2014

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2014

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

The date of this 2014 Half Year U.S. Disclosure Document is May 8, 2014.

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All references in this document to “this U.S. Disclosure Document” should be read as referring to this 2014 Half Year U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal half year ended March 31, 2014 (the “March 2014 half”) (and includes the Annexes attached hereto).

This U.S. Disclosure Document is dated May 8, 2014. All references in this document to “the date of this U.S. Disclosure Document” are to May 8, 2014.

All references in this U.S. Disclosure Document to “ANZ”, the “ANZ Group”, the “Group”, the “Bank”, “we”, “us” and “our” are to Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) together with its subsidiaries. All references in this U.S. Disclosure Document to the “Company” and to “ANZBGL” are to Australia and New Zealand Banking Group Limited.

Information contained in or accessible through any web site referred to in this U.S. Disclosure Document does not form part of this document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document. All references in this document to web sites are inactive textual references and are not active links.

ANZ is one of the four major banking groups headquartered in Australia. ANZ ranked third in Australia as of September 30, 2013, and first in New Zealand as of December 31, 2013, in terms of total assets among banking groups. ANZ’s principal ordinary share listing and quotation is on the Australian Securities Exchange (“**ASX**”). As of March 31, 2014, ANZ was ranked among the top four largest companies listed on the ASX in terms of market capitalization.

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ’s business and operations, as well as its financial position, as of March 31, 2014, and the results of operations for the fiscal half year then ended. All balances disclosed in this U.S. Disclosure Document relate to those of the Group. The Group’s Condensed Consolidated Financial Statements (including the independent auditor’s review report thereon) for the fiscal half year ended March 31, 2014 (the “Condensed Consolidated Financial Statements”), as prepared and filed by the Company with the ASX in accordance with its rules, are attached to this U.S. Disclosure Document as the Annex.

Forward-looking statements

This U.S. Disclosure Document contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company or the ANZ Group to differ materially from the information presented herein. When used in this U.S. Disclosure Document, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “may”, “probability”, “risk”, “will”, “seek”, “would”, “could”, “should” and similar expressions, as they relate to the Company or the ANZ Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute “forward-looking statements” for the purposes of the United States Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For example, the forward-looking statements contained in this U.S. Disclosure Document will be affected by:

- adverse conditions in global debt and equity markets;
- general economic conditions in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we or our customers operate;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly those arising from global financial turmoil, including more stringent liquidity, leverage and capital requirements;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we or our customers operate;
- the effects of competition in the geographic and business environments in which we or our customers operate;
- our ability to adjust to and compete in the Asian geographic markets in which we operate or are seeking to operate;
- the ability to maintain or increase market share and control expenses;
- the timely development and acceptance of new products and services, and the perceived overall value of these products and services by users;
- reliability and security of our technology and risks associated with changes to technology systems;;
- operational and environmental factors, including natural disasters, such as earthquakes, floods, volcanic eruptions, bush fires and tsunamis;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we or our customers operate;
- our ability to complete, integrate, and process acquisitions and dispositions;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses we or our customers may experience as a result;
- adverse impact on our customers and counterparties, including the impact on our natural resource customers of a slowdown in natural resource exports to Asia, the impact on our agricultural and tourism customers of continued strength of the Australian dollar and the impact on our financial customers of the continuing financial and credit turmoil in Europe and the United States;
- adverse impacts on our reputation;
- various other factors beyond our control;
- the effectiveness of our risk management policies, including our internal processes, systems and employees; and
- changes to the value of intangible assets.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this U.S. Disclosure Document. “See Section 2: Information on the Group - Risk factors”.

Selected financial data

The summary of consolidated balance sheets as of March 31, 2014, September 30, 2013 and March 31, 2013, and summary of consolidated income statement data for the fiscal half years ended March 31, 2014, September 30, 2013 and March 31, 2013 have been derived from the Group’s Condensed Consolidated Financial Statements for the March 2014 half. The Group’s Condensed Consolidated Financial Statements (including the independent auditor’s review report thereon and the notes thereto) are attached to this U.S. Disclosure Document as the Annex.

The Condensed Consolidated Financial Statements of the Group and the financial information included herein, except where otherwise noted, are prepared in accordance with Australian Accounting Standards (“**AAS**”) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (“**AASB**”) and the Corporations Act 2001. The reports comply with International Financial Reporting Standards (“IFRS”) and Interpretations adopted by the International Accounting Standards Board (“**IASB**”).

Amounts in this U.S. Disclosure Document are presented in Australian Dollars (“**AUD**” or “**$**”) unless otherwise stated. Amounts reported in United States Dollars (“**USD**”) have been translated at the March 31, 2014 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”), which was US$0.9275 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document refer to pages 23 and 58.

Summary of consolidated statement of income

	Half Year			
	Mar 14 USD $M[1]	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Interest income	13,384	14,430	14,301	14,326
Interest expense	(7,097)	(7,652)	(7,743)	(8,126)
Net interest income	6,287	6,778	6,558	6,200
Net funds management and insurance income	567	611	735	696
Share of associates' profit	229	247	271	211
Other operating income	1,745	1,882	1,959	1,829
Operating income	8,828	9,518	9,523	8,936
Operating expenses	(3,975)	(4,286)	(4,213)	(4,044)
Profit before credit impairment and income tax	4,853	5,232	5,310	4,892
Provision for credit impairment[2]	(489)	(527)	(600)	(588)
Profit before income tax	**4,364**	**4,705**	**4,710**	**4,304**
Income tax expense[3]	(1,222)	(1,318)	(1,376)	(1,362)
Profit for the year	3,142	3,387	3,334	2,942
Profit attributable to non-controlling interests	(6)	(6)	(5)	(5)
Profit attributable to shareholders of the Company	**3,136**	**3,381**	**3,329**	**2,937**
Non-interest income as a % of operating income[4]	28.8%	28.8%	31.1%	30.6%
Net interest margin	2.15%	2.15%	2.20%	2.24%
Cost to income ratio	45.0%	45.0%	44.2%	45.3%
Dividends on ordinary shares	2,277	2,455	1,967	2,115
Earnings per fully paid ordinary share (cents)				
Basic	115	124	123	109
Diluted	111	120	119	105
Ordinary share dividend payout ratio (%)[5]	67.4%	67.4%	75.1%	68.3%
Dividend per ordinary share (cents)	77	83	91	73

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2014 Noon Buying rate applied in this document.*
2. *The credit impairment charge represents the individual and collective credit impairment charge.*
3. *Includes income tax expense attributable to income relating to policyholder income and contributions tax gross up in respect of ANZ Wealth Australia Limited and OnePath New Zealand Limited.*
4. *Non-interest income comprises net funds management and insurance income, share of associates' profit and other operating income.*
5. *The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference share dividends paid. The dividend payout ratio calculation is based on the following dividend payments:*

Proposed 2014 interim dividend	***Actual Dividend Paid Sep 2013 half***	***Actual Dividend Paid Mar 2013 half***
*$2,278 million**	*$2,497 million*	*$2,003 million*

**Based on the proposed final dividend as of May 1, 2014 and on forecast number of ordinary shares on issue at the dividend date.*

Summary of consolidated balance sheet

	As at March 31			
	Mar 14 USD $M[1]	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Shareholders' equity[2]	43,566	46,971	45,541	42,450
Subordinated debt[3]	12,267	13,226	12,804	11,666
Bonds and notes	68,219	73,552	70,376	60,226
Deposits and other borrowings	462,190	498,318	466,915	451,105
Gross loans and advances[4,5]	476,330	513,563	487,618	458,628
Less: Individual provision for credit impairment	(1,363)	(1,470)	(1,467)	(1,543)
Less: Collective provision for credit impairment	(2,637)	(2,843)	(2,887)	(2,769)
Net loans and advances	472,330	509,250	483,264	454,316
Total assets	684,323	737,815	702,995	672,630
Net assets	43,628	47,038	45,603	42,503
Risk weighted assets[6]	334,586	360,740	339,265	322,582
Summary of consolidated ratios				
Net profit after income tax as a percentage of:				
Average total assets	0.9%	0.9%	1.0%	0.9%
Average shareholders' equity[7]	15.0%	15.0%	15.3%	14.4%
Average ordinary shareholders' equity as a percentage of average total assets[7]	12.4%	12.4%	12.5%	12.5%
Ratio of earnings to fixed charges[8]	60.9%	60.9%	60.2%	52.5%
Capital adequacy ratios:[6]				
Common Equity Tier 1	8.3%	8.3%	8.5%	8.2%
Tier 1	10.3%	10.3%	10.4%	9.8%
Tier 2	1.8%	1.8%	1.8%	1.9%
Total	12.1%	12.1%	12.2%	11.7%
Number of ordinary shares on issue (millions)	2,744.1	2,744.1	2,743.7	2,743.7

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2014 Noon Buying rate applied in this document.*
2. *Excludes non-controlling interests.*
3. *For the composition of Subordinated Debt refer to Note 11 (Loan Capital) in the Condensed Consolidated Financial Statements (attached as Annex hereto).*
4. *Net of unearned income and including capitalized brokerage/mortgage origination fees and customers' liability for acceptances.*
5. *Loans and advances are disclosed in the balance sheet net of the individual and collective provisions. For ease of presentation gross amounts are shown here.*
6. *Risk weighted assets and Capital adequacy ratios are calculated using Australian Prudential Regulation Authority (APRA) Basel 3 methodology.*
7. *Excludes non-controlling interests and preference shares.*
8. *Ratio of earnings to fixed charges is derived from profit before income tax divided by the sum of interest expenses and one third of rental expense.*

