently nil (2005: nil).
13 As recommended by the actuary - currently nil (2005: nil).
14 2005: 7.5% of salary.
15 As recommended by the actuary - currently 24.7% (2005: 22.3%) of members' salaries.
16 2005: 11.2% of salary.
17 As agreed by the Trustee and Group after taking the advice of the actuary - currently 26% (2005: 25%) of pensionable salaries and additional quarterly contributions of GBP 3.5 million until December 2015.

Notes to the financial statements

46: Superannuation and Other Post Employment Benefit Schemes (continued)

Funding and contribution information for the defined benefit sections of the schemes

The funding and contribution information for the defined benefit sections of the schemes as extracted from the schemes' most recent financial reports are set out below.

In this financial report, the net (liability)/asset arising from the defined benefit obligation recognised in the balance sheet has been determined in accordance with AASB 119 "Employee Benefits". However, the excess or deficit of the net market value of assets over accrued benefits shown below has been determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans'. The excess or deficit for funding purposes below differs from the net (liability)/asset in the balance sheet because AAS 25 prescribes a different measurement date and basis to those used for AASB 119 purposes.

2006 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[2]	39	35	(4)
ANZ UK Staff Pension Scheme[2]	1,249	997	(252)
ANZ UK Health Benefits Scheme[4]	13	–	(13)
ANZ Group (New Zealand) Staff Superannuation Scheme[1]	6	6	–
National Bank Staff Superannuation Fund[3]	170	166	(4)
Other[4, 5]	7	5	(2)
Total	1,484	1,209	(275)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'.
1 Amounts were measured at 31 December 2004.
2 Amounts were measured at 31 December 2005.
3 Amounts were measured at 31 March 2006.
4 Amounts were measured at 30 September 2006.
5 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

2005 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[1]	40	35	(5)
ANZ UK Staff Pension Scheme[1]	855	811	(44)
ANZ UK Health Benefits Scheme[3]	13	–	(13)
ANZ Group (New Zealand) Staff Superannuation Scheme[1]	6	6	–
National Bank Staff Superannuation Fund[2]	173	165	(8)
Other[3, 4]	6	5	(1)
Total	1,093	1,022	(71)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'.
1 Amounts were measured at 31 December 2004.
2 Amounts were measured at 31 March 2005.
3 Amounts were measured at 30 September 2005.
4 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

Employer contributions to the defined benefit sections are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

The Group expects to make contributions of $45 million to the defined benefit sections of the schemes during the next financial year.

46: Superannuation and Other Post Employment Benefit Schemes (continued)

The current contribution recommendations for the major defined sections of the schemes are described below.

ANZ Australian Staff Superannuation Scheme Pension Section

The Pension Section of the ANZ Australian Staff Superannuation Scheme is closed to new members. A full actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2004 showed a deficit of $5 million and the actuary recommended that Group contributions to the Pension Section remain suspended. An interim actuarial valuation conducted as at 31 December 2005 showed a deficit of $4 million and the expectation is that this deficit has remained materially unchanged since that date. The next full actuarial valuation is due to be conducted as at 31 December 2007, at which time the funding position will be reassessed.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return	8% p.a.
Pension indexation rate	3% p.a.

The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund the deficit.

ANZ UK Staff Pension Scheme

A full actuarial valuation, conducted by consulting actuaries Watson Wyatt LLP, as at 31 December 2005 showed a deficit of GBP 100 million ($252 million at 30 September 2006 exchange rates).

Following the actuarial valuation as at 31 December 2005, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group also agreed to pay additional quarterly contributions of GBP 3.5 million until 31 December 2015. These contributions will be reviewed at the next actuarial valuation which is scheduled to be undertaken as at 31 December 2007.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return on existing assets	4.75% p.a.
Rate of investment return for determining ongoing contributions	6.6% p.a.
Salary increases	4.6% p.a.
Pension increases	2.8% p.a.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise if the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

On adoption of AIFRS, a net liability representing the defined benefit obligation calculated under AASB 119 was recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in note 1(xx).

National Bank Staff Superannuation Fund

A full actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2006 showed a deficit of NZD5 million ($4 million at 30 September 2006 exchange rates). The actuary recommended that the Group make contributions of 24.7% of salaries in respect of members of the defined benefit section.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return (net of income tax)	5.5% p.a.
Salary increases	3.0% p.a.
Pension increases	2.5% p.a.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise if the Scheme was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Scheme an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the Scheme on an on-going basis.

On adoption of AIFRS, a net asset representing the defined benefit surplus calculated under AASB 119 was recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in Note 1(xx).

46: Superannuation and Other Post Employment Benefit Schemes (continued)

The following tables summarise the components of the expense recognised in the income statement and the amounts recognised in the balance sheet under AASB 119 for the defined benefit sections of the schemes:

	Consolidated		The Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Amount recognised in income in respect of defined benefit schemes				
Current service cost	12	14	9	11
Interest cost	64	67	55	56
Expected return on assets	(70)	(68)	(61)	(58)
Past service cost	3	1	3	1
Adjustment for contributions tax	2	2	–	–
Total included in personnel expenses (refer note 4)	11	16	6	10
Amounts included in the balance sheet in respect of its defined benefit schemes				
Present value of funded defined benefit obligation	(1,462)	(1,246)	(1,296)	(1,076)
Fair value of scheme assets	1,238	1,099	1,067	922
Present value of net obligation	(224)	(147)	(229)	(154)
Amounts recognised in the balance sheet				
Other assets (refer note 21)	5	7	–	–
Payables and other liabilities (refer note 26)	(229)	(154)	(229)	(154)
Present value of net obligation	(224)	(147)	(229)	(154)
Amounts recognised in equity in respect of defined benefit schemes				
Actuarial losses/(gains) incurred during the year and recognised directly in retained earnings	78	(35)	77	(29)
Cumulative actuarial losses/(gains) recognised directly in retained earnings	43	(35)	48	(29)

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution. For more information about the Group's legal liability to fund deficits, refer to the earlier description of the current contribution recommendations for the schemes.

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
Movements in the present value of the defined benefit obligation in the relevant period				
Opening defined benefit obligation	1,246	1,254	1,076	1,084
Current service cost	12	14	9	11
Interest cost	64	67	55	56
Contributions from scheme participants	1	2	–	1
Actuarial losses	126	65	121	61
Past service cost	3	1	3	1
Exchange differences on foreign schemes	84	(87)	89	(84)
Benefits paid	(74)	(70)	(57)	(54)
Closing defined benefit obligation	1,462	1,246	1,296	1,076
Movements in the fair value of scheme assets in the relevant period				
Opening fair value of scheme assets	1,099	1,056	922	884
Expected return on scheme assets	70	68	61	58
Actuarial gains/(losses)	48	100	44	90
Exchange differences on foreign schemes	70	(72)	77	(68)
Contributions from the employer	24	15	20	11
Contributions from scheme participants	1	2	–	1
Benefits paid	(74)	(70)	(57)	(54)
Closing fair value of scheme assets[1]	1,238	1,099	1,067	922
Actual return on scheme assets	118	168	105	148

1 Scheme assets include the following financial instruments issued by the Group: Cash and short term debt instruments $2.5 million (September 2005: $4.9 million), fixed interest securities $5.7 million (September 2005: $1.5 million) and equities $0.6 million (September 2005: nil).

46: Superannuation and Other Post Employment Benefit Schemes (continued)

	Consolidated Fair value of scheme assets 2006 %	Consolidated Fair value of scheme assets 2005 %	The Company Fair value of scheme assets 2006 %	The Company Fair value of scheme assets 2005 %
Analysis of the scheme assets				
Equities	50	50	51	50
Debt securities	33	37	30	35
Property	14	13	16	15
Other	3	–	3	–
Total assets	100	100	100	100

	2006 %	2005 %
Key actuarial assumptions used (expressed as weighted averages)		
Discount rate		
ANZ Australian Staff Superannuation Scheme – Pension Section	5.50	5.25
ANZ UK Staff Pension Scheme	5.00	5.00
ANZ UK Health Benefits Scheme	5.10	5.00
ANZ Group (New Zealand) Staff Superannuation Scheme	6.00	6.00
National Bank Staff Superannuation Fund	6.00	6.00
Expected rate of return on scheme assets		
ANZ Australian Staff Superannuation Scheme – Pension Section	7.50	7.50
ANZ UK Staff Pension Scheme	6.50	6.50
ANZ UK Health Benefits Scheme	n/a	n/a
ANZ Group (New Zealand) Staff Superannuation Scheme	4.50	4.50
National Bank Staff Superannuation Fund	5.50	5.50
Future salary increases		
ANZ UK Staff Pension Scheme	4.75	4.60
National Bank Staff Superannuation Fund	3.00	3.00
Future pension increases		
ANZ Australian Staff Superannuation Scheme – Pension Section	3.00	2.50
ANZ UK Staff Pension Scheme	2.95	2.80
ANZ Group (New Zealand) Staff Superannuation Scheme	2.50	2.00
National Bank Staff Superannuation Fund	2.50	2.00
Future medical cost trend – short term		
ANZ UK Health Benefits Scheme	7.30	8.00
Future medical cost trend – long term		
ANZ UK Health Benefits Scheme	4.50	4.50

To determine the expected returns of each of the asset classes held by the relevant scheme, the directors assessed historical return trends and market expectations for the asset classes. The overall expected rate of return on assets for each scheme is determined as the weighted average of the expected returns for the asset classes.

Assumed medical cost trend rates do not have a material effect on the amounts recognised as income or included in the balance sheet.

	Consolidated 2006 $m	Consolidated 2005 $m	The Company 2006 $m	The Company 2005 $m
History of experience adjustments				
Defined benefit obligation	(1,462)	(1,246)	(1,296)	(1,076)
Fair value of scheme assets	1,238	1,099	1,067	922
Surplus/(deficit)	(224)	(147)	(229)	(154)
Experience adjustments on scheme liabilities	7	(6)	5	(7)
Experience adjustments on scheme assets	48	100	44	90

47: Employee Share and Option Plans

ANZ operates a number of employee share and option schemes which operate under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan (ESAP) schemes that existed during the 2005 and 2006 financial years were the $1,000 Share Plan, the Restricted Share Plan, the Deferred Share Plan, the Performance Share Plan and the Employee Share Save Scheme (ESSS). Note the ESSS is an employee salary sacrifice plan and is not captured as an expense in the share based payment expense model.

$1,000 share plan

Each permanent employee (excluding senior executives) who has had continuous service for one year is eligible to participate in the $1,000 scheme enabling the grant of up to $1,000 of ANZ shares in each financial year, subject to ANZ's performance and the approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the five-day weighted average price of ANZ shares traded on the ASX in the five trading days leading up to and including the date of grant.

In Australia and most overseas locations, shares are granted to eligible employees for nil consideration and vest immediately when granted, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. In general, dividends received on the shares are automatically reinvested into the Dividend Reinvestment Plan.

Shares granted to eligible New Zealand employees under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. At the time of transfer, employees are required to pay NZD 1 cent per share. Shares may be forfeited in the event of dismissal for serious misconduct or resignation. Dividends are received as cash.

During the 2006 year, 1,012,008 shares with an issue price of $23.81 were granted under the plan to employees on 5 December 2005. (2005 year: 1,151,157 shares with an issue price of $20.03 were granted on 8 December 2004).

Deferred share plan

Selected employees may also be granted long term incentive (LTI) deferred shares which vest to the employee up to three years from the date of grant. Ordinary shares granted under this LTI plan may be held in trust beyond the deferral period. Unvested LTI deferred shares are forfeited on resignation, dismissal for serious misconduct or termination on notice. In case of redundancy, unvested LTI deferred shares will be pro-rated, and in the event of death or total and permanent disablement, all shares will be released to the employee in full.

Short-term incentive (STI) three year deferred shares were granted under a historical ANZ STI program, and may be held in trust beyond the deferral period. The last grant of three year STI deferred shares was made on 11 May 2004 (with the vesting date being 11 May 2007). There were no 3 year STI deferred share grants in the 2005 or 2006 financial years. STI deferred shares with a one to two year deferral period are still granted under business unit specific incentive plans (primarily as a retention tool), and may be held in trust beyond the deferral period. The deferral period will vary according to bonus plan rules. Unvested STI deferred shares are only forfeited on resignation or dismissal for serious misconduct.

The employee receives all dividends on LTI and STI deferred shares while held in trust (cash or dividend reinvestment plan). The issue price for LTI and STI deferred shares is based on the volume weighted average price of the shares traded on the ASX in the five trading days leading up to and including the date of grant.

During the 2006 year, 269,032 deferred shares (STI and LTI) with a weighted average grant price of $23.68 were granted under the deferred share plan (2005 year: 517,352 shares with a weighted average grant price of $20.76 were granted).

Restricted share plan

Management level employees and above may elect a pre-tax sacrifice of part or all of their annual cash bonus for ANZ shares. The shares are subject to a 12 month restriction period, however, they may be left in trust beyond the restriction period. The shares are subject to forfeiture on dismissal for serious misconduct. The shares are released to the employee on termination for any other reason. The employee receives all dividends on restricted shares (cash or dividend reinvestment plan). The issue price is based on the volume weighted average price of the shares traded on the ASX on the five trading days leading up to and including the date of grant.

During the 2006 year, 401,575 shares with an issue price of $23.49 were granted under the Restricted Share Plan (2005 year: 137,909 shares with an issue price of $20.68 were granted).

Performance share plan

Performance shares are essentially LTI deferred shares with a performance hurdle. They were granted to i) a small number of US based employees on 7 November 2005 to accommodate local taxation laws, and ii) to the CEO on 31 December 2004 (as per his employment contract).

The proportion of performance shares that vest will depend upon the total shareholder return (TSR) achieved by ANZ relative to a comparator group of major financial services companies. Performance equal to the median TSR of the comparator group will result in half the performance shares vesting. Vesting will increase on a straight-line basis until all of the performance shares vest where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis.

The CEO was granted performance shares to be held in trust for two years from the date of grant. The shares will vest two years after the date of grant subject to the achievement of the performance hurdle. The hurdle will be tested monthly at the end of the two year restriction period. Monthly retesting will continue until all performance shares have vested or until 5 years after the grant date. In the event of resignation not approved by the Board or dismissal for serious misconduct, all performance shares will be forfeited. No dividends will be payable on the shares until they vest. 175,000 shares with an issue price of $15.02 were granted (on 31 December 2004).

47: Employee Share and Option Plans (continued)

Share valuations

The fair value of shares granted in the 2006 year under the $1,000 share plan, the deferred share plan and the restricted share plan, measured as at the date of grant of the shares, is $40m based on 1,682,615 shares at a weighted average price of $23.66 (2005 year: fair value of shares granted is $37m based on 1,806,418 shares at a weighted average price of $20.30). The volume weighted average share price of all ANZ shares sold on the Australian Stock Exchange on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

A range of outcomes is possible given the uncertainty and assumptions in relation to share valuation. In determining the fair value below, ANZ used standard market techniques for valuation including Monte Carlo and/or Binomial pricing models. The models take into account early exercise, non-transferability and performance hurdles.

