

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD

Form 20-F

January 08, 2007

2006

US Form 20-F

Annual Report

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

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

Form 20-F

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

OR

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

OR

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

for the transition period from to

Commission file number: 0-18262

OR

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

Date of event requiring this shell company report:

For the transition period from to .

Australia and New Zealand Banking Group Limited

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Victoria, Australia

(Jurisdiction of incorporation or organization)

100 Queen Street, Melbourne, VICTORIA, 3000, AUSTRALIA

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

N/A

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American Depositary Shares
each representing five ordinary shares New York Stock Exchange

American Depositary Receipts
each representing four Preference shares New York Stock Exchange

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

Securities for which there is a reporting obligation pursuant
to
Section 15(d) of the Act. None

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

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

Yes No

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

Yes No

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

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

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

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

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Yes No

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

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

Yes No

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Not applicable as Item 18 complied with

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Forward-Looking Statements

This Annual Report contains certain forward-looking statements, including statements regarding (i) economic and financial forecasts, (ii) anticipated implementation of certain control systems and programs, (iii) the expected outcomes of legal proceedings, and (iv) strategic priorities. These statements can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, estimate, continue, plan, intend, believe or other similar words. These statements discuss future expectations concerning results of operations or of financial condition or provide other forward-looking information. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Australia and New Zealand Banking Group Limited (the Company), together with its subsidiaries (ANZ, us, we, our, or the Group), which may cause actual results to differ materially from those expressed in the forward-looking statements contained in this Annual Report. Given these risks, uncertainties and other factors, you should not place an undue reliance on any forward-looking statements, which speaks only as of the date made.

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

Item 1: Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

Selected Financial Data

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

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

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

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

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

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

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

- (1) In millions, except per share amount, per American Depositary Receipt (ADR) amount and ratios.
- (2) The provision for credit impairment charge represents the individual and collective provision charge (refer page 35).
- (3) Operating income is the sum of net interest income and non-interest income.
- (4) Excludes preference share dividends and dividends taken under the bonus option plan. The final dividend for 2006 of \$1,267 million (2005: \$1,078 million) has not been provided for at September 30, due to a change in Australian Accounting Standards on recognition of dividends effective from 2003.
- (5) Amounts are based on weighted average number of ordinary shares outstanding, 2006: 1,830.3 million (2005: 1,823.7 million). Weighted average number of ordinary shares outstanding has been adjusted for rights issue. Net profit after income tax excludes preference share dividends of 2006: \$27 million (2005: \$84 million).

Years ended September 30	2006	2006	2005	2004	2003	2002
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	USD\$M	\$M	\$M	\$M	\$M	\$M
Summary of Consolidated Statement of Income (1)						
Adjusted in accordance with US GAAP (2):						
Net interest income	5,631	7,547	7,793	5,101	4,263	4,001
Provision for credit impairment charge (3)	(308)	(413)	(316)	(632)	(614)	(860)
Net income before taxes	3,868	5,184	4,429	3,916	3,294	2,993
Net income after income tax	2,728	3,657	3,173	2,788	2,380	2,097
Net income after income tax per share (cents) (4)	149	200	174	155	144	127

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

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

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

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

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

(1) Excludes outside equity interest.

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

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

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

(5) Excludes preference shares.

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

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

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

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

(2) Excludes outside equity interest.

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

(4) Excludes preference shares.

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

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

(2) Net of unearned income.

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

Risk Factors

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

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

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

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

Changes in monetary policies may adversely impact ANZ's results

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

Regulatory changes may adversely impact ANZ's results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Litigation and contingent liabilities may adversely impact our results

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

Acquisition risk may adversely impact ANZ's results

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

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

Currency of Presentation, Exchange Rates and Certain Definitions**Currency of Presentation**

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

Exchange Rates

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

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

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

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

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

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

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

Certain Definitions

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

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

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

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

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

Item 4: Information on the Company

Overview

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

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

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

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

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

Principal Activities of Divisions

Personal

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

- **Regional, Rural and Small Business Banking** - Provides a full range of banking services to personal, small business and agribusiness customers across rural and regional Australia, and to metropolitan-based small businesses in Australia with funds under management (FUM) up to A\$50,000.
- **Banking Products** - Provides deposit accounts and transaction accounts. In addition, the business manages ANZ Australia's direct channels covering Phone Banking and Internet Banking.
- **Mortgages** - Provides housing finance to consumers in Australia for both owner occupied and investment purposes.
- **Consumer Finance** - Provides consumer and commercial credit cards, epayment products, personal loans, merchant payment facilities in Australia and ATM facilities.
- **Investments and Insurance** - Comprises ANZ's financial planning, margin lending and trustee businesses as well as the equity accounted earnings from E*Trade Australia, an online broking business.
- **Esanda** - Provides motor vehicle and equipment finance, operating leases and investment products.