Summary of credit quality data

	As at					
	Mar 14 USD $M[1]	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Gross impaired assets:						
Impaired assets - subject to provision for credit impairment	2,873	3,097	3,427	3,613	4,011	4,322
Without provision for credit impairment:						
Impaired loans	201	217	324	365	353	342
Restructured items	56	60	341	524	525	340
Non-performing commitments and contingencies	228	246	172	183	307	339
Total gross impaired assets	**3,358**	**3,620**	**4,264**	**4,685**	**5,196**	**5,343**
Provision for credit impairment:						
Individual provision - impaired loans	1,295	1,396	1,440	1,518	1,729	1,701
Individual provision - non-performing commitments and contingencies	69	74	27	25	44	13
Collective provision	2,636	2,843	2,887	2,769	2,765	2,994
Total provision for credit impairment	**4,000**	**4,313**	**4,354**	**4,312**	**4,538**	**4,708**
Total gross loans and advances[2,3]	**476,330**	**513,563**	**487,618**	**458,628**	**432,361**	**417,336**
Collective provision as a % of credit risk weighted assets[4]	0.93%	0.93%	1.00%	1.01%	1.08%	1.20%
Gross impaired assets as a percentage of gross loans and advances	0.7%	0.7%	0.9%	1.0%	1.2%	1.3%
Individual provision for credit impairment as a percentage of gross impaired assets	40.6%	40.6%	34.4%	32.9%	34.1%	32.1%
Total provision for credit impairment as a percentage of:						
Gross loans and advances[2,3]	0.8%	0.8%	0.9%	0.9%	1.0%	1.1%
Credit risk weighted assets[4]	1.4%	1.4%	1.5%	1.6%	1.8%	1.9%

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2014 Noon Buying Rate applied in this document.*
2. *Net of unearned income and including capitalized brokerage/mortgage origination fees and customers' liability for acceptances.*
3. *Loans and advances are disclosed in the balance sheet net of individual and collective provisions. For ease of presentation gross amounts are shown here.*
4. *Credit risk weighted assets are calculated using APRA Basel 3 methodology.*

Results by segment

The Group operates on a divisional structure, with Australia, International and Institutional Banking (“**IIB**”), New Zealand and Global Wealth being the major operating divisions. The IIB and Global Wealth divisions are coordinated globally. Global Technology, Services & Operations (**“GTSO”**) and Group Center provide support to the operating divisions, including risk management, financial management, strategy and marketing, human resources and corporate affairs. Group Center includes Group Treasury, Shareholder functions and Discontinued Businesses. GTSO and Group Center are together described in this document as (**“Other”**).

There have been no major structure changes; however certain amounts in the comparatives have been reclassified to conform with current period financial statement presentations. Refer to Note 21 of the Condensed Consolidated Financial Statements for further details.

Assets, liabilities, income and profit before tax

	Half Year						
Division[1]	**Mar 14 USD $M**[2]	**Mar 14 $M**	**%**	**Sep 13 $M**	**%**	**Mar 13 $M**	**%**
Total assets							
Australia	260,804	281,191	38%	274,325	39%	264,951	39%
International and Institutional Banking	292,175	315,013	43%	296,522	42%	285,443	43%
New Zealand	85,391	92,066	12%	85,015	12%	74,763	11%
Global Wealth	46,190	49,800	7%	49,010	7%	47,342	7%
Other	(237)	(255)	0%	(1,877)	0%	131	0%
	684,323	**737,815**	**100%**	**702,995**	**100%**	**672,630**	**100%**
Total liabilities							
Australia	156,414	168,640	24%	165,768	25%	160,171	25%
International and Institutional Banking	252,614	272,360	40%	254,704	39%	243,613	39%
New Zealand	66,600	71,806	10%	64,510	10%	58,147	9%
Global Wealth	49,338	53,195	8%	51,254	8%	48,619	8%
Other[3]	115,730	124,776	18%	121,156	18%	119,577	19%
	640,696	**690,777**	**100%**	**657,392**	**100%**	**630,127**	**100%**
Income[4]							
Australia	7,893	8,510	50%	8,708	51%	8,906	52%
International and Institutional Banking	5,003	5,394	31%	5,125	30%	5,172	30%
New Zealand	2,489	2,684	16%	2,489	14%	2,312	14%
Global Wealth	818	882	5%	863	5%	839	5%
Other	(278)	(300)	-2%	81	0%	(167)	-1%
	15,925	**17,170**	**100%**	**17,266**	**100%**	**17,062**	**100%**
Profit before tax							
Australia	1,961	2,114	45%	2,065	44%	2,008	47%
International and Institutional Banking	1,700	1,833	39%	1,651	35%	1,647	38%
New Zealand	704	759	16%	664	14%	550	13%
Global Wealth	290	313	7%	288	6%	280	6%
Other	(291)	(314)	-7%	42	1%	(181)	-4%
	4,364	**4,705**	**100%**	**4,710**	**100%**	**4,304**	**100%**

1. *For discussion of operating results see “Section 3: Operating and financial review and prospects - Results by segment”.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2014 Noon Buying Rate applied in this document.*
3. *Other liabilities include a major proportion of the Group’s wholesale funding within Group Treasury.*
4. *Income consists of interest income and non-interest income (comprising net funds management and insurance income, share of associates’ profit and other operating income).*

Overview

Australia and New Zealand Banking Group Limited ("ANZBGL") and its subsidiaries (together, the "Group"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on 14 July 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia and the telephone number is +61 3 9683 9999. Its Australian Company Number is ACN 005 357 522.

As of the close of trading on March 31, 2014, ANZBGL had a market capitalization of approximately $90.7 billion. As at 31 March 2014, ANZBGL had total assets of $737.8 billion and shareholders' equity of $47.0 billion. ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange ("**NZX**").

The Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional clients. It conducts its operations primarily in Australia, New Zealand and the Asia Pacific region. The Group also operates in a number of other countries including the United Kingdom and the United States of America.

The Group's primary strategy is to become a super regional bank focusing on Australia, New Zealand and the Asia Pacific region. Consistent with this strategy, its aim includes having between 25 percent and 30 percent of Group profit after tax driven by network revenue, that is revenue sourced from Asia, Pacific, Europe and America by 2017. No assurance can be given that these goals will be achieved. While there is a strong focus on organic growth, ANZBGL continues to explore appropriate acquisitions throughout Asia where opportunities arise, applying strict criteria when reviewing new inorganic opportunities.

Principal activities of segments

The segments disclosed in this U.S. Disclosure Document and described below are unchanged from those reported by ANZ at September 30, 2013 (as described in the 2013 Annual U.S. Disclosure Document dated November 15, 2013) and consistent with how the business was managed and reported to the Chief Operating Decision Maker (ANZ's Chief Executive Officer) during the reporting period. Certain amounts in the comparatives have been reclassified with current period financial statement presentations. Refer to Note 21 in the Condensed Consolidated Financial Statements for further information.

Australia

The Australia division comprises the Retail and Corporate and Commercial Banking business units.

- **Retail**

  Retail is responsible for delivering a range of product solutions including home loans, credit cards, personal loans, merchant services, transaction banking, savings accounts and deposits to our consumer customers, using capabilities in product, analytics, customer research, segmentation, strategy and marketing. It also provides a range of solutions for businesses including physical payment instruments (cash and cheques) as well as online and electronic payments.

  - **Home Loans** provides housing finance to consumers in Australia for both owner occupied and investment purposes, as well as providing housing finance for overseas investors.
  - **Cards and Payments** provides consumer and commercial credit cards, personal loans and merchant services.
  - **Deposits** provides transaction banking, savings and investment products, such as term deposits and cash management accounts.

  Retail delivers banking solutions to customers across multiple distribution channels including the Australian branch network, ANZ Direct, specialist sales channels and digital channels (including goMoney, Internet Banking, anz.com). The retail distribution network provides retail and wealth solutions to consumers, as well as providing small business solutions and meeting the various cash and cheque handling needs of corporate, commercial and institutional customers.

- **Corporate and Commercial Banking ("C&CB")**
  - **Corporate Banking** provides a full range of banking services including traditional relationship banking and sophisticated financial solutions, primarily to large private companies, smaller listed companies and multi-national corporation subsidiaries.
  - **Regional Business Banking** provides a full range of banking services to non-metropolitan commercial and Agri (including corporate) customers.
  - **Business Banking** provides a full range of banking services, to metropolitan based small to medium sized business clients with a turnover of A$5 million up to A$125 million.
  - **Small Business Banking** provides a full range of banking services to metropolitan and regional based small businesses in Australia with a turnover of up to A$5m and lending up to A$1 million.
  - **Esanda** provides motor vehicle and equipment finance.

International and Institutional Banking

The International and Institutional Banking division comprises Global Institutional, Retail Asia Pacific and Asia Partnerships business units, along with Relationship & Infrastructure.

- **Global Institutional** provides global financial services to government, corporate and institutional clients with a focus on solutions for clients with complex financial needs, based on a deep understanding of their businesses and industries, with particular expertise in natural resources, agriculture and infrastructure. Institutional delivers transaction banking, specialized and relationship lending and markets solutions in Australia, New Zealand, Asia, Pacific, Europe and America.
  - **Transaction Banking** provides working capital and liquidity solutions including regional cash management solutions, deposit products, international payments and clearing, documentary trade, supply chain finance and structured trade finance principally to institutional, corporate and commercial customers.