The significant assumptions used to measure the fair value of performance shares granted during the 2006 and 2005 financial years are contained in the table below.

Share Type	Grant Date	Number of Shares	Fair Value (A$)	Share price at date of grant	ANZ expected Volatility [1]	Term of Shares	Vesting period	Expected life	Expected Dividend Yield	Risk Free Interest Rate
LTI Performance Shares	7-Nov-05	4,115	$14.63	$23.60	15%	5 years	3 years	4 years	5.00%	5.49%
CEO Performance Shares	31-Dec-04	175,000	$15.02	$20.59	16.5%	5 years	2 years	2 years[2]	5.40%	5.00%

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the plan. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life.
2 In terms of factoring in early exercise, the model assumes that the recipient will exercise at the time the options vest.

ANZ SHARE OPTION PLAN

Selected employees may be granted options / rights, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time when the options / rights are granted (with the exception of index-linked options). Voting and dividend rights will be attached to the unissued ordinary shares when the options / rights have been exercised. Each option / right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. The exercise price of the options, determined in accordance with the rules of the plan, is generally based on the weighted average price of the shares traded in the five business days up to and including the date of grant. For zero priced options and performance rights, the exercise price is nil. Index-linked options have a dynamic exercise price that is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ).

ANZ Share Option Plan schemes expensed in the 2005 and 2006 years are as follows:

Current Option Plans

Performance rights plan (Hurdle H)

Performance rights are granted to certain employees as part of ANZ's current long-term incentive (LTI) program. The first grant of performance rights was in November 2005, and provides the right to acquire ANZ shares at nil cost, subject to a three-year vesting period and a Total Shareholder Return (TSR) performance hurdle. The proportion of LTI performance rights that become exercisable will depend upon the TSR achieved by ANZ relative to a comparator group of major financial services companies, measured over the same period (since grant) and calculated at the third anniversary of grant. Performance equal to the median TSR of the comparator group will result in half the performance rights becoming exercisable. Vesting will increase on a straight-line basis until all of the performance rights become exercisable where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis. The performance hurdle will only be tested once at the end of the three year vesting period. If the performance rights do not pass the hurdle on the testing date, or they are not exercised by the end of the exercise period (5 years from the date of grant), they will lapse. In the case of dismissal for serious misconduct, all unexercised performance rights will be forfeited. In the case of resignation or termination on notice, only performance rights that become exercisable (and pass the performance hurdle) by the end of the notice period may be exercised. In the case of retrenchment or retirement, performance rights will be performance tested at the date of termination and where performance hurdles have been met, performance rights will be pro-rated. In the case of death or total and permanent disablement, all performance rights are available for exercise (with the performance hurdle waived).

Deferred share rights
(DSR2: No performance hurdles)

Deferred Share Rights are granted instead of deferred shares to accommodate off-shore taxation implications. They provide the right to acquire ANZ shares at nil cost after a specified vesting period. For STI rights granted in November 2005 (relating to a business unit incentive plan), the vesting period was one year. These rights must be exercised by the seventh anniversary of the grant date. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. All other rights will lapse. In the case of termination on notice, retrenchment, retirement, death or total and permanent disablement, all rights will be available for exercise. The fair value of rights is adjusted for the absence of dividends during the restriction period.

47: Employee Share and Option Plans (continued)

Legacy Option Plans

The following legacy plans are no longer being offered to Group employees, but were expensed during the 2005 and 2006 years.

Performance options plan (Hurdle N: No performance hurdle applies)

Performance options were granted to certain employees (below executive levels) as part of a historical LTI program. Performance options are no longer part of ANZ's current equity strategy, with 7 November 2005 being the last grant of performance options. The options can only be exercised after a three-year vesting period and before the seventh anniversary of the grant date. There are no performance conditions attached to these options as they were primarily granted as a retention tool. All unexercised options are forfeited on dismissal for serious misconduct, resignation and termination on notice. On retrenchment, entitlements to options will be pro-rated over the three-year vesting period. On death or total and permanent disablement, all unvested options will become available for exercise.

Zero-price options (ZPOs)

A ZPO is a right to acquire an ANZ share at nil cost. ZPOs were granted to Sir John Anderson (former CEO of ANZ National Bank Limited NZ) as part of his employment contract (refer to Remuneration Report in the Concise Annual Report 2006 / Part 2 of 2 for further details). The ZPOs had no time based vesting criteria, so were able to be exercised at any time during his employment and within six months of termination of his employment.

Deferred share rights (DSR: No performance hurdle)

Special Deferred Share Rights were granted to a small number of New Zealand employees in December 2004. They provide the right to acquire ANZ shares at nil cost after a three year vesting period. Rights must be exercised by the seventh anniversary of the grant date. They may be forfeited at the Company's discretion if the employee ceases employment for any reason. The fair value of rights is adjusted for the absence of dividends during the restriction period.

Hurdled Options (Hurdles B, C & G)

Hurdled options were granted to certain employees as part of an historical LTI program. The options can only be exercised subject to the satisfaction of time and performance based hurdles. Options may be exercised during the four year period commencing three years, and ending seven years after the grant date, subject to meeting the relevant performance hurdle. The performance hurdle will be measured during the exercise period by comparing ANZ's Total Shareholder Return (ANZ's TSR) against the comparator group relevant to the hurdled option grant.

Hurdle G: Hurdled options granted in November 2004 will be tested against a comparator group consisting of major financial services companies, excluding ANZ. The options become exercisable depending on ANZ's ranking within the comparator group. ANZ must rank at the 50th percentile for 50% of the options to become exercisable. For each 1% increase above the 50th percentile an additional 2% of options will become exercisable, with 100% being exercisable where ANZ ranks at or above the 75th percentile. This will be calculated as at the last trading day of any month (once the exercise period has commenced).

Hurdles B & C: These hurdled option grants will be measured against the S&P/ASX 200 Banks Accumulation Index, and with the S&P / ASX 100 Accumulation Index. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced); and the other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced). The forfeiture provisions are the same as the performance option plan.

Index Linked Options (Hurdle D)

Index linked options have a dynamic exercise price that acts as a built-in performance hurdle, i.e. the exercise price is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ) since the grant date. As an additional constraint, the adjusted exercise price can only be set at or above the original exercise price. Index linked options are exercisable between the 3rd and 7th year after grant date, subject to the adjusted exercise price being above the prevailing share price. Unexercised options are forfeited on dismissal for serious misconduct, resignation and termination on notice. On retrenchment, and death or total and permanent disablement, entitlements to options will be pro-rated over the three-year vesting period.

CEO Options (Hurdles E & F)

Options were granted to the CEO as per his employment contract and were approved by shareholders at the December 1999 and December 2001 Annual General Meetings. Refer to Remuneration Report in the Concise Annual Report 2006 / Part 2 of 2 for further details. In the event of termination on notice or agreed separation, all vested options must be exercised within 6 months of the termination or agreed separation date, subject to meeting the relevant performance hurdles.

Hurdle E: 500,000 of the options granted to the CEO in 2001 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.

Hurdle F: 500,000 of the options granted to the CEO in 2001 may be exercised subject to the following: one half of the options may be exercised only if the ANZ TSR calculated over the period commencing on the date of grant and ending on the last day of any month after the second anniversary of the date of grant, exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index over that same period; and the other half of the options may be exercised only if the ANZ TSR calculated over the relevant period exceeds the percentage change in the S&P/ASX 100 Accumulation Index over that same period. In the event of resignation not approved by the Board or dismissal for serious misconduct, all unexercised options will be forfeited.

47: Employee Share and Option Plans (continued)

Option Movements

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2006 financial year and movements during the 2006 financial year are set out below:

Grant Date	Exercise price[1]	Exercise period	Opening Balance 1 October 2005	Options Granted	Options Forfeited[3]	Options Expired[3]	Options Exercised	Closing Balance 30 September 2006	Vested	Hurdle
23/02/2000	$9.39	23/02/03 - 22/02/07	122,000	–	–	–	102,000	20,000	Yes	B
23/05/2000	$11.09	23/05/03 - 23/05/07	85,500	–	–	–	28,500	57,000	Yes	N
26/09/2000	$12.03	26/09/03 - 25/09/07	22,500	–	–	–	12,500	10,000	Yes	N
21/11/2000	$13.62	22/11/03 - 21/11/07	452,804	–	–	–	101,000	351,804	Yes	B
27/12/2000	$13.91	25/10/03 - 07/02/08	678,750	–	11,250	–	185,825	481,675	Yes	N
27/01/2001	$13.91	07/02/04 - 07/02/08	464,800	–	3,750	–	108,500	352,550	Yes	N
21/02/2001	$14.20	21/02/04 - 20/02/08	1,972,092	–	9,250	–	568,869	1,393,973	Yes	N
24/04/2001	$12.98	25/04/04 - 24/04/08	169,700	–	–	–	49,500	120,200	Yes	B
24/04/2001	$12.98	25/04/04 - 24/04/08	1,070,414	–	8,275	–	286,725	775,414	Yes	N
07/05/2001	$12.98	07/05/04 - 06/05/08	40,800	–	1,400	–	5,150	34,250	Yes	N
01/06/2001	$14.61	01/06/04 - 31/05/08	170,250	–	1,500	–	59,950	108,800	Yes	N
23/08/2001	$15.77	21/08/04 - 20/08/08	76,000	–	–	–	–	76,000	Yes	B
27/08/2001	$16.09	27/08/04 - 26/08/08	45,000	–	–	–	5,000	40,000	Yes	N
24/10/2001	$16.33	25/10/04 - 24/10/08	288,400	–	–	–	140,000	148,400	Yes	B
24/10/2001	$16.33	25/10/04 - 24/10/08	1,753,170	–	16,175	–	485,949	1,251,046	Yes	N
24/10/2001	$16.33	24/10/04 - 23/10/08	50,000	–	–	–	–	50,000	Yes	B
31/12/2001	$16.80	31/12/03 - 31/12/07	500,000	–	–	–	500,000	–	Yes	F
24/04/2002	$18.03	24/04/05 - 24/04/09	2,161,878	–	17,839	–	650,837	1,493,202	Yes	N
24/04/2002	$18.03	24/04/05 - 24/04/09	436,100	–	–	–	193,200	242,900	Yes	C
24/04/2002	$18.03	24/04/05 - 24/04/09	345,000	–	–	–	140,000	205,000	Yes	C
31/05/2002	$18.55	14/05/05 - 13/05/09	125,000	–	–	–	110,000	15,000	Yes	N
27/06/2002	$18.55	28/06/05 - 27/06/09	194,835	–	9,750	–	63,185	121,900	Yes	N
21/07/2002	$17.18	22/07/05 - 21/07/09	17,000	–	–	–	–	17,000	50%	C
23/10/2002	$17.34[2]	23/10/05 - 22/10/09	2,003,222	–	259,091	–	–	1,744,131	No	D
23/10/2002	$17.34	23/10/05 - 22/10/09	1,894,885	–	23,979	–	741,736	1,129,170	No	N
20/11/2002	$17.56[2]	20/11/05 - 19/11/09	40,000	–	–	–	–	40,000	No	D
31/12/2002	$16.69	31/12/04 - 31/12/07	1,000,000	–	–	–	500,000	500,000	50%	F
20/05/2003	$17.60[2]	20/05/06 - 19/05/10	2,214,860	–	186,123	–	–	2,028,737	No	D
20/05/2003	$17.60	20/05/06 - 19/05/10	1,844,639	–	78,839	–	395,687	1,370,113	No	N
09/06/2003	$18.12	09/06/06 - 08/06/10	10,000	–	1,389	–	8,611	–	No	N
05/11/2003	$17.55	05/11/06 - 04/11/10	2,425,186	–	142,263	–	54,972	2,227,951	No	N
05/11/2003	$17.55	05/11/06 - 04/11/10	1,033,804	–	90,206	–	35,385	908,213	No	C
31/12/2003	$17.48	31/12/05 - 31/12/08	1,000,000	–	–	–	1,000,000	–	No	F
11/05/2004	$18.22	11/05/07 - 10/05/11	2,458,971	–	170,581	–	40,875	2,247,515	No	N
11/05/2004	$18.22	11/05/07 - 10/05/11	1,470,155	–	159,985	–	20,884	1,289,286	No	C
05/11/2004	$20.68	05/11/07 - 04/11/11	1,406,481	–	172,439	–	22,131	1,211,911	No	G
05/11/2004	$20.68	05/11/07 - 04/11/11	2,861,147	–	209,822	–	27,886	2,623,439	No	N
08/12/2004	$0.00	08/12/07 - 08/12/11	42,435	–	4,171	–	–	38,264	No	DSR
31/12/2004	$20.49	31/12/06 - 31/12/08	500,000	–	–	–	–	500,000	No	F
07/11/2005	$0.00	07/11/05 - 15/10/06	–	9,961	–	–	9,961	–	Yes	N
07/11/2005	$0.00	07/11/06 - 06/11/12	–	10,845	–	–	–	10,845	No	DSR2
07/11/2005	$23.49	07/11/08 - 06/11/12	–	2,905,812	210,548	–	–	2,695,264	No	N
18/11/2005	$0.00	19/11/08 - 18/11/10	–	1,565,258	154,905	–	–	1,410,353	No	H
15/05/2006	$0.00	19/11/08 - 18/11/10	–	59,400	–	–	–	59,400	No	H
			33,447,778	4,551,276	1,943,530	–	6,654,818	29,400,706		
Weighted Average Exercise Price			$17.35	$15.00	$17.39	–	$16.45	$17.18		

1 Reflects the current exercise price. Note that the exercise price for all options on issue at 31 October 2003 was reduced (effective 1 November 2003) by $0.72 as a result of the Rights Issue.
2 The exercise price for these options is "index linked" and adjusted on a monthly basis. The exercise price shown above reflects the original exercise price less the $0.72 Rights Issue adjustment.
3 Numbers in the "Options Forfeited" column includes any options which may have expired due to a termination of employment whereby the employee was offered a grace period in which to exercise. The number of options to expire under these circumstances is immaterial.

The weighted average share price during the year ended 30 September 2006 was $25.25.

The weighted average remaining contractual life of share options outstanding at 30 September 2006 was 3.7 years.