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

Institutional

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

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

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- **Debt and Transaction Services** - Combines managing Institutional and Corporate customers balance sheet with a particular focus on credit quality, diversification and maximizing risk adjusted returns with providing cash management, trade finance, international payments, clearing and custodian services principally to institutional and corporate customers.
- **Markets** - Provides foreign exchange and commodity trading sales-related services to corporate and institutional clients globally. In addition, the business provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally.
- **Corporate & Structured Financing** - Provides complex financing and advisory services, structured financial products, leasing, private equity finance, project finance, leveraged finance and infrastructure investment products to ANZ Australia customers.

New Zealand Businesses

The following businesses are collectively called New Zealand Businesses:

- **ANZ Retail**, operating under the ANZ brand in New Zealand, provides a full range of financial services and products (including core banking products such as deposit and cheque accounts, lending products and insurance products) to personal and small business banking customers. Small business banking serves owner-managed and small sized enterprises with annual revenue of less than NZ\$5 million.
- **NBNZ Retail**, operating under The National Bank brand in New Zealand, provides a full range of financial services and products (including core banking products such as deposit and cheque accounts, lending products and insurance products) to personal and small business banking customers. Small business banking services owner-managed and small sized enterprises with annual revenue of less than NZ\$5 million.
- **Rural Banking** in New Zealand provides a full range of banking services to rural and agribusiness customers through both ANZ and The National Bank brands.
- **Corporate and Commercial Banking** in New Zealand incorporates ANZ and The National Bank brands and serves the needs of medium-to-large businesses with annual revenues from NZ\$2 million to NZ\$150 million. Services provided by the business include lending, deposit and transactional facilities, capital market, foreign exchange, international trade, private equity finance and leveraged finance solutions.
- **UDC** is principally involved in the financing and leasing of equipment, plant and machinery for small and medium size businesses. The business also supports a network of motor vehicle dealerships as a channel for consumer car financing products.

Partnerships and Private Bank

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

- **ING Australia (INGA)** includes the equity accounted earnings from ANZ's 49% stake in INGA, a joint venture between ANZ and ING.
- **International Partnerships** - ANZ continues to develop a portfolio of strategic partnerships in Asia. ANZ currently has partnerships in Indonesia with PT Panin Bank, in the Philippines with Metrobank, in Cambodia with the Royal Group, in China with Tianjin City Commercial Bank and in Vietnam with Sacombank. These partnerships are

focused on leveraging ANZ capabilities into faster growing personal and small business banking markets through the established client bases of the local partners.

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

Group Center

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

Organization Structure Changes

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

- A simplified divisional structure was implemented in May 2006:
- Personal: Esanda, Small Business and the South Pacific banking have been added to the division. INGA's operating results are now included in Partnerships & Private Bank.

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- Institutional: Corporate Banking, Business Banking and Personal & Private Banking Asia (including the Asian branch network) are now part of the Institutional division. In addition, Trade and Transaction Services and the Debt Products Group have been combined into Debt and Transaction Services. The component of Treasury activities in respect of managing interest rate mismatch is now included in Markets.
- New Zealand: UDC is now included in New Zealand Businesses.
- Partnerships & Private Bank: Includes ANZ's partnerships and investments, including ING Australia, ANZ's investments in Asia, and Private Bank.
- Group Center: Treasury mismatch activities are now included in Institutional, and INGA's capital investment earnings in Partnerships & Private Bank.
- Non-Continuing Business:
 - The Non-Continuing Business, comprising the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy, has been removed from Institutional and reported as a separate business unit.

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

Capital Expenditure and Divestitures

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

Subsidiaries, Associates and Joint Venture

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

Property

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

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

Research and Development, Patents, Licenses

Not applicable.