  - **Global Markets** provides risk management services to corporate and institutional clients globally in relation to foreign exchange, interest rates, credit, commodities, debt capital markets, wealth solutions and equity derivatives. Markets provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally. Markets also manages the Group's interest rate risk position and liquidity portfolio.
  - **Global Loans** provides term loans and specialist loan structuring and execution. It provides specialist credit analysis, structuring, execution and ongoing monitoring of strategically significant customer transactions including project and structured finance, debt structuring and acquisition finance, structured asset finance and export finance.
- **Retail** which provides retail and small business banking services to customers in the Asia Pacific region and also includes investment and insurance products and services for Asia Pacific customers.
- **Asia Partnerships** which is a portfolio of strategic partnerships in Asia. This includes investments in Indonesia with PT Bank Pan Indonesia, in the Philippines with Metrobank Cards Corporation, in China with Bank of Tianjin and Shanghai Rural Commercial Bank, in Malaysia with AMMB Holdings Berhad and in Vietnam with Saigon Securities Incorporation.
- **Relationship & Infrastructure** includes client relationship management teams for global institutional and financial institution and corporate customers in Australia, New Zealand, Asia Pacific, Europe and America and central support functions. Relationship and infrastructure also includes businesses within IIB which are discontinued.

New Zealand

The New Zealand division comprises Retail and Commercial business units.

- **Retail**
  - Retail provides mortgages, credit cards, unsecured lending, transaction banking services, and savings and deposit products to personal customers in New Zealand.
- **Commercial**
  - **Commercial & Agri ("CommAgri")** provides financial solutions through a relationship management model for medium-sized businesses, including agri-business, with a turnover of up to NZD150 million. Asset Finance (including motor vehicle and equipment finance), operating leases and investment products are provided under the UDC brand.
  - **Small Business Banking** provides a full range of banking services to small enterprises, typically with turnover of less than NZ$5 million.

Global Wealth

The Global Wealth division comprises Funds Management, Insurance and Private Wealth which provides investment, superannuation, insurance products and services as well as Private Banking for customers across Australia, New Zealand and Asia.

- **Private Wealth** specializes in assisting individuals and families to manage, grow and preserve their wealth. The businesses within Private Wealth include Private Bank and ANZ Trustees.
- **Funds Management** includes the Pensions and Investment business, E*Trade and Investment Lending.
- **Insurance** includes Life Insurance, General Insurance and ANZ Lender's Mortgage Insurance.
- **Corporate and other** includes income from invested capital, cash profits from advice and distribution business and unallocated corporate tax credits.

GTSO and Group Center

GTSO and Group Center provide support to the operating divisions, including technology, operations, risk management, financial management, strategy and marketing, human resources and corporate affairs. Additionally, Group Center includes Group Treasury, Shareholder Functions and Discontinued Businesses.

Recent developments

On April 10, 2014 ANZ announced the sale of ANZ Trustees to Equity Trustees Limited for $150 million. The transaction is expected to be completed in July 2014 subject to regulatory approval. The gain on sale will be recognized in the second half of the 2014 fiscal year.

On May 5, 2014, ANZ announced it has been advised in recent discussions with the Australian Prudential Regulation Authority (APRA) that APRA is considering clarifying the composition of the Level 2 Authorized Deposit-Taking Institution (ADI) Group.

This change will impact the capital benefit arising from external debt issued by ANZ Wealth Australia Limited.

ANZ currently has two debt issuances issued by ANZ Wealth Australia Limited of approximately $400 million each, maturing in June 2015 and March 2016 respectively.

Should the change come into effect as currently proposed, it would reduce ANZ's Level 2 capital ratios by approximately 20 basis points, subject to any transitional arrangements agreed with APRA. We expect to meet any additional capital requirements through organic capital generation.

Other than the matters described above, there have been no significant events since March 31, 2014 to the date of this U.S. Disclosure Document.

Supervision and regulation

Australia

Overview of APRA's Prudential and Regulatory Supervision

Since July 1, 1998, APRA has been responsible for the prudential and regulatory supervision of Australian authorised deposit-taking institutions ("**ADIs**"), which covers banks (including ANZBGL), credit unions, building societies, insurance companies (including OnePath Life Limited) and superannuation funds. Prior to this, the Australian banking industry was regulated by the Reserve Bank of Australia ("**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 requirements that are covered in a range of APRA Prudential Standards.

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, credit quality and associated loan loss experience, concentration of risks, the maturity profile of assets and liabilities, operational risks, market risks, interest rate risk in the banking book, exposures to related entities, outsourcing, funds management, securitisation activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition. Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), it can take control of the ADI's business, including by appointment of an ADI statutory manager. A counterparty to a contract with an ADI cannot rely solely on the fact that an ADI statutory manager is in control of the ADI's business as a basis for denying any obligations to the ADI or for accelerating any debt under that contract or closing out any transaction relating to that contract.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective 'on site' visits and formal meetings with the ADI's senior management and external auditors. APRA has also formalised a consultative relationship with each ADI's external auditors, with the agreement of the ADIs. The external auditor provides additional assurance to APRA that the information sourced from the Bank's accounting records and included in the ADI APRA reporting is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. External auditors also undertake targeted reviews of specific risk management areas as selected by APRA. In addition, an ADI's Chief Executive Officer attests to, and its directors endorse, the adequacy and operating effectiveness of the ADI's risk management systems to control exposures and limit risks to prudent levels.'

Capital Management and Adequacy and Liquidity within APRA's Regulations

For further details of the Group's capital management and adequacy, liquidity and APRA's regulatory environment refer to the sections entitled CFO Overview – Liquidity Risk set out on pages 33 to 34 and CFO Overview – Capital Management set out at pages 35 to 36 of ANZBGL's 2014 Consolidated Financial Report, Dividend Announcement and Appendix 4D for the half year ended March 31, 2014.

Capital

The common framework for determining the appropriate level of bank regulatory capital is set by the Basel Committee under a framework that is commonly known as 'Basel'.

For calculation of minimum capital requirements under Pillar 1 ("**Capital Requirements**") of the Basel Accord, the Group has been accredited by APRA to use the Advanced Internal Ratings Based ("**AIRB**") methodology for credit risk weighted assets and Advanced Measurement Approach ("**AMA**") for the operational risk weighted asset equivalent.

Effective January 1, 2013, APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios will not be directly comparable with international peers. The Basel 3 reforms include: increased capital deductions from Common Equity Tier 1 ("**CET1**") capital, an increase in capitalization rates (including prescribed minimum capital buffers, fully effective from 1 January 2016), tighter requirements around new Additional Tier 1 and Tier 2 securities, and transitional arrangements for existing Additional Tier 1 and Tier 2 securities that do not conform to the new regulations. Other changes include capital requirements for counterparty credit risk and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions.

Level 3 Conglomerates ("Level 3")

APRA has announced that it will proceed with implementing Level 3 Conglomerates framework on January 1, 2015, with final Level 3 capital adequacy standards expected to be released during 2014. The standards will regulate a bancassurance group such as the Group as a single economic entity with minimum capital requirements and additional reporting on risk exposure levels. Based upon APRA's draft Level 3 standards covering capital adequacy, group governance, risk management and risk exposures, the Group is not expecting any material impact on its operations.

Domestic Systematically Important Bank ("D-SIB") Framework

APRA has released details of its D-SIB framework for implementation in Australia and has classified ANZ and three other major Australian banks as domestic systematically important banks. As a result the Capital Conservation Buffer (CCB) applied to the four major Australian banks will increase by 100 basis points from January 1, 2016, further strengthening the capital position of the Australia D-SIBs. ANZ's current capital position is already in excess of APRA's requirements including the D-SIB overlay. ANZ may modestly increase its capital buffers from current levels over time through organic capital generation.

Liquidity

ANZBGL's liquidity and funding risks are governed by a detailed policy framework which is approved by ANZBGL's Board Risk Committee. The management of the liquidity and funding positions and risks is overseen by the Group Asset and Liability Committee ("GALCO"). The Group has linked its liquidity risk appetite to defined liquidity 'survival horizons' (i.e. the time period under which ANZ must maintain a positive cashflow position under a specific scenario or stress). Under these scenarios, customer and/or wholesale balance sheet asset/liability flows are stressed. The following stressed scenarios are modelled:

- Extreme Short Term Crisis Scenario ("**ESTC"**): A name-specific stress during a period of market stress.
- Short Term Crisis Scenario ("**STC–N"**): A name-specific stress during a period of Normal markets conditions.
- Global Funding Market Disruption ("**GFMD**"): Stressed global wholesale funding markets leading to a closure of domestic and offshore markets.
- Offshore Funding Market Disruption ("**OFMD**"): Stressed global wholesale funding markets leading to a closure of offshore markets only.

Each of the Group's operations is responsible for ensuring its compliance with all scenarios that are required to be modelled. Additionally, ANZBGL measures, monitors and manages all modelled liquidity scenarios on an aggregated Group-wide level.

ANZBGL strictly observes its prudential obligations in relation to liquidity and funding risk as required by APRA Prudential Standard APS 210, as well the prudential requirements of overseas regulators on ANZBGL's offshore operations.

Regulatory Change

The Basel 3 liquidity changes include the introduction of two new liquidity ratios to measure liquidity risk (the Liquidity Coverage Ratio ("**LCR**") in 2015 and the Net Stable Funding Ratio ("**NSFR**") expected implementation 2018). A component of the liquidity required under the proposed standards will likely be met via the previously announced Committed Liquidity Facility from the RBA. The size and composition of this facility for 2015 will be confirmed with APRA during 2014, however the results of a trial exercise completed in 2013 confirmed the expectation that the Group remains well placed to meet future requirements.