Notes to the financial statements

47: Employee Share and Option Plans (continued)

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2005 financial year and movements during the 2005 financial year are set out below:

Grant Date	Exercise price[1]	Exercise period	Opening Balance 1 October 2004	Options Granted	Options Forfeited[3]	Options Expired[3]	Options Exercised	Closing Balance 30 September 2005	Vested	Hurdle
23/02/2000	$9.39	23/02/03 - 22/02/07	147,000	–	–	–	25,000	122,000	Yes	B
23/05/2000	$11.09	23/05/03 - 23/05/07	163,750	–	–	–	78,250	85,500	Yes	N
26/09/2000	$12.03	26/09/03 - 25/09/07	30,000	–	–	–	7,500	22,500	Yes	N
21/11/2000	$13.62	22/11/03 - 21/11/07	705,219	–	–	–	252,415	452,804	Yes	B
27/12/2000	$13.91	25/10/03 - 07/02/08	994,722	–	9,000	–	306,972	678,750	Yes	N
27/01/2001	$13.91	07/02/04 - 07/02/08	671,800	–	12,750	–	194,250	464,800	Yes	N
21/02/2001	$14.20	21/02/04 - 20/02/08	2,971,568	–	21,000	–	978,476	1,972,092	Yes	N
27/02/2001	$14.75	27/02/04 - 26/02/08	25,000	–	–	–	25,000	–	Yes	B
24/04/2001	$12.98	25/04/04 - 24/04/08	531,300	–	–	–	361,600	169,700	Yes	B
24/04/2001	$12.98	25/04/04 - 24/04/08	1,668,527	–	14,175	–	583,938	1,070,414	Yes	N
07/05/2001	$12.98	07/05/04 - 06/05/08	104,100	–	1,100	–	62,200	40,800	Yes	N
01/06/2001	$14.61	01/06/04 - 31/05/08	310,000	–	3,000	–	136,750	170,250	Yes	N
23/08/2001	$15.77	21/08/04 - 20/08/08	76,000	–	–	–	–	76,000	Yes	B
27/08/2001	$16.09	27/08/04 - 26/08/08	63,000	–	3,000	–	15,000	45,000	Yes	N
24/10/2001	$16.33	25/10/04 - 24/10/08	753,300	–	3,600	–	461,300	288,400	Yes	B
24/10/2001	$16.33	25/10/04 - 24/10/08	2,811,600	–	50,650	–	1,007,780	1,753,170	Yes	N
24/10/2001	$16.33	24/10/04 - 23/10/08	50,000	–	–	–	–	50,000	Yes	B
31/12/2001	$16.48	31/12/04 - 31/12/05	500,000	–	–	–	500,000	–	Yes	E
31/12/2001	$16.80	31/12/03 - 31/12/07	500,000	–	–	–	–	500,000	Yes	F
28/02/2002	$17.49	26/02/05 - 25/02/09	20,000	–	–	–	20,000	–	Yes	B
24/04/2002	$18.03	24/04/05 - 24/04/09	2,880,641	–	128,856	–	589,907	2,161,878	Yes	N
24/04/2002	$18.03	24/04/05 - 24/04/09	760,501	–	10,119	–	314,282	436,100	Yes	C
24/04/2002	$18.03	24/04/05 - 24/04/09	380,000	–	1,112	–	33,888	345,000	Yes	C
31/05/2002	$18.55	14/05/05 - 13/05/09	145,000	–	–	–	20,000	125,000	Yes	N
27/06/2002	$18.55	28/06/05 - 27/06/09	261,810	–	15,947	–	51,028	194,835	Yes	N
21/07/2002	$17.18	22/07/05 - 21/07/09	17,000	–	–	–	–	17,000	50%	C
23/10/2002	$17.34[2]	23/10/05 - 22/10/09	2,288,527	–	141,111	–	144,194	2,003,222	No	D
23/10/2002	$17.34	23/10/05 - 22/10/09	2,120,765	–	167,399	–	58,481	1,894,885	No	N
20/11/2002	$17.56[2]	20/11/05 - 19/11/09	40,000	–	–	–	–	40,000	No	D
31/12/2002	$16.69	31/12/04 - 31/12/07	1,000,000	–	–	–	–	1,000,000	50%	F
20/05/2003	$17.60[2]	20/05/06 - 19/05/10	2,597,240	–	246,741	–	135,639	2,214,860	No	D
20/05/2003	$17.60	20/05/06 - 19/05/10	2,027,696	–	145,398	–	37,659	1,844,639	No	N
09/06/2003	$18.12	09/06/06 - 08/06/10	10,000	–	–	–	–	10,000	No	N
05/11/2003	$17.55	05/11/06 - 04/11/10	2,658,242	–	190,959	–	42,097	2,425,186	No	N
05/11/2003	$17.55	05/11/06 - 04/11/10	1,195,665	–	92,648	–	69,213	1,033,804	No	C
31/12/2003	$17.48	31/12/05 - 31/12/08	1,000,000	–	–	–	–	1,000,000	No	F
11/05/2004	$18.22	11/05/07 - 10/05/11	2,690,420	–	205,886	–	25,563	2,458,971	No	N
11/05/2004	$18.22	11/05/07 - 10/05/11	1,630,235	–	97,318	–	62,762	1,470,155	No	C
05/11/2004	$20.68	05/11/07 - 04/11/11	–	1,486,617	78,788	–	1,348	1,406,481	No	G
05/11/2004	$20.68	05/11/07 - 04/11/11	–	3,048,066	169,455	–	17,464	2,861,147	No	N
05/11/2004	$0.00	05/11/04 - 04/11/06	–	11,699	–	–	11,699	–	Yes	N
08/12/2004	$0.00	08/12/07 - 08/12/11	–	42,435	–	–	–	42,435	No	DSR
31/12/2004	$20.49	31/12/06 - 31/12/08	–	500,000	–	–	–	500,000	No	F
13/05/2005	$0.00	13/05/05 - 12/05/07	–	10,671	–	–	10,671	–	Yes	N
TOTALS			36,800,628	5,099,488	1,810,012	–	6,642,326	33,447,778		
Weighted Average Exercise Price			$16.61	$20.40	$17.95	–	$15.43	$17.35		

1 Reflects the current exercise price. Note that the exercise price for all options on issue at 31 October 2003 was reduced (effective 1 November 2003) by $0.72 as a result of the Rights Issue.
2 The exercise price for these options is "index linked" and adjusted on a monthly basis. The exercise price shown above reflects the original exercise price less the $0.72 Rights Issue adjustment.
3 Numbers in the "Options Forfeited" column includes any options which may have expired due to a termination of employment whereby the employee was offered a grace period in which to exercise. The number of options to expire under these circumstances is immaterial.

The weighted average share price during the year ended 30 September 2005 was $21.09

The weighted average remaining contractual life of share options outstanding at 30 September 2005 was 4.2 years.

47: Employee Share and Option Plans (continued)

The following options over ordinary shares have been granted since the end of the 2006 financial year up to the signing of the directors' report on 1 November 2006.

	Grant date	Exercise price	Earliest exercise date	Expiry date	Options granted	Hurdle
Performance rights	24/10/2006	$0.00	24/10/2009	24/10/2011	1,223,018	H
Total					1,223,018	

Details of shares issued as a result of the exercise of options during the year ended 30 September 2006 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	9,961	0.00	16.80	500,000	8,400,000
9.39	102,000	957,780	17.34	741,736	12,861,702
11.09	28,500	316,065	17.48	1,000,000	17,480,000
12.03	12,500	150,375	17.55	54,972	964,759
12.98	49,500	642,510	17.55	35,385	621,007
12.98	286,725	3,721,691	17.60	395,687	6,964,091
12.98	5,150	66,847	18.03	650,837	11,734,591
13.62	101,000	1,375,620	18.03	193,200	3,483,396
13.91	185,825	2,584,826	18.03	140,000	2,524,200
13.91	108,500	1,509,235	18.12	8,611	156,031
14.20	568,869	8,077,940	18.22	40,875	744,743
14.61	59,950	875,870	18.22	20,884	380,506
16.09	5,000	80,450	18.55	110,000	2,040,500
16.33	140,000	2,286,200	18.55	63,185	1,172,082
16.33	485,949	7,935,547	20.68	22,131	457,669
16.69	500,000	8,345,000	20.68	27,886	576,682

Details of shares issued as a result of the exercise of options during the year ended 30 September 2005 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	10,671	0.00	17.60	37,659	662,798
0.00	11,699	0.00	18.03	33,888	611,001
9.39	25,000	234,750	18.03	314,282	5,666,504
11.09	78,250	867,793	18.03	589,907	10,636,023
12.03	7,500	90,255	18.22	25,563	465,758
12.98	62,200	807,356	18.22	62,762	1,143,524
12.98	361,600	4,693,568	18.55	20,000	371,000
12.98	583,938	7,579,515	18.55	51,028	946,569
13.62	252,415	3,437,892	18.94	6,183	117,106
13.91	194,250	2,702,018	19.30	8,458	163,239
13.91	306,972	4,269,981	20.05	597	11,970
14.20	978,476	13,894,359	20.20	8,044	162,489
14.61	136,750	1,997,918	20.43	827	16,896
14.75	25,000	368,750	20.58	6,909	142,187
16.09	15,000	241,350	20.68	1,348	27,877
16.33	461,300	7,533,029	20.68	17,464	361,156
16.33	1,007,780	16,457,047	21.21	26,583	563,825
16.48	500,000	8,240,000	21.21	4,232	89,761
17.34	58,481	1,014,061	21.61	42,000	907,620
17.49	20,000	349,800	23.57	90,000	2,121,300
17.55	42,097	738,802	24.01	86,000	2,064,860
17.55	69,213	1,214,688			

Details of shares issued as a result of the exercise of options since the end of the 2006 financial year up to the signing of the directors' report on 1 November 2006 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
12.98	13,800	179,124	17.55	24,994	438,645
13.91	6,750	93,893	17.60	27,832	489,843
13.91	8,250	114,758	18.03	26,712	481,617
14.20	20,250	287,550	18.22	8,592	156,546
14.61	5,000	73,050	18.22	22,696	413,521
16.09	1,500	24,135	18.55	325	6,029
16.33	17,400	284,142	20.68	3,284	67,913
17.34	17,419	302,045	20.68	23,938	495,038
17.55	8,956	157,178			

Notes to the financial statements

47: Employee Share and Option Plans (continued)

A range of outcomes is possible given the uncertainty and assumptions in relation to option valuation. In determining the fair value below, we used standard market techniques for valuation including Monte Carlo and/or Binomial pricing models were used. The models take into account early exercise, non-transferability and performance hurdles.

The significant assumptions used to measure the fair value of instruments granted during the 2006 financial year are contained in the table below.

Option Type	Performance Options	Deferred Share Rights	Performance Rights	Zero-priced options
Grant Date	7-Nov-05	7-Nov-05	18-Nov-05	7-Nov-05
Number of Options	2,905,812	10,845	1,624,658[2]	9,961
Option Fair Value (A$)	$3.05	$22.48	$11.64	$23.57
Exercise Price (5 day VWAP)	$23.49	$0.00	$0.00	$0.00
Share price at date of grant	$23.60	$23.60	$24.05	$23.60
ANZ expected Volatility[3]	17%	15%	15%	n/a
Option Term	7 years	7 years	5 years	1 year
Vesting period	3 years	1 year	3 years	Immediate
Expected life	n/a[1]	1 year	4 years	n/a
Expected Dividend Yield	5.41%	5.00%	5.00%	n/a
Risk Free Interest Rate	5.30%	5.54%	5.31%	n/a

1 To allow for maturity/marketability a 10% pa turnover rate (post vesting) has been assumed, as well as that option holders will exercise their options if the share price is greater than twice the exercise price.
2 This number includes an additional 59,400 Rights allocated in May 2006, with the same terms and conditions as the 18 November 2005 grant.
3 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

The significant assumptions used to measure the fair value of instruments granted during the 2005 financial year are contained in the table below.

Option Type	Performance Options	Hurdled Options	Deferred Share Rights	Zero Priced Options	CEO options	Zero-priced options
Grant Date	5-Nov-04	5-Nov-04	8-Dec-04	5-Nov-04	31-Dec-04	13-May-05
Number of Options	3,048,066	1,486,617	42,435	11,699	500,000	10,671
Option Fair Value (A$)	$2.71	$2.62	$16.97	$20.70	$1.98	$22.05
Exercise Price (5 day VWAP)	$20.68	$20.68	$0.00	$0.00	$20.49	$0.00
Share price at date of grant	$20.77	$20.77	$20.03	$20.77	$20.59	$22.15
ANZ expected Volatility[2]	18.5%	18.5%	n/a	n/a	16.50%	n/a
Option Term	7 years	7 years	7 years	2 years	4 years	2 years
Vesting period	3 years	3 years	3 years	Immediate	2 years	Immediate
Expected life	n/a[1]	n/a[1]	3 years	n/a	2 years	n/a
Expected Dividend Yield	5.30%	5.30%	5.30%	n/a	5.50%	n/a
Risk Free Interest Rate	5.24%	5.24%	5.5%	n/a	5.16%	n/a

1 This model assumes that option holders will only exercise at the expiration date, except for 10% (per annum) of option holders who choose to, or must exercise their options or allow them to lapse.
2 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

48: Key Management Personnel Disclosures

Compensation details concerning the Directors of the Company and AASB 124 “Related Party Disclosures” concerning the other key management personnel for the Group and Company and the Corporations Act 2001 are detailed as follows:

Section A.
Remuneration Tables

Refer to disclosures from page 70 to page 73 in the Concise Annual Report 2006 .

Section B.
Non-executive Directors’ remuneration

Refer to disclosures on page 74 in the Concise Annual Report 2006 .

Section C.
Executive remuneration structure

Refer to disclosures from page 75 to page 78 in the Concise Annual Report 2006 .

Section D.
Chief Executive Officer’s remuneration

Refer to disclosures from page 78 to page 79 in the Concise Annual Report 2006 .

Section E.
Disclosed Executives contract terms

Refer to disclosures from page 80 to page 81 in the Concise Report.

Section F.
Equity instruments relating disclosed directors and executives

Refer to disclosures from page 82 to page 91 in the Concise Report.

OTHER TRANSACTIONS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Other transactions (other than shares, share options and loans)

Transactions between the directors, other key management personnel and their personally related entities and the Group during the financial year were in the nature of normal personal banking, debentures, investment and deposit transactions. These transactions occurred on an arm’s length basis and on normal commercial terms and conditions no more favourable than those given to other employees or customers and were trivial and domestic in nature.