Our Strategic Direction

Our Aspiration

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

Our Values

Underpinning the way ANZ operates are our core values:

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

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Our Strategic Priorities

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

- Invest in rapidly growing segments that seek to create revenue growth. Our financial performance in the past year was characterized by strong revenue growth and continued investment. We will continue to focus on generating superior revenue growth through proactively defending existing clients, attacking adjacent markets by leveraging tried and tested capabilities, positioning for next growth wave segments, and acquiring selectively where it is value-enhancing and timing is right.
- Embrace an aggressive internal transformation agenda that seeks to lower cost-to-income. ANZ aims to be lean, agile, sharp, and externally focused with a view to reducing cost-to-income by growing revenues faster than costs, as well as by targeting further cost reductions. We have a program to achieve this, including utilization of dynamic capital and expense allocation processes, leveraging our Bangalore operations and technology campus in India and rolling out an end-to-end process re-engineering capability.

Our Platform for Growth

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

- Over the past few years, we have strengthened our position in core businesses and increased share. We have grown to approximately 85% of the size of our largest domestic competitor by market capitalization, compared with 50% six years ago. We have the second largest personal customer base across Australia and New Zealand, and the largest customer base in Asia Pacific of our domestic peers. Personal customer satisfaction at 75.5% is the highest of our major domestic peers and we have continued to invest in our frontline employees with an increase of over 3,500 employees in the past 24 months.
- ANZ has reduced its cost-to-income ratio from 65.8% to 44.6% over the last 10 years. The efficiencies we have realized have helped us fund the investment required to generate future revenue growth, and deliver consistent results in an increasingly competitive margin environment. In the near term, we expect Australia will continue to drive our growth, with good momentum in our major divisions. In the medium term we expect New Zealand will deliver improved returns, and over the longer term Asia will become increasingly meaningful.
- ANZ has repositioned its portfolio to be sustainable and low-risk. The last few years have seen a focus on absorbing external governance and regulatory changes, including the Sarbanes-Oxley Act of 2002, Basel II and AIFRS. We are well capitalized, reserved and have more than halved our provision for credit impairment to average net lending assets ratio to just 13 basis points in 2006 from 34 basis points in 2003 through a program of structural de-risking.
- ANZ has built a performance and results culture based on a set of shared values. Our management team is well-respected and has a record of pursuing a consistent agenda and achieving set targets.
- ANZ's aim to deliver sustainable value recognizes that companies do not serve shareholders exclusively, but others as well. Our approach is a commitment to building relationships of trust, respect and integrity with all our stakeholders over the long term. ANZ released its first Corporate Social Responsibility report in 2005, which detailed our commitment to engaging with our customers, staff and the communities in which we operate.

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

Generating Sustainable Momentum

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

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

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

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

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

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

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

Building a Future

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

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

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

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

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

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

Recent Developments

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

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

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

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

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

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

Assets and Gross Revenue by Line of Business

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

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

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

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

Assets and Gross Revenue by Region

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

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

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

Supervision and Regulation**Australia**

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

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

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

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

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

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

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

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

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

Level 2 - the consolidated banking group; and

Level 3 - the conglomerate group at the widest level.

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

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

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

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

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

- A new class of Hybrid Tier 1 capital, being Non-innovative Residual Tier 1 capital has been introduced. The APS identify Non-innovative Residual Tier 1 capital as non-cumulative irredeemable preference shares issued directly by the ADI without innovative capital features;
- The Innovative Tier 1 capital classification now includes any issue that has an incentive for the issuer to call, such as a step-up feature or an option to convert into a variable number of ordinary shares, or an instrument issued through a special purpose vehicle, or any Tier 1 instrument not representing shares ;
- ADIs are now required to make new deductions for capitalized software and additional deductions for net deferred tax assets from Tier 1 capital.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Basel II

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

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

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

New Zealand

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

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

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

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

The main elements of the RBNZ's supervisory role are:

- to require all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration.
- to monitor each registered bank's financial condition and compliance with conditions of registration, principally on the basis of published quarterly disclosure statements.
- to consult with the senior management of registered banks.
- to use crisis management powers available to it under the Act to intervene where a bank distress or failure situation threatens the soundness of the financial system.