While the Group has an existing stress scenario framework and structural liquidity risk metrics and limits in place, the Basel 3 requirements are in general more challenging. These changes may impact the future composition and size of the Group's liquidity portfolio, the size and composition of the Group's funding base and consequently could affect future profitability.

The Basel Committee released revised LCR details in January 2013 which included the re-calibration of certain balance sheet 'run-off factors'. APRA released a final Prudential Standard on its requirements in December 2013 which largely adopted the recalibrated Basel run-off factors. ANZ is expecting draft standards on Basel 3 liquidity implementation from some offshore regulators in the near future.

Other Regulators

In addition to APRA's prudential and regulatory supervision, ANZBGL and its Australian subsidiaries are supervised and regulated in some respects by Australian Securities and Investments Commission ("**ASIC**"), the Australian Competition and Consumer Commission ("**ACCC**"), the Australian Transaction Reports and Analysis Center ("**AUSTRAC**") and various securities exchanges.

ASIC is Australia's corporate, markets and financial services regulator. It regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit-taking and credit. ANZBGL provides products and participates in markets regulated by ASIC. The Group is subject to new consumer protection legislation that arise out of the Future of Financial Advice reforms, which set certain standards and obligations in relation to consumer financial advice (the "**FOFA Rules**"). ANZ has compliance programs in place to ensure that its consumer businesses comply with the FOFA Rules.

The ACCC is an independent Commonwealth statutory authority which promotes competition and fair trading in the Australian marketplace to benefit consumers, business and the community. It also regulates national infrastructure services. Its primary responsibility is to ensure that individuals and businesses, including the Group, comply with the Australian competition, fair trading and consumer protection laws.

The Group is required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under Australian law and the local laws of all the countries in which it operates, including the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (the "**AML Act**"). The AML Act is administered by AUSTRAC.

The Group has ordinary shares listed on the Australian Securities Exchange and the New Zealand Stock Exchange, and has other equity securities and debt securities listed on these and some other overseas securities exchanges. As a result, the Group must comply with a range of listing and corporate governance requirements in Australia, New Zealand, and overseas.

In addition to the prudential capital oversight that APRA conducts over ANZBGL and its branch operations, and details of the supervision and regulation described above, local banking operations in all of the ANZBGL offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators, such as the Reserve Bank of New Zealand ("**RBNZ**"), the Office of the Comptroller of the Currency (the "**Comptroller**"), the Federal Reserve Board (the "**FRB**"), the UK Financial Conduct Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking Regulatory Commission, and other financial regulatory bodies in those countries and in other relevant countries. In addition, the Group's super regional strategy, expansion, and growth in the Asia Pacific region gives rise to a requirement to comply with a number of different legal and regulatory regimes across that region. These regulators may impose minimum capitalisation requirements on those operations in their home jurisdictions.

Sections 102.6 and 102.7 of the Australian Criminal Code

Under Sections 102.6 and 102.7 of the Australian Criminal Code (Cth), a person commits a criminal offence if the person intentionally receives funds from, makes funds available to, or provides support or resources to a terrorist organization. Certain organizations are prescribed as terrorist organizations in the Criminal Code Regulations 2002. Under the Australian Autonomous Sanctions Act 2011 (Cth) and the Autonomous Sanctions Regulations 2011 (Cth), sanctions are imposed against certain specifically identified persons and entities associated with particular countries, currently including North Korea, Zimbabwe, the former Yugoslavia, Fiji, Myanmar, Syria, Libya and Iran, and certain transactions involving the named persons or entities may only be conducted with specific approval from the Minister of Foreign Affairs. Contravention of these sanctions constitutes a criminal offence.

United States of America (U.S.)

A major focus of U.S. governmental policies affecting financial institutions has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the "**Patriot Act**") substantially broadened the scope of U.S. anti-money laundering laws by imposing significant compliance and due diligence obligations, identifying crimes and stipulating penalties and expanding the extra-territorial jurisdiction of the U.S.. The U.S. Treasury Department has issued a number of regulations implementing various requirements of the Patriot Act that apply to U.S. financial institutions, such as ANZBGL's U.S. bank subsidiary and U.S. broker-dealer subsidiary, as well as, ANZBGL's New York branch.

Those regulations require financial institutions operating in the U.S. to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies are imposing heightened standards and U.S. 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 financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

Following the passage of the U.S. Gramm-Leach-Bliley Act (the "**GLB**"), ANZBGL successfully sought certification as a Financial Holding Company (a "**FHC**") by the Federal Reserve Board (“**FRB**”). An FHC is allowed to engage, or acquire companies engaged, in the U.S. in activities that are determined by the FRB and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the FRB to be complementary to financial activities.

Under the GLB, the activities of a FHC are subject to restrictions if it is determined that the FHC (in the case of ANZBGL, at the Group level only), or any of its U.S. subsidiary depository institutions, does not satisfy the definition of "well managed" or "well capitalized" or if any of its U.S. subsidiary depository institutions ceases to achieve at least a "satisfactory" rating under the U.S. Community Reinvestment Act of 1977. In addition, under the GLB, the FRB is the "umbrella" supervisor with jurisdiction over FHCs.

ANZBGL is subject to U.S. federal laws and regulations, including the International Banking Act of 1978 (the "**IBA**"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies. As a federally-licensed branch regulated primarily by the Office of the Comptroller of the Currency ("**OCC**"), the Group's New York branch can generally engage in activities permissible for national banks, with the exception that the Group's New York branch may not accept retail deposits. Most U.S. branches and agencies of foreign banks, including the Group's New York branch, are subject to reserve requirements on deposits pursuant to regulations of the FRB. The Group's New York branch must maintain its accounts and records separate from those of the Group generally and must comply with such additional requirements as may be prescribed by the OCC. The IBA and the Bank Holding Company Act of 1956, as amended, also affect the Group's ability to engage in non-banking activities in the United States.

Under the IBA, a federal branch of a non-U.S. bank is subject to receivership by the OCC 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 imposed upon 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 licence at its own initiative or at the recommendation of the FRB.

The Group also has a U.S. bank subsidiary that operates in Guam and American Samoa. This bank is subject to supervision, examination and regulation by the Federal Deposit Insurance Corporation.

In the United States, the Group is subject to certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“**Dodd-Frank**”), including what is commonly called the “Volcker Rule”, which prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows activities such as underwriting, market making and risk-mitigation hedging) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions, including those listed above as well as exemptions applicable to transactions and investments occurring solely outside of the United States. In December 2013, U.S. regulators adopted final rules to implement the Volcker Rule. Entities subject to the Volcker Rule are generally required to be in compliance by July 21, 2015. The final rules are highly complex, and many aspects of their application remain uncertain. The final rules also require that certain non-U.S. banking organizations that have U.S. banking operations (such as the Group) design and implement compliance programs to ensure adherence to the Volcker Rule’s prohibitions. We are continuing to evaluate the effects of the final rules, but we do not currently anticipate that the Volcker Rule will have a material effect on our operations. Development and monitoring of the required compliance program, however, may require the expenditure of significant resources and management attention.

The Group's businesses may also be affected by new and more stringent Dodd-Frank Act regulations including, without limitation, stricter capital and margin requirements, the central clearing of standardised OTC derivatives, and heightened supervision of OTC derivatives dealers, and major market participants. ANZBGL is required to submit a U.S. resolution plan to the FRB and FDIC for approval. In addition, if ANZBGL is designated as "systematically important" under the Dodd-Frank Act, U.S. regulators may have increased regulatory authority over ANZBGL, and may have the power to require ANZBGL to sell or transfer assets and terminate activities if U.S. regulators determine that the size or scope of the activities of ANZBGL pose a threat to U.S. financial stability.

The Foreign Account Tax Compliance Act (“**FATCA**”) was enacted on March 18, 2010. FATCA imposes significant U.S. withholding taxes on non-U.S. financial institutions (such as ANZBGL and many of its subsidiaries) that fail to provide the U.S. Internal Revenue Service ("IRS") (in the case of Australian institutions and branches, via the Australian Taxation Office which would then forward the information to the IRS, pursuant to an intergovernmental agreement between the United States and Australia, as discussed below) with information on certain non-U.S. accounts held by U.S. persons or, in some cases, held by non-U.S. entities with substantial U.S. owners. The Group has made and is expected to make significant investments in order to comply with FATCA and its potentially onerous reporting requirements. However, while the United States and Australia have entered into an intergovernmental agreement regarding FATCA, Australia has not yet introduced or enacted legislation to implement such agreement. In addition, unified market practices regarding FATCA have not yet developed. Therefore, it is possible that some or all of the Group may become subject to significant U.S. withholding taxes under FATCA. Further, it is also possible that some or all of the Group may be required to make significant gross-up payments to others in respect of FATCA withholding under existing or future transaction documentation.

The Group is also subject to regulations of the U.S. Department of Treasury's Office of Foreign Assets Control, which administers and enforces economic and trade sanctions against targeted foreign countries, terrorists and other threats to U.S. national security.

Competition

Australia

The Australian banking system is highly competitive. As of March 31, 2014, the four major banking groups in Australia (ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation), held approximately 80% of the total Australian lending assets of banks that carry on business in Australia. The operations of the smaller regional banks are typically limited to servicing customers in a particular state or region, and generally have an emphasis on retail banking. A number of international banks also provide banking services in Australia and typically focus on specific segments of the retail or institutional markets, holding a minority position in these segments.