Notes to the financial statements

48: Key Management Personnel Disclosures (continued)

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Details regarding loans outstanding at the reporting date to directors of the Company and other key management personnel of the Group including their personally related parties, where the individuals aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	Opening balance 1 October	Closing balance 30 September	Interest paid and payable in the reporting period	Highest balance in the reporting period
	$	$	$	$
Directors				
Non-executive Directors				
2006				
J P Morschel	716,880	705,489	51,567	716,880
D M Gonski	18,342,000	18,342,000	1,088,498	18,342,000
2005				
J P Morschel	310,000	716,880	51,127	779,933
J C Dahlsen[1]	17,695,111	14,736,607	1,024,458	17,695,111
D M Gonski	18,342,000	18,342,000	1,097,742	18,342,000
Executive Director				
2006				
J McFarlane[2]	6,264,681	–	335,603	25,624,811
2005				
J McFarlane[2]	10,349,429	6,264,681	495,517	16,249,944
Other key management personnel				
2006				
R J Edgar	918,284	1,453,114	85,329	1,458,129
E Funke Kupper[3,4]	680,000	n/a	624	680,000
B C Hartzer[3]	2,703,626	3,486,967	209,367	3,868,314
G K Hodges	1,019,242	2,986,598	133,617	3,616,438
P R Marriot	–	2,614,674	160,485	2,614,674
S Targett	–	600,000	52,278	600,000
2005				
R J Edgar[5]	181,814	918,284	24,968	1,130,316
E Funke Kupper[3,4]	680,000	680,000	4,797	680,000
B C Hartzer[3]	2,645,581	2,703,626	163,028	2,771,944
G K Hodges	1,172,688	1,019,242	61,658	2,869,921

1 J C Dahlsen ceased to be a director in February 2005.
2 The loan balances largely relate to loans for the purchase of ANZ shares, including the exercise of options.
3 Interest payments on the loan balances outstanding during the year were reduced as a result of a linked offset account.
4 E Funke Kupper resigned effective 1 February 2006.
5 Interest paid by R J Edgar includes additional interest previously omitted.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to each group of directors and other key management personnel including related parties are as follows:

	Opening balance 1 October	Closing balance 30 September	Interest paid and payable in the reporting period	Number in group at 30 September[1]
	$	$	$	$
Directors				
2006[2]	25,323,561	19,047,489	1,475,668	3
2005	46,696,540	40,060,168	2,668,844	4
Other key management personnel				
2006	5,321,152	11,141,353	641,700	5
2005	4,680,083	5,321,152	254,451	4

1 Number in the Group includes directors and specified executive with loan balances greater than zero.
2 Opening balance as 1 October 2006 does not include loans made to J C Dahlsen. J C Dahlsen ceased to be a director in February 2005.

49: Transactions with Other Related Parties

Joint Venture Entities

During the course of the financial year the Company and the Group conducted transactions with joint venture entities on normal commercial terms and conditions as shown below:

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Amounts receivable from joint venture entities	398,714	302,649	301,999	272,954
Interest revenue	18,093	12,314	13,607	12,314
Dividend revenue	45,570	81,830	–	–
Commissions received from joint venture entities	162,172	122,153	142,072	114,509
Costs recovered from joint venture entities	11,033	9,430	9,022	9,430

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Associates

During the course of the financial year the Company and Group conducted transactions with associates on normal terms and conditions as shown below:

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Amounts receivable from associates	78,417	38,267	37,761	32,539
Interest revenue	9,070	3,606	5,973	2,150
Dividend revenue	5,487	25,468	5,487	6,647

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Subsidiaries

During the course of the financial year subsidiaries conducted transactions with each other and joint ventures and associates on normal terms and conditions. They are fully eliminated on consolidation. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

50: Exchange Rates

The exchange rates used in the translation of the results and the assets and liabilities of major overseas branches and controlled entities are:

	2006		2005		2004	
	Closing	Average	Closing	Average	Closing	Average
Euro	0.5882	0.6071	0.6325	0.6024	0.5814	0.5968
Great British pound	0.3982	0.4150	0.4325	0.4142	0.3983	0.4054
New Zealand dollar	1.1455	1.1433	1.0998	1.0847	1.0700	1.1254
United States dollar	0.7476	0.7468	0.7623	0.7657	0.7165	0.7263

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS)

The Company and the Group implemented accounting policies in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) on 1 October 2004, except for those relating to financial instruments and insurance contracts, which were implemented on 1 October 2005.

The transition was accounted for in accordance with Accounting Standard AASB 1: 'First time adoption of Australian Equivalents to International Financial Reporting Standards'.

The impacts set out below are separated between those applicable from 1 October 2004 (and impacting the comparative periods) and those applicable from 1 October 2005. All amounts are stated on a before tax basis, unless otherwise noted. The reconciliation tables set out in pages 94 to 107 reconcile previous AGAAP to AIFRS and cross reference to the notes below.

AIFRS adjustments with effect from 1 October 2004

(i) Goodwill

Initial reduction in retained earnings. Potential volatility in future earnings.

The adoption of AIFRS reduced the carrying amount of goodwill by $5 million (Company: $6 million) at 1 October 2004 (refer Table 1) and $15 million (Company: $15 million) at 1 October 2005 (refer Table 4) related to the acquisition of assets and liabilities that did not meet the AIFRS definition of a business combination. The Group elected not to restate the classification and accounting treatment of past business combinations that occurred prior to 1 October 2004.

Under AIFRS, the past practice of systematically amortising goodwill over the expected period of benefit ceased and was replaced by impairment testing annually or more frequently if events or circumstances indicate that goodwill might be impaired.

This change in accounting policy resulted in:

- a decrease in the amortisation expense of $224 million (Company: $8 million) for the year to 30 September 2005, including notional INGA and associates' goodwill of $45 million (Company: nil) (refer Table 2); and
- a corresponding increase in the carrying value of goodwill, associates and joint venture entities (refer Table 3).

(ii) Defined benefit superannuation schemes

Initial reduction in retained earnings. Actuarial movements recognised in retained earnings. Immaterial impact on net profit.

On adoption of AASB 119: 'Employee Benefits', surpluses (assets) and/or deficits (liabilities) that arise within defined benefit superannuation schemes are recognised on the Balance Sheet.

Under previous AGAAP, the Group accounted for the defined benefit superannuation schemes on a cash basis and did not recognise an asset or liability for the net position of the defined benefit superannuation schemes.

The Group elected to apply the option available under AASB 119 to recognise actuarial gains and losses in the Balance Sheet (i.e. the 'direct to retained earnings' approach). The non-cash expense reflecting the notional cost of the benefits accruing to members of the defined benefit schemes in respect of service provided over the reporting period is charged to the Income Statement. All transitional adjustments were, and ongoing movements reported for each scheme are, actuarially determined in accordance with AASB 119. Contributions to the schemes are made in accordance with the governing rules of the relevant schemes and there is no present liability to fund any deficits.

At 1 October 2004, the Group recognised a liability of $200 million (Company: $200 million), an asset of $2 million (Company: nil), and a deferred tax asset of $57 million (Company: $57 million), resulting in a $141 million (Company: $143 million) decrease in retained earnings (refer Table 1).

For the AIFRS comparative year ended 30 September 2005, the Group recognised a decrease in the liability of $34 million (Company: $37 million) and an increase in the asset of $6 million (Company: nil) largely representing an actuarial gain and a deferred tax adjustment of $16 million (Company: $13 million). The actuarial gain of $25 million (Company: $23 million) after tax was adjusted against retained earnings (refer Table 3).

(iii) Share based payments

Initial reduction in shareholders' equity. Higher ongoing expenses.

Under previous AGAAP, the Group recognised an expense equal to the full fair value of all deferred shares issued as part of the short term and long term incentive arrangements. The deferred shares vest over one to three years and may be forfeited under certain conditions. The Group did not recognise an expense for options issued to staff or for shares issued under the $1,000 employee share plan. On adoption of AASB 2: 'Share-based Payment', the Group recognised an expense for all share based remuneration, including deferred shares and options, and recognises this expense over the relevant vesting period.

The Group elected to retrospectively apply AASB 2 to share based payments granted prior to 7 November 2002.

On 1 October 2004, this change in accounting policy resulted in:

- the establishment of a share options reserve of $44 million (Company: $44 million) to reflect the fair value of options granted to employees;
- a reduction in paid up capital of $64 million (Company: $64 million) representing the fair value of unvested shares;
- recognition of a deferred tax liability of $24 million (Company: $21 million);
- recognition of an amount due from controlled entities of nil (Company: $2 million); and
- a net decrease to retained earnings of $4 million after tax (Company: net increase of $1 million after tax) (refer Table 1).

For the AIFRS comparative year ended 30 September 2005, the impact of the change was:

- an increase in the share options reserve of $23 million (Company: $23 million);
- an increase in paid up capital of $41 million (Company: $41 million);
- an accrual for $1,000 shares of $16 million (Company: $16 million);
- a decrease in deferred tax liabilities of $12 million (Company: $12 million) and an increase in deferred tax assets of $5 million (Company: $5 million);
- an increase in amounts due from controlled entities of nil (Company: $2 million); and
- a decrease in profit before tax of $80 million (Company: $78 million) (refer Tables 2 and 3).

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(iv) Securitisation

Additional assets/liabilities recognised for the Group. Immaterial impact on net profit.

AIFRS has introduced new requirements for the recognition of financial assets, including those transferred to special purpose entities for securitisation. The accounting treatment of existing securitisations has been reassessed. Consequently, some vehicles, which were previously not consolidated, are being consolidated by the Group. This resulted in an increase in assets and liabilities recorded on the Balance Sheet of $5 billion as at 1 October 2004 for the Group (refer Table 1). For the comparative AIFRS year ended 30 September 2005, the Group recognised a decrease of $388 million in both assets and liabilities, reflecting the net impact of repayment and securitisation of new assets during the year (refer Table 3).

With special purpose entities controlled by the Group being consolidated, some assets and liabilities (mainly investment securities and net loans and advances) were transferred to due to and due from controlled entities in the Company's Balance Sheet (refer Tables 1 and 3).

The impact on the Income Statement for the Group is that income and expenses increased to recognise the income and expense items recorded within these vehicles, with the overall impact on net profit being immaterial.

(v) Foreign currency translation reserve

Initial increase in retained earnings. No change to shareholders' equity.

The Group has elected to apply the option under AASB 121: 'The Effects of Changes in Foreign Exchange Rates', to reset amounts recorded within the foreign currency translation reserve to zero. On 1 October 2004, adopting this election resulted in an increase in retained earnings of $218 million (Company: $233 million) (refer Table 1).

(vi) Asset revaluation reserve

Initial increase in retained earnings. No change to shareholders' equity for the Group. Decrease in shareholders' equity for the Company.

The Group's asset revaluation reserve under previous AGAAP related to revaluations of land and buildings. The Group has elected to apply the option under AASB 1: 'First time Adoption of Australian Equivalents to International Financial Reporting Standards', to recognise the value of land and buildings at deemed cost. As a result, the Group's asset revaluation reserve of $31 million was reset to zero as at 1 October 2004 and adjusted against retained earnings (refer Table 1).

The Company's asset revaluation reserve at 30 September 2004 under previous AGAAP of $415 million consisted of $31 million related to the revaluation of land and buildings and $384 million related to the revaluation of investments in controlled entities. The Company has elected to recognise the value of land and buildings at deemed cost and the $31 million asset revaluation reserve was reset to zero as at 1 October 2004 and adjusted against retained earnings.

The Company has under AASB 127: 'Consolidated and Separate Financial Statements', accounted for its investment in controlled entities at cost. On transition this involved the reversal of revaluations under previous AGAAP and a review for impairment. As a result, the $384 million asset revaluation reserve was reset to zero as at 1 October 2004 and adjusted by decreasing investments in controlled entities by $457 million and decreasing retained earnings by $73 million (refer Table 1).

(vii) Taxation

Change in methodology. Immaterial impacts.

Under AASB 112: 'Income Taxes', a balance sheet method of tax effect accounting has been adopted, replacing the income statement approach previously used by the Group.

Income tax expense comprises current and deferred taxes, with income tax expense recognised in the Income Statement, or recognised in equity to the extent that it relates to items recognised directly in equity.

Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

At 1 October 2004, a reduction to deferred tax liabilities of $18 million (Company: $7 million) was recognised with a corresponding increase of $16 million (Company: $5 million) to retained earnings and an increase to share capital of $2 million (Company: $2 million) representing share issue costs previously offset against share capital (refer Table 1).

(viii) Software reclassification

Reclassification only.

On transition to AIFRS, capitalised software assets were reclassified from premises and equipment to a separately identifiable intangible asset. This resulted in a reclassification of $435 million (Company: $380 million) as at 1 October 2004 (refer Table 1). The amount reclassified decreased by $48 million (Company: $26 million) as at 30 September 2005 (refer Table 3).

(ix) Derivatives reclassification

Reclassification only.

At 1 October 2004, there was a reclassification of $4.5 billion (Company: $3.7 billion) from other assets and $5.7 billion (Company: $3.9 billion) from payables and other liabilities, to the new AIFRS Balance Sheet line items of derivative financial assets and derivative financial liabilities respectively (refer Table 1).

(x) Other

The comparative AIFRS year ended 30 September 2005 Income Statement contains minor leasing and tax remeasurement adjustments together with the impact of securitisation and defined benefit schemes adjustments.

The Balance Sheets, as reflected in Tables 1 and 3 also contain other minor remeasurements.

AIFRS adjustments with effect from 1 October 2005 (refer Table 4)

(a) Credit loss provisioning

Initial increase in retained earnings. Substantial volatility in future earnings.

AASB 139: 'Financial Instruments: Recognition and Measurement' adopts an incurred loss approach for credit loss provisioning and provides guidance on the measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimated losses on these impaired exposures are then discounted to their present value using the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the Income Statement as interest income.

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

(a) Credit loss provisioning (continued)

The general provision in the Balance Sheet was replaced on adoption of AIFRS by a collective provision.

Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not identified yet. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The collective provision under AIFRS shares the same underlying measurement objectives as the previous AGAAP general provision. However, as a result of the application of a new estimation methodology, certain judgemental risk measures have changed.

The Group believes that the resulting collective provision, while lower than the previous general provision, comfortably falls within the probable range of losses that have been incurred but not identified in our portfolio.

On adoption of AIFRS, the previous Economic Loss Provisioning (ELP) charge to profit was replaced by a charge for individual provisions on impaired exposures together with a charge for movements in the collective provision.

As a result of these changes:

- at 1 October 2005, there was an increase of $1 million (Company: decrease of $4 million) to retained earnings relating to individual provisions on impaired exposures as a result of the net impact of including expected interest cash flows in the calculation of the individual provision and discounting estimated future cash flows;
- at 1 October 2005, the collective provision was $288 million (Company: $238 million) less than the AGAAP general provision. After tax, this resulted in an increase to retained earnings of $206 million (Company: $167 million) and a decrease in the foreign currency translation reserve of $23 million (Company: nil) at 1 October 2005;
- individual provisions and movements in the collective provision are charged directly to the Income Statement, driving increased earnings volatility; and
- movements in the collective provision are driven by changes in portfolio size, portfolio mix, credit risk and economic cycles.

(b) Fee revenue – financial service fees recognised as an adjustment to yield

Initial reduction in retained earnings. Immaterial impact on net profit.