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

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

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

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

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

1. That ANZ National Group complies with the following requirements at all times:
 - Capital of ANZ National Group is not less than 8% of risk weighted exposures
 - Tier one capital of ANZ National Group is not less than 4% of risk weighted exposures
 - Capital of ANZ National Group is not less than NZD\$15 million
2. That ANZ National (the Bank) complies with the following requirements at all times:
 - Capital of ANZ National is not less than 8% of risk weighted exposures
 - Tier one capital of ANZ National is not less than 4% of risk weighted exposures
 - Capital of ANZ National is not less than NZD\$15 million

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

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

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

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

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

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- In measuring the size of the banking group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity
 - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity
 - (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business
 - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

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

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

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

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

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

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

8. That the chairperson of ANZ National's board is not an employee of ANZ National.
9. That ANZ National's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. ANZ National).
10. That a substantial proportion of ANZ National's business is conducted in and from New Zealand.
11. That none of the following actions may be taken except with the consent of the RBNZ:
 - (i) any transfer to another person or entity (other than ANZ National or any member of the banking group which is incorporated in, and operating in, New Zealand) of all or a material part of any business (which term shall include the customers of the business) carried on by ANZ National (or any member of the banking group); and
 - (ii) any transfer or change by which all or a material part of the management, operational capacity or systems of ANZ National (or any member of the banking group) is transferred to, or is to be performed by, another person or entity other than ANZ National (or any member of the banking group which is incorporated in, and operating in, New Zealand); and

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

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

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

- (i) the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee, and
- (ii) the RBNZ has advised that it has no objection to that appointment.

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

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

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

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

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

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

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

- (a) the New Zealand dollar accounts and channels servicing the consumer banking market (but potentially also other customer segments); and
- (b) the general ledger covering subsidiary ledgers for (a) above, together with a daily updated summary of the subsidiary ledgers running on the international system; and

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

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

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

- (a) supports foreign currency accounts/transactions;
- (b) supports cross border trade, payments and other transactions;
- (c) supports businesses that operate in global markets;
- (d) supports accounts and transactions undertaken by institutions, corporates and banks;
- (e) used to manage large, volatile risk businesses which operate on a global basis;
- (f) used to service customers who conduct accounts and transactions with ANZ National in multiple countries; and/or
- (g) used by the non ANZ National subsidiary companies.

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United States

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

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

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

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

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

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

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

Other countries

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

Competition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 5: Operating and Financial Review and Prospects

Results for 2006

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

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

Overview

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

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

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

- Shifting away from the dependence on higher risk businesses (including those in international emerging markets), towards lower risk, more sustainable consumer businesses in our domestic markets (Australia and New Zealand).
- Transforming ANZ's cost structure through investing in technology and enabling our processes to become leaner and more competitive. For the fiscal year ended September 30, 2006, ANZ had a cost-to-income ratio of 44.6%.
- Recognizing ANZ's long term competitive strength rests with its people and investing in revitalizing ANZ's culture.
- Focusing on strong revenue growth through substantial investment, both in our existing businesses and through acquisitions.

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

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

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

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

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

Changes in Accounting Policy

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

Operating Results

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

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

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

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

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

AIFRS 2005 Adjustments

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

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

ANZ did not elect to provide prior year comparatives for AASB 4, AASB 132 and AASB 139 in the 2006 statutory results. This was largely due to the fact that hedging systems were not in place until October 1, 2005. The hedging requirements in AASB 139 require full documentation and prospective effectiveness testing of all items to be accounted for as a hedge under AASB 139, therefore the adjustments resulting from these hedging requirements from October 1, 2004 were not able to be quantified. All other adjustments made to meet the requirements of AASB 4,

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AASB 132 and AASB 139 were quantified and captured in the general ledger from 1 October 2004. These adjustments, which are referred to as the AIFRS 2005 Adjustments in this Annual Report, have been included in the analysis of comparatives used in the commentary on the 2006 statutory results. ANZ believes that this provides useful information to investors because it presents the 2005 operating results consistent with the way the business is managed and is a more comparable base for the users of the financial statements.

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

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

	Full Year Sep 05 \$M	AIFRS Standard
Net interest income (statutory basis)	5,818	
Fees recognised as an adjustment to yield	622	AASB 139
Reclassified hybrid financial instruments	(66)	AASB 132
Other	(3)	AASB 139/132
Net interest income (comparable AIFRS basis)	6,371	
Provision for credit impairment charge (statutory basis)	(580)	
Movement in credit impairment provision	15	AASB 139
Provision for credit impairment charge (comparable AIFRS basis)	(565)	
Net interest income after provision for credit impairment charge (statutory basis)	5,238	
Total AIFRS adjustments	568	