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

Competition has historically been particularly intense in the housing lending market, which initially resulted from the rise of mortgage originators, and subsequently from growth in the mortgage broker industry. In recent years, major banks have competed aggressively by offering significant discounts below the advertised rate. Additionally, the market turmoil experienced during the global financial crisis materially affected the business models of non-bank originators and as a consequence there was an overall uplift in mortgage market share to the major banks. The retail deposit market in Australia is also very competitive, with the introduction in recent years of a number of high rate cash management accounts and online accounts, and increased competition for term deposit funds. An Australian Government Guarantee for retail customer bank deposits was introduced in 2008 during the global financial crisis, which led to increased deposits with the major Australian banks and a decrease in deposits with structured deposit fund providers.

The Institutional Banking Australia business focuses on the delivery of ANZ's products and services to some of the largest corporate and financial institutions in Australia. The business has a number of specialist product teams including Global Loans (structured and project finance, working capital and term lending), Global Markets (foreign exchange, interest rates, commodities and capital markets products) and Transaction Banking (cash management and trade finance), who work together with relationship teams and enablement functions to support client needs in Australia. Institutional Banking Australia also works closely with ANZ Institutional teams in Asia Pacific, Europe, America and New Zealand to ensure a seamless global offering to clients.

Competitors gain recognition through the quality of their client base, perceived skill sets, client insights, reputation, and brands. In domestic markets, Institutional Banking Australia’s competitors at the large corporate and institutional customer level are generally the other major Australian banks, as well as some global investment banks operating in niche markets and the boutique operations of large multi-national banking conglomerates with a focus on niche areas. Institutional Banking Australia’s key competitive strength is its industry expertise, strong linkages with the Asia Pacific region, extensive product offering and established client base.

Market turmoil created as a result of the global financial crisis saw lower activity by foreign banks, and an increase in net interest margins from reduced competition and re-pricing for risk. During 2011, competition intensified once again and funding costs increased, therefore contributing to margin contraction in the Institutional business. Despite funding costs stabilizing during 2012 and 2013, Institutional margins continued to contract as competition further intensified. In response, the Institutional Australia business has continued to focus on growing flow and value added products such as global markets and transaction banking and reducing its reliance on traditional balance sheet lending.

The funds management industry is an area of strong competition among 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.

The retail funds management and life insurance markets are highly concentrated with the top six players capturing approximately 80% market share. The large retail players are generally well integrated and benefit from extensive aligned distribution networks and control product packaging by operating the major platforms, sometimes referred to as ‘funds supermarkets’. In terms of market share ANZ is currently ranked fifth in funds management and sixth in insurance.

Significant changes in market share in funds management and life insurance over the past five years were driven by large acquisitions. In 2011 AMP, a large superannuation and life insurance specialist, completed the acquisition of AXA Asia Pacific Holdings Ltd to become the new market leader.

In recent years a number of Government reviews have focused on Australia's compulsory defined contribution retirement system and financial advice industry. Recommendations adopted from these reviews are now in the process of implementation and are expected to lower the cost of default option schemes, increase the compulsory threshold of a person's contribution into their pension fund, and reduce the potential conflicts of interest arising in the provision of financial advice, including through banning volume-based commissions paid by product manufacturers.

New Zealand

The New Zealand financial services sector in which ANZ New Zealand operates is very concentrated and highly competitive. ANZ New Zealand's principal competitors are the three other major banks, ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. Together with ANZ New Zealand (including the New Zealand branch of ANZBGL), these banks (including the New Zealand branches of their Australian bank parents) held approximately 86% of the New Zealand banking system’s assets as of December 31, 2013 and participate across all customer segments from individuals to large corporates.

Competition also exists in specific business segments from other banks. The New Zealand Government owned Kiwibank Limited is active in retail segments and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, The Hong Kong and Shanghai Banking Corporation and Deutsche Bank participate in a limited manner in the institutional market. GE Capital is in the point of sale consumer finance and credit card market.

Competition in the financial services sector can be intense and difficult to predict. Competition in the deposit market has increased rapidly in New Zealand, with banks attempting to grow their share of retail deposits and reduce their wholesale funding. Lending to the residential mortgage market accounts for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension.

Outside the banking sector, a number of smaller finance companies in New Zealand are active in the personal and business markets through competitive lending and deposit product offerings, especially in the personal and commercial property segments, although their number has fallen in recent years. The non-banking sector constituted approximately 3% of total financial system assets as of December 31, 2013.

Asia Pacific

Banking in Asia Pacific is highly competitive with a large number of global and regional banks operating across the region in addition to local banks in each market.

The Asia Pacific region has very strong appeal for global and regional banks. ANZ’s recent study estimates that the 10 largest economies in Asia (China, India, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam) will account for half of global gross domestic product by 2050 and almost half of the global middle-class population. As ANZ seeks to grow its Asia revenue to derive 25-30% of group earnings by 2017, ANZ is well placed to benefit from a larger Asian financial system.

ANZ has had a long standing presence in Asia Pacific and currently operates in 15 Asian markets and 12 countries (in addition to Australia and New Zealand) across the Pacific. ANZ’s competitive position across these markets ranges from holding significant market share in a number of countries across the Pacific, to being a strong emerging player in several Asian markets. This range is reflective of the length of presence and specific strategic approach that ANZ is taking in each market. ANZ’s Asia Pacific strategy is to expand in a number of franchise markets in Asia that ANZ believes will be high growth and where we see opportunities to participate in that growth.

In Asia Pacific, ANZ provides a broad suite of financial services to Institutional, Commercial, Retail, Wealth and Private banking customers. ANZ’s Super Regional strategy is increasingly becoming a point of differentiation to customers who are doing business across the region. This strategy has helped ANZ make good progress in establishing itself as a competitive foreign bank in Asia, particularly in the Institutional segment.

As part of our strategy in Asia, ANZ is focusing on strengthening key product capabilities, particularly in Trade Finance, Foreign Exchange and Capital Markets.

The Asian capital markets showed strong liquidity in 1Q14 off the back of a record 4Q13, with volume growth driven from blue-chip borrowers in the Hong Kong market. According to Thomson Reuters, ANZ has climbed two spots from 2013 to top the Asia Pacific (excluding Japan) mandated arranger rankings for 1Q14, capturing 7.1% market share. Competition continued as a large number of banks were willing to commit significant balance sheet in support of growth opportunities in the region. Global investment banks and large Chinese and Japanese banks remain our most active competitors in the Asia Pacific region.

Risks factors

Introduction

The Group’s activities are subject to risks that can adversely impact its business, operations and financial condition. The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occur, the Group's business, operations, financial condition, or reputation could be materially and adversely affected, with the result that the trading price of the Group's equity or debt securities could decline, and investors could lose all or part of their investment.

Changes in general business and economic conditions, including disruption in regional or global credit and capital markets, may adversely affect the Group's business, operations and financial condition

The Group's financial performance is primarily influenced by the economic conditions and the level of business activity in the major countries and regions in which it operates or trades, i.e. Australia, New Zealand, the Asia Pacific region, Europe and the United States of America. The Group's business, operations, and financial condition can be negatively affected by changes to these economic and business conditions.

The economic and business conditions that prevail in the Group's major operating and trading markets are affected by domestic and international economic events, political events and natural disasters, and by movements and events that occur in global financial markets.

The global financial crisis saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the creation of many challenges for financial services institutions worldwide that still persist to some extent in many regions. Sovereign risk and its potential impact on financial institutions in Europe and globally subsequently emerged as a significant risk to the growth prospects of the various regional economies and the global economy. The impact of the global financial crisis and its aftermath (such as heightened sovereign risk) continue to affect regional and global economic activity, confidence and capital markets. Prudential authorities have implemented increased regulation to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective.

The economic effects of the global financial crisis and the European sovereign debt crisis have been widespread and far-reaching with unfavorable on-going impacts on retail spending, personal and business credit growth, housing credit, and business and consumer confidence. While some of these economic factors have since improved, lasting impacts from the global financial crisis and subsequent volatility in financial markets and the European sovereign debt crisis suggest on-going vulnerability and potential adjustment of consumer and business behavior.

A sovereign debt crisis could have serious implications for the European Union and the euro which, depending on the circumstances in which it takes place and the countries and currencies affected, could adversely impact the Group's business operations and financial condition. Likewise, if one or more European countries re-introduce national currencies, and the euro destabilizes, the Group's business operations could be disrupted by currency fluctuations and difficulties in hedging against such fluctuations. The New Zealand economy is also vulnerable to more volatile markets and deteriorating funding conditions. Economic conditions in Australia, New Zealand, and some Asia Pacific countries remain difficult for many businesses.

Should the difficult economic conditions described above persist or worsen asset values in the housing, commercial or rural property markets could decline, unemployment could rise and corporate and personal incomes could suffer. Also, deterioration in global markets, including equity, property, currency and other asset markets, could impact the Group's customers and the security the Group holds against loans and other credit exposures, which may impact its ability to recover some loans and other credit exposures.

All or any of the negative economic and business impacts described above could cause a reduction in demand for the Group's products and services and/or an increase in loan and other credit defaults and bad debts, which could adversely affect the Group's business, operations, and financial condition.

The Group's financial performance could also be adversely affected if it were unable to adapt cost structures, products, pricing or activities in response to a drop in demand or lower than expected revenues. Similarly, higher than expected costs (including credit and funding costs) could be incurred because of adverse changes in the economy, general business conditions or the operating environment in the countries in which it operates.