Under AASB 139: 'Financial Instruments: Recognition and Measurement', fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as loans and advances measured at amortised cost), net of any direct incremental costs, are capitalised and deferred over the expected life of the financial instrument.

On 1 October 2005, certain fees that have previously been recognised in the Income Statement, were deferred and recognised against net loans and advances in the Balance Sheet with a corresponding reduction to retained earnings of $276 million (Company: $196 million) after tax. The annual impact on net profit from this change is not material. However, there was an increase in interest income (offset by a reduction in fee income) and a reclassification to interest earning assets of customer's liabilities for acceptances of $13.4 billion for the Company and the Group.

(c) Derivative financial instruments, including hedging

Initial reduction in retained earnings. Volatility in future earnings. New assets and liabilities recognised.

At 1 October 2005, recognition of the fair value of derivatives relating to securitisation vehicles and structured finance transactions reduced retained earnings by $78 million (Company: $68 million). The Group continues to evaluate hedging relationships and effectiveness for certain structured finance transactions, which introduces volatility within the Income Statement.

AIFRS permits hedge accounting (if certain criteria are met) for fair value hedges, cash flow hedges and hedges of investments in foreign operations. Fair value and cash flow hedge accounting can only be considered where prospective and retrospective effectiveness tests are met and the hedge relationship has been adequately documented. Ineffectiveness precludes the use of hedge accounting.

At 1 October 2005, the Group designated certain fair value and cash flow hedges and financial liabilities as fair value through other income in the profit and loss, resulting in an increase in net assets of $86 million (Company: decrease of $52 million) represented by a decrease in retained earnings of $75 million (Company: $63 million), and an increase in reserves of $161 million (Company: $11 million).

(d) Financial instruments classification and measurement

Certain assets reclassified and measured at fair value. Initial decrease in retained earnings. Immaterial impact on net profit.

Under AIFRS, certain financial assets of the Group previously carried at amortised cost were either:

- reclassified as available-for-sale assets, resulting in measurement at fair value with movements being taken to an available-for-sale equity reserve. This resulted in an available for sale reserve at 1 October 2005 of $17 million (Company: $11 million); or
- reclassified as financial assets held at fair value through the profit and loss, with movements in fair value through other income in the profit and loss resulting in a decrease in retained earnings at 1 October 2005 of $3 million (Company: nil).

All derivative financial instruments, including those used as hedging instruments, are measured at fair value and recognised in the Balance Sheet. This requires an adjustment to reflect the market value of counterparty risk in the fair value of derivatives, which resulted in a decrease in retained earnings of $29 million (Company: $28 million) at 1 October 2005. (Under AGAAP, counterparty risk was notionally allowed for as part of the general provision.)

Financial instruments are measured under AIFRS at bid or offer prices rather than the previous AGAAP use of mid prices. On 1 October 2005, this change in measurement resulted in a decrease in retained earnings of $5 million (Company: $4 million).

(e) Classification of hybrid financial instruments

Reclassification of ANZ StEPS from equity to debt. Reduction in net profit.

Under AASB 132: 'Financial Instruments: Disclosure and Presentation', ANZ StEPS, a hybrid Tier 1 instrument treated as equity under previous AGAAP, was reclassified as debt. Prepaid issue costs, offset against the preference share capital balance under previous AGAAP, were capitalised and amortised to interest over a five year period from the date of issue.

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

At 1 October 2005, the Company and the Group's loan capital increased by $1 billion representing the transfer of $987 million from preference share capital to loan capital, capitalised prepaid issue costs of $11 million, a decrease in the deferred tax asset of $4 million and a decrease in retained earnings after tax of $6 million representing amortisation of prepaid issue costs. Ongoing distributions to the holders of ANZ StEPS will be treated as an interest expense in the Income Statement rather than as dividends under previous AGAAP.

(f) Accounting for INGA

Initial reduction in retained earnings and increase in notional goodwill for the Group. Reduction in earnings volatility.

Under AASB 131: 'Interests in Joint Ventures', and in line with previous AGAAP, the Group is required to equity account for its interest in INGA. The adoption of AIFRS by INGA resulted in the following significant measurement and recognition differences to previous AGAAP:

- reclassification and measurement of shareholder investments as available-for-sale assets. This change in measurement results in a reduction in investment return volatility experienced by INGA, as only realised gains and losses are reported in its net profit;
- increased policy liabilities resulting from a change in the discount rates applied in the actuarial calculation of policy liabilities and the separate presentation and change in basis of deferred acquisition costs (largely commissions) previously included within net policy liabilities (total impact is a decrease to retained earnings of $107 million) for the Group;
- initial entry fee income previously taken upfront is deferred and amortised to income over time (total impact is a decrease to retained earnings of $23 million for the Group); and
- other sundry items (total impact is a decrease to retained earnings of $16 million for the Group)

Under AIFRS, the excess of the market value over net assets (EMVONA) for INGA's life insurance controlled entities is no longer recognised. Accordingly, an adjustment has been made to reclassify $72 million from intangibles to notional goodwill for the Group.

The Group's 49% share of INGA's net AIFRS adjustment is a decrease of $146 million to retained earnings and an increase of $8 million to the available-for-sale reserve, resulting in a reduction in the carrying value of the Group's interest in INGA of $138 million as at 1 October 2005.

Explanation of material AIFRS adjustments to the AGAAP cash flow statement as at 30 September 2005

Various assets and liabilities (principally loans and advances and deposits and other borrowings) which were classified as investing or financing cash flows, are now reclassified as operating cash flows under AIFRS. The Company and the Group's net cash position has not changed. There are no other material differences between the cash flow statement presented under AIFRS and that presented under previous AGAAP.

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables

References are to the notes on pages 90 to 93.

TABLE 1: BALANCE SHEET AS AT 1 OCTOBER 2004

Consolidated	AGAAP[1] $m	Defined benefit superannuation schemes note (ii) $m	Share based payments note (iii) $m	Securitisation vehicles note (iv) $m
Assets				
Liquid assets	6,363	–	–	2
Due from other financial institutions	4,781	–	–	–
Trading securities	5,478	–	–	–
Derivative financial instruments	–	–	–	(8)
Investment securities	7,746	–	–	2,797
Net loans and advances	204,962	–	–	2,144
Customer's liability for acceptances	12,466	–	–	–
Regulatory deposits	176	–	–	–
Shares in associates and joint venture entities	1,960	–	–	–
Deferred tax assets	1,454	57	–	2
Goodwill and other intangible assets	3,269	–	–	–
Other assets	9,158	2	–	89
Premises and equipment	1,532	–	–	–
Total assets	259,345	59	–	5,026
Liabilities				
Due to other financial institutions	7,349	–	–	–
Deposits and other borrowings	168,557	–	–	5,037
Derivative financial instruments	–	–	–	(2)
Liability for acceptances	12,466	–	–	–
Income tax liabilities	1,914	–	24	–
Payables and other liabilities	14,212	200	–	(6)
Provisions	845	–	–	–
Bonds and notes	27,602	–	–	–
Loan capital	8,475	–	–	–
Total liabilities	241,420	200	24	5,029
Net assets	17,925	(141)	(24)	(3)
Equity				
Ordinary share capital	8,005	–	(64)	–
Preference share capital	987	–	–	–
Reserves				
Foreign currency translation reserve	218	–	–	–
Asset revaluation reserve	31	–	–	–
Share options reserve	–	–	44	–
Other reserves	330	–	–	–
Total reserves	579	–	44	–
Retained earnings	8,336	(141)	(4)	(3)
Share capital and reserves attributable to shareholders of the Company	17,907	(141)	(24)	(3)
Minority interests	18	–	–	–
Total equity	17,925	(141)	(24)	(3)

1 Reported financial position as at 30 September 2004.
2 Other includes $39 million relating to the reclassification of legacy foreign currency translation and asset revaluation balances at 1 October 2004 and goodwill adjustments (note(i)).

Effect of transition to AIFRS

Resetting	Taxation	Software reclassification	Derivatives reclassification	Other[2]	Total AIFRS adjustments	AIFRS
notes (v) & (vi)	note (vii)	note (viii)	note (ix)	note (x)		
$m	$m	$m	$m	$m	$m	$m
–	–	–	–	–	2	6,365
–	–	–	–	–	–	4,781
–	–	–	–	–	–	5,478
–	–	–	4,456	–	4,448	4,448
–	–	–	–	–	2,797	10,543
–	–	–	–	–	2,144	207,106
–	–	–	–	–	–	12,466
–	–	–	–	–	–	176
–	–	–	–	9	9	1,969
–	–	–	–	1	60	1,514
–	–	435	–	(5)	430	3,699
–	–	–	(4,456)	–	(4,365)	4,793
–	–	(435)	–	–	(435)	1,097
–	–	–	–	5	5,090	264,435
–	–	–	–	–	–	7,349
–	–	–	–	–	5,037	173,594
–	–	–	5,656	–	5,654	5,654
–	–	–	–	–	–	12,466
–	(18)	–	–	1	7	1,921
–	–	–	(5,656)	50	(5,412)	8,800
–	–	–	–	–	–	845
–	–	–	–	–	–	27,602
–	–	–	–	–	–	8,475
–	(18)	–	–	51	5,286	246,706
–	18	–	–	(46)	(196)	17,729
–	2	–	–	–	(62)	7,943
–	–	–	–	–	–	987
(218)	–	–	–	–	(218)	–
(31)	–	–	–	–	(31)	–
–	–	–	–	–	44	44
–	–	–	–	–	–	330
(249)	–	–	–	–	(205)	374
249	16	–	–	(46)	71	8,407
–	18	–	–	(46)	(196)	17,711
–	–	–	–	–	–	18
–	18	–	–	(46)	(196)	17,729

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 1: BALANCE SHEET AS AT 1 OCTOBER 2004 (CONTINUED)

The Company	AGAAP[1] $m	Defined benefit superannuation schemes note (ii) $m	Share based payments note (iii) $m	Securitisation vehicles note (iv) $m
Assets				
Liquid assets	3,744	–	–	–
Due from other financial institutions	2,537	–	–	–
Trading securities	4,783	–	–	–
Derivative financial instruments	–	–	–	(20)
Investment securities	6,117	–	–	(196)
Net loans and advances	133,767	–	–	(136)
Customer's liability for acceptances	12,466	–	–	–
Due from controlled entities	7,338	–	2	346
Regulatory deposits	144	–	–	–
Shares in controlled entities and associates	11,517	–	–	–
Deferred tax assets	737	57	–	2
Goodwill and other intangible assets	74	–	–	–
Other assets	5,751	–	–	93
Premises and equipment	826	–	–	–
Total assets	189,801	57	2	89
Liabilities				
Due to other financial institutions	5,860	–	–	–
Deposits and other borrowings	99,811	–	–	–
Derivative financial instruments	–	–	–	(2)
Liability for acceptances	12,466	–	–	–
Due to controlled entities	9,544	–	–	105
Income tax liabilities	1,251	–	21	–
Payables and other liabilities	10,890	200	–	(14)
Provisions	618	–	–	–
Bonds and notes	25,034	–	–	–
Loan capital	7,680	–	–	–
Total liabilities	173,154	200	21	89
Net assets	16,647	(143)	(19)	–
Equity				
Ordinary share capital	8,005	–	(64)	–
Preference share capital	987	–	–	–
Reserves				
Foreign currency translation reserve	233	–	–	–
Asset revaluation reserve	415	–	–	–
Share options reserve	–	–	44	–
Other reserves	11	–	–	–
Total reserves	659	–	44	–
Retained earnings	6,996	(143)	1	–
Total equity	16,647	(143)	(19)	–

1 Reported financial position as at 30 September 2004.
2 Other includes $42 million relating to the reclassification of legacy foreign currency translation and asset revaluation balances at 1 October 2004 and goodwill adjustments (note(i)).

Effect of transition to AIFRS						
Resetting	Taxation	Software reclassification	Derivatives reclassification	Other[2]	Total AIFRS adjustments	AIFRS
notes (v) & (vi)	note (vii)	note (viii)	note (ix)	note (x)		
$m	$m	$m	$m	$m	$m	$m
–	–	–	–	–	–	3,744
–	–	–	–	–	–	2,537
–	–	–	–	–	–	4,783
–	–	–	3,738	–	3,718	3,718
–	–	–	–	–	(196)	5,921
–	–	–	–	–	(136)	133,631
–	–	–	–	–	–	12,466
–	–	–	–	(5)	343	7,681
–	–	–	–	–	–	144
(457)	–	–	–	–	(457)	11,060
–	–	–	–	1	60	797
–	–	380	–	(6)	374	448
–	–	–	(3,738)	1	(3,644)	2,107
–	–	(380)	–	–	(380)	446
(457)	–	–	–	(9)	(318)	189,483
–	–	–	–	–	–	5,860
–	–	–	–	–	–	99,811
–	–	–	3,924	–	3,922	3,922
–	–	–	–	–	–	12,466
–	–	–	–	–	105	9,649
–	(7)	–	–	–	14	1,265
–	–	–	(3,924)	52	(3,686)	7,204
–	–	–	–	–	–	618
–	–	–	–	–	–	25,034
–	–	–	–	–	–	7,680
–	(7)	–	–	52	355	173,509
(457)	7	–	–	(61)	(673)	15,974
–	2	–	–	–	(62)	7,943
–	–	–	–	–	–	987
(233)	–	–	–	–	(233)	–
(415)	–	–	–	–	(415)	–
–	–	–	–	–	44	44
–	–	–	–	–	–	11
(648)	–	–	–	–	(604)	55
191	5	–	–	(61)	(7)	6,989
(457)	7	–	–	(61)	(673)	15,974

Notes to the financial statements

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 2: INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2005

		Effect of transition to AIFRS				
	AGAAP	Goodwill amortisation	Share based payments	Other[1]	Total AIFRS adjustments	AIFRS
		note (i)	note (iii)	note (ii) & (x)		
Consolidated	$m	$m	$m	$m	$m	$m
Total income	20,979	45	–	273	318	21,297
Interest income	17,427	–	–	292	292	17,719
Interest expense	(11,629)	–	–	(272)	(272)	(11,901)
Net interest income	5,798	–	–	20	20	5,818
Other operating income	3,552	45	–	(19)	26	3,578
Operating income	9,350	45	–	1	46	9,396
Operating expenses	(4,515)	179	(80)	(2)	97	(4,418)
Profit before provision for credit impairment and income tax	4,835	224	(80)	(1)	143	4,978
Provision for credit impairment	(580)	–	–	–	–	(580)
Profit before income tax	4,255	224	(80)	(1)	143	4,398
Income tax expense	(1,234)	–	17	(3)	14	(1,220)
Profit for the year	3,021	224	(63)	(4)	157	3,178
Profit attributable to minority interests	(3)	–	–	–	–	(3)
Profit attributable to shareholders of the Company	3,018	224	(63)	(4)	157	3,175

1 Mainly relates to the impact of additional securitisation vehicles brought onto Balance Sheet.

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 2: INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)

		Effect of transition to AIFRS				
	AGAAP	Goodwill amortisation	Share based payments	Other[1]	Total AIFRS adjustments	AIFRS
		note (i)	note (iii)	note (ii) & (x)		
The Company	$m	$m	$m	$m	$m	$m
Total income	14,042	–	(7)	2	(5)	14,037
Interest income	10,946	–	–	2	2	10,948
Interest expense	(7,646)	–	–	(2)	(2)	(7,648)
Net interest income	3,300	–	–	–	–	3,300
Other operating income	3,096	–	(7)	–	(7)	3,089
Operating income	6,396	–	(7)	–	(7)	6,389
Operating expenses	(3,064)	8	(71)	1	(62)	(3,126)
Profit before provision for credit impairment and income tax	3,332	8	(78)	1	(69)	3,263
Provision for credit impairment	(388)	–	–	–	–	(388)
Profit before income tax	2,944	8	(78)	1	(69)	2,875
Income tax expense	(717)	–	17	–	17	(700)
Profit for the year	2,227	8	(61)	1	(52)	2,175

Notes to the financial statements

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 3: BALANCE SHEET AS AT 30 SEPTEMBER 2005

Consolidated	AGAAP[1] $m	1 October 2004 AIFRS adjustments From Table 1 $m	Goodwill note (i) $m	Defined benefit superannuation schemes note (ii) $m
Assets				
Liquid assets	11,600	2	–	–
Due from other financial institutions	6,348	–	–	–
Trading securities	6,285	–	–	–
Derivative financial instruments	6,531	(8)	–	–
Investment securities	6,941	2,797	–	–
Net loans and advances	230,952	2,144	–	–
Customer's liability for acceptances	13,449	–	–	–
Regulatory deposits	159	–	–	–
Shares in associates and joint venture entities	1,872	9	45	–
Deferred tax assets	1,337	60	–	(13)
Goodwill and other intangible assets	2,898	430	179	–
Other assets	6,153	91	–	6
Premises and equipment	1,441	(435)	–	–
Total assets	295,966	5,090	224	(7)
Liabilities				
Due to other financial institutions	12,027	–	–	–
Deposits and other borrowings	185,693	5,037	–	–
Derivative financial instruments	7,008	(2)	–	–
Liability for acceptances	13,449	–	–	–
Income tax liabilities	1,797	7	–	3
Payables and other liabilities	7,380	244	–	(34)
Provisions	914	–	–	–
Bonds and notes	39,073	–	–	–
Loan capital	9,137	–	–	–
Total liabilities	276,478	5,286	–	(31)
Net assets	19,488	(196)	224	24
Equity				
Ordinary share capital	8,074	(62)	–	–
Preference share capital	1,858	–	–	–
Reserves				
Foreign currency translation reserve	(225)	(218)	–	–
Asset revaluation reserve	31	(31)	–	–
Share options reserve	–	44	–	–
Other reserves	330	–	–	–
Total reserves	136	(205)	–	–
Retained earnings	9,393	71	224	(1)
Actuarial gain on defined benefit plans	–	–	–	25
Total retained earnings	9,393	71	224	24
Share capital and reserves attributable to shareholders of the Company	19,461	(196)	224	24
Minority interests	27	–	–	–
Total equity	19,488	(196)	224	24

1 Derivative financial assets of $3.7 billion have been reclassified from other assets and derivative financial liabilities of $4.2 billion have been reclassified from payables and other liabilities, to the new AIFRS balance sheet line items of derivative financial assets and derivative liabilities respectively. In addition derivative financial assets and liabilities not intended to be settled on a net basis have been grossed up by $2.8 billion compared to the 30 September 2005 reported previous AGAAP Balance Sheet to enhance comparability.

Effect of transition to AIFRS					
Share based payments	Securitisation vehicles	Software reclassification	Other	Total AIFRS adjustments	AIFRS
note (iii)	note (iv)	note (viii)	note (x)		
$m	$m	$m	$m	$m	$m
–	(1)	–	–	1	11,601
–	–	–	–	–	6,348
–	–	–	–	–	6,285
–	(12)	–	–	(20)	6,511
–	304	–	–	3,101	10,042
–	(606)	–	–	1,538	232,490
–	–	–	–	–	13,449
–	–	–	–	–	159
–	–	–	–	54	1,926
5	–	–	–	52	1,389
–	–	(48)	(1)	560	3,458
–	(73)	–	(4)	20	6,173
–	–	48	–	(387)	1,054
5	(388)	–	(5)	4,919	300,885
–	–	–	–	–	12,027
–	(408)	–	–	4,629	190,322
–	–	–	–	(2)	7,006
–	–	–	–	–	13,449
(12)	4	–	2	4	1,801
16	16	–	(4)	238	7,618
–	–	–	–	–	914
–	–	–	–	–	39,073
–	–	–	–	–	9,137
4	(388)	–	(2)	4,869	281,347
1	–	–	(3)	50	19,538
41	–	–	–	(21)	8,053
–	–	–	–	–	1,858
–	–	–	–	(218)	(443)
–	–	–	–	(31)	–
23	–	–	–	67	67
–	–	–	–	–	330
23	–	–	–	(182)	(46)
(63)	–	–	(3)	228	9,621
–	–	–	–	25	25
(63)	–	–	(3)	253	9,646
1	–	–	(3)	50	19,511
–	–	–	–	–	27
1	–	–	(3)	50	19,538

Notes to the financial statements

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 3: BALANCE SHEET AS AT 30 SEPTEMBER 2005 (CONTINUED)

The Company	AGAAP[1] $m	1 October 2004 AIFRS adjustments From Table 1 $m	Goodwill note (i) $m	Defined benefit superannuation schemes note (ii) $m
Assets				
Liquid assets	7,191	–	–	–
Due from other financial institutions	3,452	–	–	–
Trading securities	5,309	–	–	–
Derivative financial instruments	6,047	(20)	–	–
Investment securities	5,407	(196)	–	–
Net loans and advances	153,461	(136)	–	–
Customer's liability for acceptances	13,449	–	–	–
Due from controlled entities	8,309	343	–	–
Regulatory deposits	113	–	–	–
Shares in controlled entities and associates	12,551	(457)	–	–
Deferred tax assets	754	60	–	(13)
Goodwill and other intangible assets	66	374	8	–
Other assets	2,832	94	–	–
Premises and equipment	849	(380)	–	–
Total assets	219,790	(318)	8	(13)
Liabilities				
Due to other financial institutions	9,029	–	–	–
Deposits and other borrowings	113,089	–	–	–
Derivative financial instruments	6,324	(2)	–	–
Liability for acceptances	13,449	–	–	–
Due to controlled entities	11,600	105	–	–
Income tax liabilities	1,487	14	–	–
Payables and other liabilities	5,247	238	–	(37)
Provisions	650	–	–	–
Bonds and notes	32,739	–	–	–
Loan capital	8,452	–	–	–
Total liabilities	202,066	355	–	(37)
Net assets	17,724	(673)	8	24
Equity				
Ordinary share capital	8,074	(62)	–	–
Preference share capital	1,858	–	–	–
Reserves				
Foreign currency translation reserve	20	(233)	–	–
Asset revaluation reserve	415	(415)	–	–
Share options reserve	–	44	–	–
Other reserves	11	–	–	–
Total reserves	446	(604)	–	–
Retained earnings	7,346	(7)	8	1
Actuarial gain on defined benefit plans	–	–	–	23
Total retained earnings	7,346	(7)	8	24
Total equity	17,724	(673)	8	24

1 Derivative financial assets of $3.2 billion have been reclassified from other assets and derivative financial liabilities of $3.5 billion have been reclassified from payables and other liabilities, to the new AIFRS balance sheet line items of derivative financial assets and derivative liabilities respectively. In addition derivative financial assets and liabilities not intended to be settled on a net basis have been grossed up by $2.8 billion compared to the 30 September 2005 reported previous AGAAP Balance Sheet to enhance comparability.

Effect of transition to AIFRS					
Share based payments	Securitisation vehicles	Software reclassification	Other	Total AIFRS adjustments	AIFRS
note (iii)	note (iv)	note (viii)	note (x)		
$m	$m	$m	$m	$m	$m
–	–	–	–	–	7,191
–	–	–	–	–	3,452
–	–	–	–	–	5,309
–	–	–	–	(20)	6,027
–	90	–	–	(106)	5,301
–	36	–	–	(100)	153,361
–	–	–	–	–	13,449
2	(29)	–	–	316	8,625
–	–	–	–	–	113
–	–	–	(4)	(461)	12,090
5	–	–	–	52	806
–	–	(26)	–	356	422
–	(97)	–	4	1	2,833
–	–	26	–	(354)	495
7	–	–	–	(316)	219,474
–	–	–	–	–	9,029
–	–	–	–	–	113,089
–	–	–	–	(2)	6,322
–	–	–	–	–	13,449
–	(11)	–	–	94	11,694
(12)	–	–	3	5	1,492
16	11	–	(3)	225	5,472
–	–	–	–	–	650
–	–	–	–	–	32,739
–	–	–	–	–	8,452
4	–	–	–	322	202,388
3	–	–	–	(638)	17,086
41	–	–	–	(21)	8,053
–	–	–	–	–	1,858
–	–	–	–	(233)	(213)
–	–	–	–	(415)	–
23	–	–	–	67	67
–	–	–	–	–	11
23	–	–	–	(581)	(135)
(61)	–	–	–	(59)	7,287
–	–	–	–	23	23
(61)	–	–	–	(36)	7,310
3	–	–	–	(638)	17,086

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 4: BALANCE SHEET AS AT 1 OCTOBER 2005

Consolidated	AGAAP[1]	30 September 2005 AIFRS adjustments	Credit loss provisioning	Fee revenue	Derivative accounting including hedging
		From Table 3	note (a)	note (b)	note (c)
	$m	$m	$m	$m	$m
Assets					
Liquid assets	11,600	1	–	–	–
Due from other financial institutions	6,348	–	–	–	–
Trading securities	6,285	–	–	–	–
Derivative financial instruments	6,531	(20)	–	–	275
Available-for-sale assets	–	–	–	–	1
Investment securities	6,941	3,101	–	–	(11)
Net loans and advances	230,952	1,538	289	(382)	(214)
Customer's liability for acceptances	13,449	–	–	–	–
Regulatory deposits	159	–	–	–	–
Shares in associates and joint venture entities	1,872	54	–	–	–
Deferred tax assets	1,337	52	(105)	121	49
Goodwill and other intangible assets	2,898	560	–	–	–
Other assets	6,153	20	–	(15)	(11)
Premises and equipment	1,441	(387)	–	–	–
Total assets	295,966	4,919	184	(276)	89
Liabilities					
Due to other financial institutions	12,027	–	–	–	–
Deposits and other borrowings	185,693	4,629	–	–	(70)
Derivative financial instruments	7,008	(2)	–	–	35
Liability for acceptances	13,449	–	–	–	–
Income tax liabilities	1,797	4	–	–	54
Payables and other liabilities	7,380	238	–	–	4
Provisions	914	–	–	–	–
Bonds and notes	39,073	–	–	–	(7)
Loan capital	9,137	–	–	–	65
Total liabilities	276,478	4,869	–	–	81
Net assets	19,488	50	184	(276)	8
Equity					
Ordinary share capital	8,074	(21)	–	–	–
Preference share capital	1,858	–	–	–	–
Reserves					
Foreign currency translation reserve	(225)	(218)	(23)	–	–
Asset revaluation reserve	31	(31)	–	–	–
Share options reserve	–	67	–	–	–
Cashflow hedging reserve	–	–	–	–	162
Available-for-sale reserve	–	–	–	–	(1)
Other reserves	330	–	–	–	–
Total reserves	136	(182)	(23)	–	161
Retained earnings	9,393	228	207	(276)	(153)
Actuarial gain on defined benefit plans	–	25	–	–	–
Total retained earnings	9,393	253	207	(276)	(153)
Share capital and reserves attributable to shareholders of the Company	19,461	50	184	(276)	8
Minority interests	27	–	–	–	–
Total equity	19,488	50	184	(276)	8

1 Reported financial position as at 30 September 2005. Derivative financial assets of $3.7 billion have been reclassified from other assets and derivative financial liabilities of $4.2 billion have been reclassified from payables and other liabilities, to the new AIFRS balance sheet line items of derivative financial assets and derivative liabilities respectively. In addition derivative financial assets and liabilities not intended to be settled on a net basis have been grossed up by $2.8 billion compared to the 30 September 2005 reported previous AGAAP Balance Sheet to enhance comparability.

2 Includes goodwill adjustments (note(i)).

Effect of transition to AIFRS

Effect of transition on adoption of AASB 4, AASB 132 and AASB 139

Financial instruments remeasurement	Reclassification of StEPS	Accounting for INGA	Other[2]	Total	Total AIFRS adjustments	AIFRS
note (d)	note (e)	note (f)				
$m	$m	$m	$m	$m	$m	$m
–	–	–	–	–	1	11,601
–	–	–	–	–	–	6,348
(112)	–	–	–	(112)	(112)	6,173
(42)	–	–	–	233	213	6,744
11,153	–	–	–	11,154	11,154	11,154
(10,031)	–	–	–	(10,042)	(6,941)	–
(1,129)	–	–	–	(1,436)	102	231,054
–	–	–	–	–	–	13,449
–	–	–	–	–	–	159
–	–	(138)	–	(138)	(84)	1,788
–	(4)	–	3	64	116	1,453
–	–	–	(15)	(15)	545	3,443
(38)	11	–	(2)	(55)	(35)	6,118
–	–	–	–	–	(387)	1,054
(199)	7	(138)	(14)	(347)	4,572	300,538
–	–	–	–	–	–	12,027
–	–	–	–	(70)	4,559	190,252
6	–	–	–	41	39	7,047
–	–	–	–	–	–	13,449
(20)	–	–	(9)	25	29	1,826
(131)	–	–	(1)	(128)	110	7,490
–	–	–	16	16	16	930
–	–	–	–	(7)	(7)	39,066
–	1,000	–	–	1,065	1,065	10,202
(145)	1,000	–	6	942	5,811	282,289
(54)	(993)	(138)	(20)	(1,289)	(1,239)	18,249
–	–	–	–	–	(21)	8,053
–	(987)	–	–	(987)	(987)	871
–	–	–	–	(23)	(241)	(466)
–	–	–	–	–	(31)	–
–	–	–	–	–	67	67
–	–	–	–	162	162	162
(17)	–	8	–	(10)	(10)	(10)
–	–	–	–	–	–	330
(17)	–	8	–	129	(53)	83
(37)	(6)	(146)	(20)	(431)	(203)	9,190
–	–	–	–	–	25	25
(37)	(6)	(146)	(20)	(431)	(178)	9,215
(54)	(993)	(138)	(20)	(1,289)	(1,239)	18,222
–	–	–	–	–	–	27
(54)	(993)	(138)	(20)	(1,289)	(1,239)	18,249

Notes to the financial statements

51: Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS) (continued)

Reconciliation tables (continued)

References are to the notes on pages 90 to 93.