Other economic and financial factors or events which may adversely affect the Group's performance and results, include, but are not limited to, the level of and volatility in foreign exchange rates and interest rates, changes in inflation and money supply, fluctuations in both debt and equity capital markets, declining commodity prices due to, for example, reduced demand in Asia, especially North Asia/China, and decreasing consumer and business confidence.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the on-going unrest and conflicts in the Ukraine, North Korea, Syria, Egypt, Afghanistan and elsewhere, may also adversely affect global financial markets, general economic and business conditions and the Group's ability to continue operating or trading in a country, which in turn may adversely affect the Group's business, operations, and financial condition.

Natural disasters such as (but not restricted to) cyclones, floods and earthquakes, and the economic and financial market implications of such disasters on domestic and global conditions can adversely impact the Group's ability to continue operating or trading in the country or countries directly or indirectly affected, which in turn may adversely affect the Group's business, operations and financial condition. For more specific risks in relation to earthquakes, see the risk factor entitled "The Group may be exposed to the impact of future climate change, geological events, plant and animal diseases, and other extrinsic events which may adversely affect its business, operations and financial condition".

Changes in exchange rates may adversely affect the Group's business, operations and financial condition

The previous appreciation in and continuing high level of the value of the Australian and New Zealand dollars relative to other currencies has adversely affected, and could continue to have an adverse effect on, certain portions of the Australian and New Zealand economies, including some agricultural exports, tourism, manufacturing, retailing subject to internet competition, and import-competing producers. The relationship between exchange rates and commodity prices is volatile. Since April 2013, the Australian dollar has depreciated against the US dollar and New Zealand dollar. A depreciation of the Australian or New Zealand dollars relative to other currencies would increase the debt service obligations in Australia or New Zealand dollar terms of unhedged exposures. Appreciation of the Australian dollar against the New Zealand dollar, United States dollar and other currencies has a potential negative earnings translation effect on non-hedged exposures, and future appreciation could have a greater negative impact, on the Group's results from its other non-Australian businesses, particularly its New Zealand and Asian businesses, which are largely based on non-Australian dollar revenues. The Group has put in place hedges to partially mitigate the impact of currency changes, but notwithstanding this, there can be no assurance that the Group's hedges will be sufficient or effective, and any further appreciation could have an adverse impact upon the Group's earnings.

Competition may adversely affect the Group's business, operations and financial condition, especially in Australia, New Zealand and the Asian markets in which it operates

The markets in which the Group operates are highly competitive and could become even more so, particularly in those countries that are considered to provide higher growth prospects (such as those in the Asian region) and segments that are in the greatest demand (for example, customer deposits in Australia and New Zealand). Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, development of new distribution and service methods, increased diversification of products by competitors, and regulatory changes in the rules governing the operations of banks and non-bank competitors. For example, changes in the financial services sector in Australia and New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic payments systems, mortgages and credit cards. In addition, it is possible that existing companies from outside of the traditional financial services sector may seek to obtain banking licenses to directly compete with the Group by offering products and services traditionally provided by banks. In addition, banks organized in jurisdictions outside Australia and New Zealand are subject to different levels of regulation and consequently some may have lower cost structures. Increasing competition for customers could also potentially lead to a compression in the Group's net interest margins, or increased advertising and related expenses to attract and retain customers.

Additionally, the Australian Government announced in late 2010 a set of measures with the stated purpose of promoting a competitive and sustainable banking system in Australia. The reforms consisted of a variety of actions, including but not limited to, a ban on exit fees for new home loans, implementation of easier switching processes for deposits and mortgages customers, empowerment of the ACCC to investigate and prosecute anti-competitive price signaling, changes in the way fees and interest are charged on credit cards and reforms which allow Australian banks, credit unions and building societies to issue covered bonds. While many of these reforms have been implemented since 2011, and have the potential to change the competitive position of all banks in Australia, the Group has adapted to these reforms and has maintained its competitive position. Nevertheless, any regulatory or behavioral change that occurs in response to these reforms could have the effect of limiting or reducing the Group's revenue earned from its banking products or operations. These regulatory changes could also result in higher operating costs. A reduction or limitation in revenue or an increase in operating costs could adversely affect the Group's profitability.

The effect of competitive market conditions, especially in the Group's main markets and products, may lead to erosion in the Group's market share or margins, and adversely affect the Group's business, operations and financial condition.

Changes in monetary policies may adversely affect the Group's business, operations and financial condition

Central monetary authorities (including the RBA, the RBNZ, the United States Federal Reserve and the monetary authorities in the Asian jurisdictions in which the Group carries out business) set official interest rates or take other measures to affect the demand for money and credit in their relevant jurisdictions. Also, in some Asian jurisdictions currency policy is used to influence general business conditions and the demand for money and credit. These policies can significantly affect the Group's cost of funds for lending and investing and the return that the Group will earn on those loans and investments. Both these factors impact the Group's net interest margin and can affect the value of financial instruments it holds, such as debt securities and hedging instruments. The policies of the central monetary authorities can also affect the Group's borrowers, potentially increasing the risk that they may fail to repay loans. Changes in such policies are difficult to predict.

Sovereign risk may destabilize global financial markets adversely affecting all participants, including the Group

Sovereign risk, or the risk that foreign governments will default on their debt obligations, increase borrowings as and when required or be unable to refinance their debts as they fall due or nationalize participants in their economy, has emerged as a risk to many economies. This risk is particularly relevant to a number of European countries though it is not limited to these places and includes the United States. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which while difficult to predict, may be similar to or worse than those currently being experienced or which were experienced during the global financial crisis. Such an event could destabilize global financial markets adversely affecting all participants, including the Group.

The Group is exposed to liquidity and funding risk, which may adversely affect its business, operations and financial condition

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund increases in assets. Liquidity risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of the Group's borrowings and possibly constrain the volume of new lending, which could adversely affect the Group's profitability. A significant deterioration in investor confidence in the Group could materially impact the Group's cost of borrowing, and the Group's on-going operations and funding.

The Group raises funding from a variety of sources including customer deposits and wholesale funding in Australia and offshore markets to meet its funding obligations and to maintain or grow its business generally. In times of systemic liquidity stress, in the event of damage to market confidence in the Group or in the event that funding inside or outside of Australia is not available or constrained, the Group's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity risk. In any such cases, the Group may be forced to seek alternative funding. The availability of such alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and the Group's credit ratings. Even if available, the cost of these alternatives may be more expensive or on unfavorable terms.

Since the advent of the global financial crisis, developments in the United States mortgage industry and in the United States and European markets more generally, including recent European and United States sovereign debt concerns, have adversely affected the liquidity in global capital markets and increased funding costs. Future deterioration in market conditions may limit the Group's ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow its business.

The Group is exposed to the risk that its credit ratings could change, which could adversely affect its ability to raise capital and wholesale funding

The Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. Credit ratings are not a recommendation by the relevant rating agency to invest in securities offered by the Group. Credit ratings may be withdrawn, subject to qualifiers, revised, or suspended by the relevant credit rating agency at any time and the methodologies by which they are determined may be revised. A downgrade or potential downgrade to the Group's credit rating may reduce access to capital and wholesale debt markets, potentially leading to an increase in funding costs, as well as affecting the willingness of counterparties to transact with it.

In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 capital and Tier 2 capital securities and covered bonds) issued by the Group (and banks globally) could be impacted from time to time by changes in the ratings methodologies used by rating agencies. On September 5, 2013, Moody's Investors Service downgraded the subordinated debt ratings of eight Australian banks including the Group. Ratings agencies may also revise their methodologies in response to legal or regulatory changes or other market developments.

The Group may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios

The Group's capital base is critical to the management of its businesses and access to funding. The Group is required by regulators including, but not limited to, APRA, RBNZ, the United Kingdom Prudential Regulation Authority and Financial Conduct Authority, United States regulators and regulators in various Asia Pacific jurisdictions (such as the Hong Kong Monetary Authority and the Monetary Authority of Singapore) where the Group has operations, to maintain adequate regulatory capital.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as counterparty’s risk grade worsens. These additional regulatory capital requirements compound any reduction in capital resulting from lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require the Group to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

The Group's capital ratios may be affected by a number of factors, such as lower earnings (including lower dividends from its deconsolidated subsidiaries including its insurance and funds management businesses and associates); increased asset growth, changes in the value of the Australian dollar and/or New Zealand dollar against other currencies in which the Group operates (particularly the New Zealand dollar and United States dollar) that impacts risk weighted assets or the foreign currency translation reserve and changes in business strategy (including acquisitions and investments or an increase in capital intensive businesses).

APRA's new Prudential Standards implementing Basel 3 are now in effect, and other regulators in jurisdictions where the Group operates (including the RBNZ in New Zealand) have either implemented or are in the process of implementing regulations, including Basel 3, which seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities, and insurance entities, though there can be no assurance that these regulations will have their intended effect. These regulations, together with any risks arising from any regulatory changes, are described below in the risk factor entitled "Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition".

The Group is exposed to credit risk, which may adversely affect its business, operations and financial condition

As a financial institution, the Group 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, or natural disasters, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms. For example, its customers and counterparties in the natural resources sector could be adversely impacted in the event of a prolonged slowdown in the Chinese economy. Also, its customers and counterparties in the agriculture, tourism and manufacturing industries have been and may continue to be adversely impacted by the sustained strength of the Australian and New Zealand dollar relative to other currencies. The Group holds provisions for credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within the current lending portfolio, based on current information. This process, which is critical to the Group's financial condition and results, requires difficult, subjective and complex judgments, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if the Group fails to analyze the information correctly, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on the Group's business, operations and financial condition.