TABLE 4: BALANCE SHEET AS AT 1 OCTOBER 2005 (CONTINUED)

The Company	AGAAP[1]	30 September 2005 AIFRS adjustments	Credit loss provisioning	Fee revenue	Derivative accounting including hedging
		From Table 3	note (a)	note (b)	note (c)
	$m	$m	$m	$m	$m
Assets					
Liquid assets	7,191	–	–	–	–
Due from other financial institutions	3,452	–	–	–	–
Trading securities	5,309	–	–	–	–
Derivative financial instruments	6,047	(20)	–	–	(11)
Available-for-sale assets	–	–	–	–	–
Investment securities	5,407	(106)	–	–	–
Net loans and advances	153,461	(100)	234	(283)	(42)
Customer's liability for acceptances	13,449	–	–	–	–
Due from controlled entities	8,309	316	–	–	1
Regulatory deposits	113	–	–	–	–
Shares in controlled entities and associates	12,551	(461)	–	–	–
Deferred tax assets	754	52	(71)	87	23
Goodwill and other intangible assets	66	356	–	–	–
Other assets	2,832	1	–	–	–
Premises and equipment	849	(354)	–	–	–
Total assets	219,790	(316)	163	(196)	(29)
Liabilities					
Due to other financial institutions	9,029	–	–	–	–
Deposits and other borrowings	113,089	–	–	–	–
Derivative financial instruments	6,324	(2)	–	–	56
Liability for acceptances	13,449	–	–	–	–
Due to controlled entities	11,600	94	–	–	–
Income tax liabilities	1,487	5	–	–	(27)
Payables and other liabilities	5,247	225	–	–	–
Provisions	650	–	–	–	–
Bonds and notes	32,739	–	–	–	(7)
Loan capital	8,452	–	–	–	69
Total liabilities	202,066	322	–	–	91
Net assets	17,724	(638)	163	(196)	(120)
Equity					
Ordinary share capital	8,074	(21)	–	–	–
Preference share capital	1,858	–	–	–	–
Reserves					
Foreign currency translation reserve	20	(233)	–	–	–
Asset revaluation reserve	415	(415)	–	–	–
Share options reserve	–	67	–	–	–
Cashflow hedging reserve	–	–	–	–	11
Available-for-sale reserve	–	–	–	–	–
Other reserves	11	–	–	–	–
Total reserves	446	(581)	–	–	11
Retained earnings	7,346	(59)	163	(196)	(131)
Actuarial gain on defined benefit plans	–	23	–	–	–
Total retained earnings	7,346	(36)	163	(196)	(131)
Total equity	17,724	(638)	163	(196)	(120)

1 Reported financial position as at 30 September 2005. Derivative financial assets of $3.2 billion have been reclassified from other assets and derivative financial liabilities of $3.5 billion have been reclassified from payables and other liabilities, to the new AIFRS balance sheet line items of derivative financial assets and derivative liabilities respectively. In addition derivative financial assets and liabilities not intended to be settled on a net basis have been grossed up by $2.8 billion compared to the 30 September 2005 reported previous AGAAP Balance Sheet to enhance comparability.
2 Includes goodwill adjustments (note(i)).

Effect of transition to AIFRS					
Effect of transition on adoption of AASB 4, AASB 132 and AASB 139					
Financial instruments remeasurement	Reclassification of StEPS	Other[2]	Total	Total AIFRS adjustments	AIFRS
note (d)	note (e)				
$m	$m	$m	$m	$m	$m
	–				
–	–	–	–	–	7,191
–	–	–	–	–	3,452
(112)	–	–	(112)	(112)	5,197
(38)	–	–	(49)	(69)	5,978
6,434	–	–	6,434	6,434	6,434
(5,301)	–	–	(5,301)	(5,407)	–
(951)	–	–	(1,042)	(1,142)	152,319
–	–	–	–	–	13,449
–	–	–	1	317	8,626
–	–	–	–	–	113
–		–	–	(461)	12,090
5	(4)	1	41	93	847
–	–	(15)	(15)	341	407
41	11	(2)	50	51	2,883
–	–	–	–	(354)	495
78	7	(16)	7	(309)	219,481
–	–	–	–	–	9,029
–	–	–	–	–	113,089
5	–	–	61	59	6,383
–	–	–	–	–	13,449
–	–	–	–	94	11,694
(13)	–	(9)	(49)	(44)	1,443
129	–	(23)	106	331	5,578
–	–	15	15	15	665
–	–	–	(7)	(7)	32,732
–	1,000	–	1,069	1,069	9,521
121	1,000	(17)	1,195	1,517	203,583
(43)	(993)	1	(1,188)	(1,826)	15,898
–	–	–	–	(21)	8,053
–	(987)	–	(987)	(987)	871
–	–	–	–	(233)	(213)
–	–	–	–	(415)	–
–	–	–	–	67	67
–	–	–	11	11	11
(11)	–	–	(11)	(11)	(11)
–	–	–	–	–	11
(11)	–	–	–	(581)	(135)
(32)	(6)	1	(201)	(260)	7,086
–	–	–	–	23	23
(32)	(6)	1	(201)	(237)	7,109
(43)	(993)	1	(1,188)	(1,826)	15,898

Notes to the financial statements

52: Events Since the End of the Financial Year

On 1 September 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 30 September 2006.

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

This page has been left blank intentionally

Directors' Declaration

The directors of Australia and New Zealand Banking Group Limited declare that:

a) in the directors' opinion, the financial statements and notes of the Company and the consolidated entity have been prepared in accordance with the Corporations Act 2001, including that they:
   i) comply with applicable Australian Accounting Standards, and other mandatory professional reporting requirements; and
   ii) give a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2006 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and

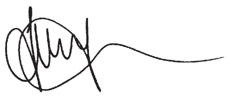
b) in the directors' opinion, the remuneration disclosures that are contained on pages 70 to 91 of the Remuneration Report in the Directors' Report located in Part 2 of 2 of the Company's Concise Annual Report 2006 comply with Australian Accounting Standard AASB 124 "Related Party Disclosures" when read in conjunction with class order 06/50 issued by the Australian Securities and Investments Commission; and

c) the directors have received the declarations required by section 295A of the Corporations Act 2001; and

d) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

e) the Company and certain of its wholly owned controlled entities (listed in note 45) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.



Charles Goode
Director

John McFarlane
Chief Executive Officer

1 November 2006

Independent audit report to the members of Australia and New Zealand Banking Group Limited

SCOPE

We have audited the financial report of Australia and New Zealand Banking Group Limited ("the Company") for the financial year ended 30 September 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flow, accompanying notes 1 to 52 and the directors' declaration set out on pages 2 to 110. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year.

We have audited the disclosures made by the Company, as permitted by the *Corporations Regulations 2001*, about the remuneration of directors and executives ("remuneration disclosures"), including those required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" on pages 70 to 91 of the director's report and not in the financial report. The Company's directors are responsible for the financial report and the Remuneration report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report and the remuneration report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flow and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion:

(1) the financial report of Australia and New Zealand Banking Group Limited is in accordance with:

a) the *Corporations Act 2001*, including:

i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 September 2006 and of their performance for the year ended on that date; and

ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) other mandatory financial reporting requirements in Australia; and

(2) the Remuneration report on pages 70 to 91 of the director's report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

Melbourne, Australia
1 November 2006

MV Hinchliffe

Michelle Hinchliffe
Partner

Financial information

1: Cross Border Outstandings

Cross border outstandings of the Group to countries which individually represented in excess of 0.75% of the Group's total assets are shown below.

There were no cross border outstandings to any other country exceeding 0.75% of total assets.

Cross border foreign outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk and comprise loans (including accrued interest), placements with banks, acceptances and other monetary assets denominated in currencies other than the borrower's local currency.

For certain countries, local currency obligations are also included. Cross border foreign outstandings are before individual and collective provisions.

	Governments and other official institutions $m	Banks and other financial insitutions $m	Other commercial and industrial $m	Total $m	% of Group's assets
At 30 September 2006					
United Kingdom	19	2,231	2,685	4,935	1.5
China	4	3,166	372	3,542	1.1
USA	14	2,753	459	3,226	1.0
At 30 September 2005					
USA	158	3,671	878	4,707	1.6
United Kingdom	94	2,192	2,320	4,606	1.5
China	4	2,393	159	2,556	0.8

2: Certificates of Deposit and Term Deposit Maturities

The following table shows the maturity profile of the Group's certificates of deposit and term deposits in excess of $100,000 issued at 30 September 2006.

	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	After 1 year $m	Total $m
Australia					
Certificates of deposit	6,548	1,526	556	8,020	16,650
Term deposits	17,577	2,287	1,481	126	21,471
	24,125	3,813	2,037	8,146	38,121
New Zealand					
Certificates of deposit	2,713	295	349	69	3,426
Term deposits	10,776	3,167	2,274	1,758	17,975
	13,489	3,462	2,623	1,827	21,401
Overseas Markets					
Certificates of deposit	2,539	87	504	17	3,147
Term deposits	8,583	438	429	175	9,625
	11,122	525	933	192	12,772
Total	48,736	7,800	5,593	10,165	72,294

Financial information

3: Volume and Rate Analysis

The following table allocates changes in interest income and interest expense between changes in volume and changes in rate for the past two years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by the change of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

	2006 over 2005 Change due to				2005 over 2004 Change due to		
	Volume $m	Rate $m	Other $m	Total $m	Volume $m	Rate $m	Total $m
Interest earning assets							
Due from other financial institutions							
Australia	31	(2)	–	29	12	1	13
New Zealand	–	20	–	20	(2)	13	11
Overseas markets	58	42	–	100	7	40	47
Investments in public securities and AFS							
Australia	302	55	–	357	195	5	200
New Zealand	15	34	–	49	(45)	28	(17)
Overseas markets	(4)	38	–	34	(6)	11	5
Customer's liability for acceptances							
Australia	–	–	958	958	–	–	–
New Zealand	–	–	–	–	–	–	–
Overseas markets	–	–	11	11	–	–	–
Loans, advances and bills discounted							
Australia	1,243	564	–	1,807	1,620	158	1,778
New Zealand	350	232	–	582	1,034	336	1,370
Overseas markets	25	185	–	210	(34)	74	40
Other interest earning assets							
Australia	108	99	–	207	45	(62)	(17)
New Zealand	91	30	–	121	21	83	104
Overseas markets	51	21	–	72	81	(19)	62
Intragroup assets							
Overseas markets	80	149	–	229	(28)	133	105
Change in interest income	2,350	1,467	969	4,786	2,900	801	3,701
Intragroup elimination	(80)	(149)	–	(229)	28	(133)	(105)
	2,270	1,318	969	4,557	2,928	668	3,596
Interest bearing liabilities							
Time deposits							
Australia	196	123	–	319	458	79	537
New Zealand	52	128	–	180	280	241	521
Overseas markets	104	159	–	263	(43)	130	87
Savings deposits							
Australia	37	30	–	67	25	36	61
New Zealand	(15)	29	–	14	26	53	79
Overseas markets	1	6	–	7	–	–	–
Other demand deposits							
Australia	220	99	–	319	175	75	250
New Zealand	27	63	–	90	71	85	156
Overseas markets	4	5	–	9	2	2	4
Due to other financial institutions							
Australia	145	(8)	–	137	–	1	1
New Zealand	15	(1)	–	14	4	13	17
Overseas markets	55	85	–	140	22	67	89
Commercial paper							
Australia	174	20	–	194	115	15	130
New Zealand	(101)	50	–	(51)	58	80	138
Overseas markets	35	127	–	162	(3)	100	97
Borrowing Corporation debt							
Australia	(12)	16	–	4	123	24	147
New Zealand	(6)	11	–	5	2	13	15
Customer 's liability for acceptances							
Australia	–	–	799	799	–	–	–
Overseas markets	–	–	10	10	–	–	–
Loan capital, bonds and notes							
Australia	405	134	–	539	481	82	563
New Zealand	341	27	–	368	190	24	214
Overseas markets	–	3	–	3	–	1	1
Other interest bearing liabilities							
Australia	48	(195)	–	(147)	43	(129)	(86)
New Zealand	33	(40)	–	(7)	82	(64)	18
Overseas markets	35	(16)	–	19	2	(2)	–
Intragroup liabilities							
Australia	(3)	186	–	183	7	(2)	5
New Zealand	32	14	–	46	43	57	100
Change in interest expense	1,822	1,055	809	3,686	2,163	981	3,144
Intragroup elimination	(80)	(149)	–	(229)	28	(133)	(105)
	1,742	906	809	3,457	2,191	848	3,039
Change in net interest income	528	412	160	1,100	737	(180)	557

Financial information

4: Concentrations of Credit Risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Off balance sheet transactions of the Group are substantially with other banks.

	2006		2005	
	Loans and advances $m	Individual[5] provision for credit impairment $m	Loans and advances $m	Specific[5] provision $m
Australia				
Agriculture, forestry, fishing and mining	7,079	15	5,626	20
Business service	4,882	13	4,151	12
Construction	3,757	4	3,270	3
Entertainment, leisure and tourism	4,408	5	3,861	3
Financial, investment and insurance	4,795	2	4,924	4
Government and official institutions	52	–	65	–
Lease finance	2,580	12	2,854	2
Manufacturing	7,050	59	6,087	32
Personal[1]	15,579	28	13,702	26
Real estate – commercial[3]	10,229	2	10,970	4
Real estate – mortgage[4]	100,362	19	89,909	9
Retail and wholesale trade	9,811	31	9,074	17
Other	9,923	23	8,796	18
	180,507	213	163,289	150
Overseas				
Agriculture, forestry, fishing and mining	11,898	3	10,868	1
Business service	836	–	796	2
Construction	627	–	766	1
Entertainment, leisure and tourism	1,437	–	1,096	6
Financial, investment and insurance	3,109	8	2,356	13
Government and official institutions	893	–	604	–
Lease finance	600	–	772	–
Manufacturing	4,553	26	4,474	26
Personal[2]	3,692	21	3,101	17
Real estate – commercial[3]	5,276	–	4,666	2
Real estate – mortgage[4]	37,944	2	35,336	8
Retail and wholesale trade	2,677	–	2,518	13
Other	5,589	6	5,862	17
	79,131	66	73,215	106
Total portfolio	259,638	279	236,504	256

1 Loans and advances exclude acceptances.
2 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
3 Real estate commercial includes all business lending relating to commercial property.
4 Real estate mortgage includes all consumer lending secured by a mortgage.
5 Individual provision for credit impairment/specific provisions above relate to on balance sheet exposures. Individual provisions in respect of off balance sheet facilities were $7 million in 2006 and $17 million in 2005.