In addition, in assessing whether to extend credit or enter into other transactions with customers, the Group relies on information provided by or on behalf of customers, including financial statements and other financial information. The Group may also rely on representations of customers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. The Group's financial performance could be negatively impacted to the extent that it relies on information that is inaccurate or materially misleading.

An increase in the failure of third parties to honor their commitments in connection with the Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition

The Group is exposed to the potential risk of credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. As with any financial services organization, the Group assumes counterparty risk in connection with its lending, trading, derivatives and other businesses where it relies on the ability of a third party to satisfy its financial obligations to the Group on a timely basis. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances.

The risk of credit-related losses may also be increased by a number of factors, including deterioration in the financial condition of the economy, a sustained high level of unemployment, a deterioration of the financial condition of the Group's counterparties, a reduction in the value of assets the Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

For example, the Group is directly and indirectly exposed to the Australian mining sector and mining-related contractors and industries. Should commodity prices materially decrease due to, for example, reduced demand in Asia, especially North Asia/China, and/or mining activity, demand for resources, or corporate investment in the mining sector suffer material decreases from historical levels, the amount of new lending the Group is able to write may be adversely affected, and the weakening of the sector could be of sufficient magnitude to lead to an increase in lending losses from this sector.

Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. Should material unexpected credit losses occur to the Group's credit exposures, it could have an adverse effect on the Group's business, operations and financial condition.

Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect its business, operations and financial condition

Residential, commercial and rural property lending, together with property finance, including real estate development and investment property finance, constitute important businesses to the Group.

A decrease in property valuations in Australia, New Zealand or other markets where it does business could decrease the amount of new lending the Group is able to write and/or increase the losses that the Group may experience from existing loans, which, in either case, could materially and adversely impact the Group's financial condition and results of operations. A significant slowdown in the Australian and New Zealand housing markets or in other markets where it does business could adversely affect the Group's business, operations and financial conditions.

The Group is exposed to market risk which may adversely affect its business, operations and financial condition

The Group is subject to market risk, which is the risk to the Group's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and indices, prices of commodities, debt securities and other financial contracts, including derivatives. Losses arising from these risks may have a material adverse effect on the Group. As the Group conducts business in several different currencies, its businesses may be affected by a change in currency exchange rates. Additionally, as the Group's annual and interim reports are prepared and stated in Australian dollars, any appreciation in the Australian dollar against other currencies in which the Group earns revenues (particularly to the New Zealand dollar and United States dollar) may adversely affect the reported earnings.

The profitability of the Group's funds management and insurance businesses is also affected by changes in investment markets and weaknesses in global securities markets.

The Group is exposed to the risks associated with credit intermediation and financial guarantors which may adversely affect its business, operations and financial condition

The Group entered into a series of structured credit intermediation trades from 2004 to 2007. The Group sold protection using credit default swaps over these structures and then, to mitigate risk, purchased protection via credit default swaps over the same structures from eight United States financial guarantors. The underlying structures involve credit default swaps over synthetic collateralized debt obligations, portfolios of external collateralized loan obligations or specific bonds/floating rate notes.

Being derivatives, both the sold protection and purchased protection are marked-to-market. Prior to the commencement of the global financial crisis, movements in valuations of these positions were not significant and the credit valuation adjustment ("**CVA**") charge on the protection bought from the non-collateralized financial guarantors was minimal.

During and after the global financial crisis, the market value of the structured credit transactions increased and the financial guarantors were downgraded. The combined impact of this was to increase the CVA charge on the purchased protection from financial guarantors. Volatility in the market value and hence CVA will continue to persist given the volatility in credit spreads and USD/AUD rates.

Credit valuation adjustments are included as part of the Group's profit and loss statement, and accordingly, increases in the CVA charge or volatility in that charge could adversely affect the Group's profitability.

The Group is exposed to operational risk, which may adversely affect its business, operations and financial condition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, and the risk of loss of reputation or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

Loss from operational risk events could adversely affect the Group's financial results. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputation loss, loss of life or injury to people, and loss of property and/or information.

Operational risk is typically classified into the risk event type categories to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- internal fraud: risk that fraudulent acts are planned, initiated or executed by employees (permanent, temporary or contractors) from inside the Group, e.g. a rogue trader;
- external fraud: fraudulent acts or attempts which originate from outside the Group, e.g., valueless cheques, counterfeit credit cards, loan applications in false names and stolen identity;
- employment practices and workplace safety: employee relations, diversity and discrimination, and health and safety risks to the Group employees;
- clients, products and business practices: risk of market manipulation, product defects, incorrect advice, money laundering and misuse of customer information;
- business disruption (including systems failures): risk that the Group's banking operating systems are disrupted or fail. At the Group, technology risks are key operational risks which fall under this category;
- damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages the Group's buildings or property; and
- execution, delivery and process management: risk that the Group experiences losses as a result of data entry errors, accounting errors, vendor, supplier or outsource provider errors, or failed mandatory reporting.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results.

Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the Group's business which may adversely affect its business, operations and financial condition

The Group is highly dependent on information systems and technology and there is a risk that these or the services the Group uses or is dependent upon, might fail, including because of unauthorized access or use.

Most of the Group's daily operations are computer-based and information technology systems are essential to maintaining effective communications with customers. The exposure to systems risks includes the complete or partial failure of information technology systems or data center infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth, prevent unauthorized access and integrate existing and future acquisitions and alliances.

To manage these risks, the Group has disaster recovery and information technology governance in place. However, there can be no guarantee that the steps the Group is taking in this regard will be effective and any failure of these systems could result in business interruption, customer dissatisfaction and ultimately loss of customers, financial compensation, damage to reputation and/or a weakening of the Group's competitive position, which could adversely impact the Group's business and have a material adverse effect on the Group's financial condition and operations.

In addition, the Group has an on-going need to update and implement new information technology systems, in part to assist it to satisfy regulatory demands, ensure information security, enhance computer-based banking services for the Group's customers and integrate the various segments of its business. The Group may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Group's information security controls or a decrease in the Group's ability to service its customers.

The Group is exposed to risks associated with information security, which may adversely affect its financial results and reputation

Information security means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations. The Group also uses third parties to process and manage information on its behalf. The Group employs a team of information security subject matter experts who are responsible for the development and implementation of the Group's Information Security Policy. The Group is conscious that threats to information security are continuously evolving and as such the Group conducts regular internal and external reviews to ensure new threats are identified, evolving risks are mitigated, policies and procedures are updated, and good practice is maintained. However, there is a risk that information may be inadvertently or inappropriately accessed or distributed or illegally accessed or stolen. Any unauthorized use of confidential information could potentially result in breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion to the Group's competitive market position, which could adversely affect the Group's financial position and reputation.

The Group is exposed to reputation risk, which may adversely impact its business, operations and financial condition

Damage to the Group's reputation may have wide-ranging impacts, including adverse effects on the Group's profitability, capacity and cost of sourcing funding, and availability of new business opportunities.

Reputation risk may arise as a result of an external event or the Group's own actions, and adversely affect perceptions about the Group held by the public (including the Group's customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on the Group's reputation may exceed any direct cost of the risk event itself and may adversely impact the Group's business, operations and financial condition.

The unexpected loss of key staff or inadequate management of human resources may adversely affect the Group's business, operations and financial condition

The Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The Chief Executive Officer and the management team of the Chief Executive Officer have skills and reputation that are critical to setting the strategic direction, successful management and growth of the Group, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect its operations and financial condition. The Group may in the future have difficulty retaining or attracting highly qualified people for important roles, which could adversely affect its business, operations and financial condition.

The Group may be exposed to the impact of future climate change, geological events, plant and animal diseases, and other extrinsic events which may adversely affect its business, operations and financial condition

The Group and its customers are exposed to climate related events (including climate change). These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The Group and its customers may also be exposed to other events such as geological events (including volcanic or seismic activity or tsunamis); plant and animal diseases or a pandemic. Recent examples include earthquakes in New Zealand and floods in Australia and the Philippines.

Depending on their severity, events such as these may temporarily interrupt or restrict the provision of some local or Group services, and may also adversely affect the Group's financial condition or collateral position in relation to credit facilities extended to customers.

Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition

The Group is subject to laws, regulations, policies and codes of practice in Australia, New Zealand, the United Kingdom, the United States of America, Hong Kong, Singapore, Japan, China and other countries within the Asia Pacific region in which it has operations, trades or raises funds or in respect of which it has some other connection. In particular, the Group's banking, funds management and insurance activities are subject to extensive regulation, mainly relating to its liquidity levels, capital, solvency, provisioning, and insurance policy terms and conditions.

Regulations vary from country to country but generally are designed to protect depositors, insured parties, customers with other banking products, and the banking and insurance system as a whole. Some of the jurisdictions in which the Group operates do not permit local deposits to be used to fund operations outside of that jurisdiction. In the event the Group experiences reduced liquidity, these deposits may not be available to fund the operations of the Group.

The Australian Government and its agencies, including APRA, the RBA and other financial industry regulatory bodies including the Australian Securities and Investments Commission ("**ASIC**"), and the ACCC have supervisory oversight of the Group. The New Zealand Government and its agencies, including the RBNZ, the Financial Markets Authority and the Commerce Commission, have supervisory oversight of the Group's operations in New Zealand. To the extent that the Group has operations, trades or raises funds in, or has some other connection with, countries other than Australia or New Zealand, then such activities may be subject to the laws of, and regulation by agencies in, those countries. Such regulatory agencies include, by way of example, the United States Federal Reserve Board, the United States Department of Treasury, the United States Office of the Comptroller of the Currency, the United States Office of Foreign Assets Control, the United Kingdom Prudential Regulation Authority and the Financial Conduct Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking Regulatory Commission, the Kanto Local Finance Bureau of Japan, and other financial regulatory bodies in those countries and in other relevant countries. In addition, the Group's expansion and growth in the Asia Pacific region gives rise to a requirement to comply with a number of different legal and regulatory regimes across that region.