5: Provisions for Credit Impairment – Industry Analysis

	2006 $m	2005 $m
i) Total write-offs by industry		
Australia		
Agriculture, forestry, fishing and mining	(1)	(20)
Business service	(10)	(20)
Construction	(5)	(2)
Entertainment, leisure and tourism	(3)	–
Financial, investment and insurance	–	(1)
Lease finance	(1)	(14)
Manufacturing	(11)	(16)
Personal[1]	(264)	(209)
Real estate – commercial[2]	(1)	(2)
Real estate – mortgage[3]	(5)	(4)
Retail and wholesale trade	(10)	(29)
Other	(20)	(43)
New Zealand	(68)	(102)
Overseas	(22)	(109)
Total write-offs	(421)	(571)
ii) Total recoveries by industry		
Australia		
Agriculture, forestry, fishing and mining	3	–
Lease finance	–	1
Manufacturing	6	–
Personal[1]	53	50
Real estate – commercial[2]	1	1
Real estate – mortgage[3]	–	–
Retail and wholesale trade	12	1
Other	16	3
New Zealand	19	19
Overseas	17	39
Total recoveries	127	114
Net write-offs	(294)	(457)
Ratio of net write-offs to average loans and acceptances	0.1%	0.2%

1 Personal includes all consumer lending except for lease finance facilities and those facilities secured by a mortgage.
2 Real estate – commercial includes all business lending relating to commercial property.
3 Real estate – mortgage includes all consumer lending secured by a mortgage.

6: Short Term Borrowings

The Group's short-term borrowings comprise commercial paper, as well as unsecured notes issued by subsidiary borrowing corporations with an original term to maturity of less than one year. The Group has commercial paper programs in the United States, where it issues paper through ANZ (Delaware) Inc., and in Europe and Asia, where the Group issues paper direct.

	2006 $m	2005[1] $m	2004 $m
Balance at end of year			
Commercial paper – ANZ (Delaware) Inc.	6,630	6,373	7,068
Commercial paper – other	14,120	14,634	11,712
Weighted average interest rate at end of year			
Commercial paper – ANZ (Delaware) Inc.	5.35%	3.66%	1.68%
Commercial paper – other	6.16%	6.40%	5.41%
Maximum amount outstanding at any month end during year			
Commercial paper – ANZ (Delaware) Inc.	7,528	6,822	7,068
Commercial paper – other	19,018	14,925	18,387
Average amount outstanding during year			
Commercial paper – ANZ (Delaware) Inc.	7,373	5,915	6,485
Commercial paper – other	17,173	13,072	12,588
Weighted average interest rate during year			
Commercial paper – ANZ (Delaware) Inc.	4.51%	2.71%	1.14%
Commercial paper – other	6.43%	6.26%	5.53%

1 Information not restated to include short term borrowings of subsidiaries consolidated on adoption of AIFRS.

7: Capital Management

The Australian Prudential Regulation Authority (APRA) adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy.

Capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements but still adds to the overall strength of the entity. Tier 1 is divided into 'Fundamental' and 'Residual' capital, and Tier 1 deductions. 'Residual' capital covers hybrid Tier 1 instruments with limits restricting the volume that can be counted as Tier 1 capital. Tier 2 capital is divided into Upper and Lower Tier 2 capital; with Lower Tier 2 capital being dated subordinated debt. Limits apply to the volume of Tier 2 and Lower Tier 2 that can be counted as capital for prudential purposes. Further, in calculating the total capital, deductions are taken for any strategic holdings of other banks' capital instruments and investments in entities engaged in life insurance, funds management and securitisation activities. APRA introduced new prudential capital standards as at 1st July 2006 which contain various transitional rules which run through to different dates in 2008 and 2010 to coincide with Basel II implementation.

The measurement of risk weighted assets is based on: a) a credit risk-based approach wherein risk weightings are applied to balance sheet assets and to credit converted off balance sheet exposures. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and b) the recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity balance sheet positions do not attract a risk weighting under the credit risk-based approach.

	Consolidated 2006 $m	Consolidated 2005[1] $m
Qualifying Capital		
Tier 1		
AIFRS equity and minority interests	19,906	19,538
Reclassification of preference share capital	(871)	(1,858)
Accumulated retained profits & reserves of insurance, funds management and securitisation entities and associates	(289)	(213)
Deferred fee revenue[2]	343	–
Cash flow hedging reserve	(227)	–
Dividend[3]	(1,267)	(1,077)
Other adjustments	(22)	(81)
Fundamental Tier 1 capital	17,573	16,309
Innovative Tier 1 capital instruments	3,342	3,301
Gross Tier 1 capital	20,915	19,610
Deductions		
Unamortised goodwill & other intangibles	(3,996)	(3,902)
Capitalised software	(397)	–
Capitalised expenses[4]	(569)	(524)
Deferred tax assets[5]	(290)	–
Investments in ANZ Lenders Mortgage Insurance	(31)	(27)
Other adjustments	9	–
Transitional Tier 1 capital relief	716	–
Tier 1 capital	16,357	15,157
Tier 2		
Asset Revaluation Reserve	–	31
Eligible component of post acquisition earnings and reserves in associates and joint ventures	184	–
Perpetual subordinated notes	401	394
General reserve for impairment of financial assets[6]	1,344	1,448
Transitional Upper Tier 2 capital relief	17	–
Upper Tier 2 capital	1,946	1,873
Subordinated notes[7]	8,177	6,701
Tier 2 capital	10,123	8,574
Deductions		
Investment in funds management, life insurance & securitisation entities	86	84
Investment in joint ventures with ING[8]	526	528
Investment in other Authorised Deposit Taking Institutions and overseas equivalents	370	159
Other	91	13
Total deductions	1,073	784
Total qualifying capital	25,407	22,947

Footnotes 1-8 refer to page 118.

Financial information

7: Capital Management (continued)

Adjusted common equity		
Tier 1 capital	16,357	15,157
Less: Innovative Tier 1 capital instruments	3,321	3,233
Transitional Tier 1 capital relief	716	–
Deductions	1,073	784
Adjusted common equity (ACE)[9]	11,247	11,140
Capital adequacy ratios		
Tier 1	6.8%	6.9%
Tier 2	4.2%	3.9%
	11.0%	10.8%
Deductions	-0.4%	-0.3%
Total	10.6%	10.5%
Adjusted common equity	4.7%	5.1%
Risk Weighted Assets	240,219	219,573

1 Calculated in accordance with Australian Prudential Regulation Authority requirements effective at this date.
2 Includes fees deferred under AIFRS forming part of loan yields. Value at September 2006 is pre tax, as allowed under the current prudential standard.
3 Relates to dividend not provided for.
4 Comprises loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings.
5 Deferred tax assets (excluding the component relating to the collective provision) attributable to operations in countries outside Australia.
6 Net of attributable deferred tax asset.
7 For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity.
8 Joint ventures with ING in Australia and New Zealand.
9 Tier 1 capital, less Innovative Tier 1 capital instruments (converted at balance date spot rates), less transitional Tier 1 capital relief and deductions.

	Assets		Risk weighted assets	
	2006 $m	2005 $m	2006 $m	2005 $m
Balance Sheet				
Cash, claims on Australian Commonwealth, State Governments, Territory Governments, claims on OECD Central Governments, local currency claims on non-OECD Governments and other zero weighted assets[1]	35,246	25,941	–	–
Claims on approved banks and local Governments	19,584	16,054	3,917	3,211
Advances secured by residential mortgages eligible for 50% risk weighting	131,134	118,895	65,567	59,448
Other assets – credit risk	138,119	127,204	138,119	127,204
Total balance sheet assets – credit risk	324,083	288,094	207,603	189,863
Trading assets – market risk	11,688	7,872	n/a	n/a
Impact of adoption of AIFRS	n/a	4,919	n/a	–
Total balance sheet assets	335,771	300,885	207,603	189,863

	Contract/notional amount		Credit equivalent		Risk weighted assets	
	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Off balance sheet exposures[2]						
Direct credit substitutes	7,588	9,657	7,588	9,657	5,432	7,337
Trade and performance related items	14,788	13,175	6,470	5,683	5,657	4,953
Commitments	98,554	87,319	17,030	14,017	14,611	12,249
Foreign exchange, interest rate and other market related transactions	1,169,553	782,380	18,010	12,309	5,240	3,681
Total off balance sheet exposures – credit risk	1,290,483	892,531	49,098	41,666	30,940	28,220
Total risk weighted assets – credit risk					238,543	218,083
Risk weighted assets – market risk					1,676	1,490
Total risk weighted assets					240,219	219,573

1 Includes $1,938 million (September 2005: n/a) in assets of subsidiaries consolidated on adoption of AIFRS excluded for risk weighting calculations for Australian Prudential Regulation Authority reporting purposes.
2 Excludes off balance sheet exposures in subsidiaries consolidated on adoption of AIFRS as required by Australian Prudential Regulation Authority.

This page has been left blank intentionally

Glossary

AIFRS – Australian Equivalents to International Financial Reporting Standards.

Collective provision is the provision for Credit Losses that are inherent in the portfolio but not able to be individually identified; presently unidentified impaired assets. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.

Equity standardisation. Economic Value Added (EVA™) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

Group Centre division includes Operations, Technology and Shared Services, Treasury (funding component), Group People Capital, Group Strategic Development, Group Financial Management, Group Risk Management, Capital Funding and Group Items.

Impaired assets are those whose carrying value is greater than the amount expected to be recovered over its life. More specifically, in relation to loans or other credit facilities, impairment may arise where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where the concessional terms have been provided because of the financial difficulties of the customer.

Income includes external interest income and other external operating income.

Individual provision charge is the amount of impairment on those loans and advances assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected discounted cash flows over the lives of those loans and advances.

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

- Institutional & Corporate Relationships - manages customer relationships and develops financial services solutions and strategies for Business Banking clients with funds under management ("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 Australia has an existing customer relationship, in the United Kingdom, United States and Asia.
- Debt and Transaction Services - combines managing Institutional and Corporate's balance sheet with a particular focus on credit quality, diversification and maximising risk adjusted returns. Also provides cash transaction banking 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.
- Personal and Private Banking Asia - provides banking services in selected Asian geographies.

Net advances include gross loans and advances and acceptances less income yet to mature and allowance for credit impairment.

Net interest average margin is net interest income as a percentage of average interest earning assets. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net interest spread is the average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net non-interest bearing items, which are referred to in the analysis of interest spread and net interest average margin, includes shareholders' equity, impairment of loans and advances, deposits not bearing interest and other liabilities not bearing interest, offset by premises and equipment and other non-interest earning assets. Non-performing loans are included within interest bearing loans, advances and bills discounted.

Net tangible assets equals share capital and reserves attributable to shareholders of the Group less preference share capital and unamortised intangible assets (including software).

New Zealand Businesses includes the following businesses:

- ANZ Retail - operating under the ANZ brand in New Zealand provides a full range of banking services to personal and small business banking customers.
- NBNZ Retail - operating under the National Bank brand in New Zealand, provides a full range of banking services to personal and small business banking customers.
- Corporate Banking in New Zealand - incorporates the ANZ and National Bank brands and provides financial solutions through a relationship management model for medium-sized businesses with a turnover up to NZD100 million.
- Rural Banking in New Zealand - provides a full range of banking services to rural and agribusiness customers.
- Central support - includes Operations, Technology, Treasury, ANZ's 49% stake in ING New Zealand, Risk Management, People Capital, Financial Management and Property New Zealand.
- UDC - provides motor vehicle and equipment finance, operating leases and management services, fleet management services, and investment products.

Non Performing loans comprise loans where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where the concessional terms have been provided because of the financial difficulties of the customer.

Operating expenses exclude the provision for impairment of loans and advances charge.

Operating income in business segments includes equity standardised net interest and other operating income.

Glossary

Operations, Technology and Shared Services comprises the Group's core support units responsible for operating the Group's global technology platforms, development and maintenance of business applications, information security, the Group's payments back-office processing, and the provision of other essential shared services to the Group, including property, people capital operations, procurement and outsourcing.

Overseas includes the results of all operations outside Australia, except if New Zealand is separately shown.

Overseas markets includes all operations outside of Australia and New Zealand. The Group's geographic segments are Australia, New Zealand and Overseas markets.

Partnerships & 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:

- INGA includes the equity accounted earnings from ANZ's 49% stake in ING Australia Ltd, a joint venture between ANZ and ING.
- International Partnerships - ANZ continues to develop a portfolio of strategic retail 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 Australia's capabilities into faster growing personal and small business banking markets via the established client bases of the local partners.
- Other includes Private Bank and support units within the division.

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

- Regional & Rural Banking - provides a full range of banking services to personal customers across regional and rural Australia, and to small business and agribusiness customers in rural and regional Australia.
- Small Business Banking - provides a full range of banking services for metropolitan-based small businesses in Australia with funds under management up to A$50,000.
- Banking Products - provides transaction banking and savings products, such as term deposits, V2+, and cash management accounts.
- 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 Australia's Financial Planning, Margin Lending, insurance distribution, and Trustees businesses in addition to the equity accounted earnings from E*Trade Australia, an online broking business.
- Esanda - provides motor vehicle and equipment finance, operating leases and management services, fleet management services and investment products.
- Pacific - provides retail and corporate banking services to customers in the Pacific Region.

Service transfer pricing is used to allocate services that are provided by central areas to each of its business units. The objective of service transfer pricing is to remove cross-subsidies between business units, and ensure each business accounts for the cost of the services it uses.

Service transfer pricing charges are reported in the profit and loss statement of each business unit as:

- Net inter business unit fees – includes intra-group receipts or payments for sales commissions and branch service fees. A product business will pay a distribution channel for product sales. Both the payment and receipt are shown as net inter business unit fees.
- Net inter business unit expenses – consists of the charges made to business units for the provision of support services. Both payments by business units and receipts by service providers are shown as net inter business unit expenses.

Significant items are items that have a material impact (typically › $10 million) on profit after tax, or the earnings used in the earnings per share calculation. Significant items also do not arise in the normal course of business and are infrequent in nature. Divestments are typically defined as significant items.

Total advances include gross loans and advances and acceptances less income yet to mature (for both as at and average volumes). Loans and advances classified as available for sale are excluded from total advances.

Unproductive facilities comprise off balance sheet facilities (such as standby letters of credit and guarantees to third parties) and undrawn on balance sheet facilities where the customer's status is defined as impaired.

Alphabetical Index

This page has been left blank intentionally

This page has been left blank intentionally

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