A failure to comply with any standards, laws, regulations or policies in any of those jurisdictions could result in sanctions by these or other regulatory agencies, the exercise of any discretionary powers that the regulators hold or compensatory action by affected persons, which may in turn cause substantial damage to the Group's reputation. To the extent that these regulatory requirements limit the Group's operations or flexibility, they could adversely impact the Group's profitability and prospects.

These regulatory and other governmental agencies (including revenue and tax authorities) frequently review banking and tax laws, regulations, codes of practice and policies. Changes to laws, regulations, codes of practice or policies, including changes in interpretation or implementation of laws, regulations, codes of practice or policies, could affect the Group in substantial and unpredictable ways and may even conflict with each other. These may include increasing required levels of bank liquidity and capital adequacy, limiting the types of financial services and products the Group can offer, and/or increasing the ability of non-banks to offer competing financial services or products, as well as changes to accounting standards, taxation laws and prudential regulatory requirements.

As a result of the global financial crisis, the Basel Committee released capital reform packages to strengthen the resilience of the banking and insurance sectors, including proposals to strengthen capital and liquidity requirements for the banking sector. APRA has released prudential standards implementing Basel 3 with effect from January 1, 2013. Other regulators in jurisdictions where the Group has a presence (including the RBNZ in New Zealand) have also either implemented or are in the process of implementing Basel 3 and equivalent reforms. In addition, the United States has passed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act which significantly affects financial institutions and financial activities in the United States. There can be no assurance that any of the foregoing will be effective.

Uncertainty remains as to the final form that some of the proposed regulatory changes will take in certain jurisdictions outside Australia and New Zealand in which the Group operates (including the United States) and any such changes could adversely affect the Group's business, operations and financial condition. The changes may lead the Group to, among other things, change its business mix, incur additional costs as a result of increased management attention, raise additional amounts of higher-quality capital (such as ordinary shares, additional Tier 1 capital or Tier 2 capital instruments) or retain capital (through lower dividends), and hold significant levels of additional liquid assets and undertake further lengthening of the funding base.

The Australian Government recently announced a comprehensive inquiry into Australia’s financial system. The terms of reference of this inquiry are wide-ranging, and could result in changes to laws, regulations, codes of practice or policies, including changes in interpretation or implementation of laws, regulations, codes of practice or policies, which could affect the Group in substantial and unpredictable ways. An interim report is expected by mid-2014, with a final report due by November 2014.

The Issuer may face increased tax reporting compliance costs

In March 2010, the United States enacted FATCA, which requires non-United States banks and other financial institutions to provide information on United States account holders to the United States Federal tax authority, the Internal Revenue Service ("**IRS**"). In addition, it is likely that future laws will be adopted by jurisdictions (including Australia and New Zealand), that enter into intergovernmental agreements (each, an "**IGA**") with the United States in furtherance of FATCA and will require that such information be reported to a non-United States institution's local revenue authority to forward to the IRS. If this information is not provided in a manner and form meeting the applicable requirements, a non-United States institution may be subjected to penalties and potentially a 30 percent withholding tax applied to certain amounts paid to it. No such withholding tax will be imposed on any payments derived from sources within the United States that are made prior to July 1, 2014, and no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2017, at the earliest. Australia has signed an IGA with the United States but has not yet introduced or enacted legislation to implement the agreement. The United States Department of the Treasury has announced that New Zealand has reached agreement in substance with the United States on the terms of an IGA and therefore will be treated as having an IGA in effect until December 31, 2014. The Group has made and is expected to make significant investments in order to comply with the requirements of FATCA and any local laws implementing an IGA.

Unexpected changes to the Group's license to operate in any jurisdiction may adversely affect its business, operations and financial condition

The Group is licensed to operate in the various countries, states and territories. Unexpected changes in the conditions of the licenses to operate by governments, administrations or regulatory agencies which prohibit or restrict the Group from trading in a manner that was previously permitted may adversely impact the Group's operations and subsequent financial results.

The Group is exposed to insurance risk, which may adversely affect its business, operations and financial condition

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. In life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. For general insurance business, insurance risk arises mainly through weather-related incidents (including floods and bushfires) and other calamities, such as earthquakes, tsunamis and volcanic activities, as well as adverse variability in home, contents, motor, travel and other insurance claim amounts. For further details on climate and geological events see also the risk factor entitled "The Group may be exposed to the impact of future climate change, geological events, plant and animal diseases, and other extrinsic events which may adversely affect its business, operations and financial condition". The Group has exposure to insurance risk in both its life insurance and general insurance businesses, which may adversely affect its business, operations and financial condition.

In addition, the Group has various direct and indirect pension obligations towards its current and former staff. These obligations entail various risks which are similar to, among others, risks involving a capital investment. Risks, however, may also arise due to changes in tax or other legislation, and/or in judicial rulings, as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on the Group's business, operations and financial condition.

The Group may experience reductions in the valuation of some of its assets, resulting in fair value adjustments that may have a material adverse effect on its earnings

Under Australian Accounting Standards, the Group recognizes the following instruments at fair value with changes in fair value recognized in earnings:

- derivative financial instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure;
- financial instruments held for trading; and
- assets and liabilities designated at fair value through profit and loss.

In addition, the Group recognizes available-for-sale financial assets at fair value with changes in fair value recognized in equity unless the asset is impaired, in which case, the decline in fair value is recognized in earnings.

Generally, in order to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other accepted valuation techniques which incorporate the impact of factors that would influence the fair value as determined by a market participant. The fair value of these instruments is impacted by changes in market prices or valuation inputs which could have a material adverse effect on the Group's earnings.

Changes to accounting policies may adversely affect the Group's business, operations and financial condition

The accounting policies and methods that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of 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 is reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

The Group may be exposed to the risk of impairment to capitalized software, goodwill and other intangible assets that may adversely affect its business, operations and financial condition

In certain circumstances the Group may be exposed to a reduction in the value of non-lending related assets. As at March 31, 2014, the Group carried goodwill principally related to its investments in New Zealand and Australia, intangible assets principally relating to assets recognized on acquisition of subsidiaries, and capitalized software balances and investment in equity accounted associates.

The Group is required to assess the recoverability of the goodwill balances on at least an annual basis. For this purpose the Group uses either a discounted cash flow or a multiple of earnings calculation. Changes in the assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balances.

Capitalized software and other intangible assets (including acquired portfolio of insurance and investment business and deferred acquisition costs) are assessed for indicators of impairment at least annually. In the event that an asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, impairment may be recorded, adversely impacting the Group's financial condition.

Investments in associates are assessed for indicators of impairment at least annually. In the event that the equity accounted carrying value is above the recoverable value, impairment may be recorded, adversely impacting the Group's financial condition.

Litigation and contingent liabilities may adversely affect the Group's business, operations and financial condition

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallize, may adversely affect the Group's results. Details regarding the Group's material contingent liabilities are described in Note 43 to the audited annual consolidated financial statements for the year ended September 30, 2013 and Note 19 to the Condensed Consolidated Financial Statements.

On February 5, 2014, the Australian Federal Court delivered reasons for judgment in the second class action brought against the Group by around 4,000 customers funded by Bentham IMF Limited (referred to in Note 43 as the second of two class actions). (The first class action referred to in Note 43 (brought by around 35,000 customers) is in abeyance.) The applicants contended that the relevant exception fees were unenforceable penalties (at law and in equity) and that some of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. On the penalties claims, the Court found in the Group's favor in relation to all but one of the fee types that were in issue in the case, namely honor fees (retail and business), dishonor fees (business), overlimit and non-payment fees. The Court found against the Group in respect of late payment fees on the basis that they were unenforceable penalties. All of the applicants' statutory claims were dismissed. Both the Group and the applicants have appealed the court's decision. The appeal hearing is likely to take place in the second half of 2014. Given the complexity of the issues involved, and the appeal by each side, the implications of the court's decision of February 5, 2014 are uncertain and may not be known for some time.

There is a risk that contingent liabilities described in Note 43 and Note 19 may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

The Group regularly considers acquisition and divestment opportunities, and there is a risk that the Group may undertake an acquisition or divestment that could result in a material adverse effect on its business, operations and financial condition

The Group regularly examines a range of corporate opportunities, including material acquisitions and disposals, with a view to determining whether those opportunities will enhance the Group's 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 Group's corporate strategy, including its strategy to expand in the Asia Pacific region, will depend on a range of factors including potential funding strategies, and challenges associated with integrating and adding value to acquired businesses, as well as new regulatory, market and other risks associated with increasing operations outside of Australia and New Zealand.

There can be no assurance that any acquisition would have the anticipated positive results, including results relating to the total cost of integration, the time required to complete the integration, the amount of longer-term cost savings, the overall performance of the combined entity, or an improved price for the Group's securities. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, counterparties, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect the Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired businesses will remain as such post-acquisition, and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect the Group's operations or results.

Acquisitions and disposals may also result in business disruptions that cause the Group to lose customers or cause customers to remove their business from the Group to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of the Group's on-going businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect the Group's ability to maintain relationships with employees, customers, counterparties, suppliers and other business partners, which could adversely affect the Group's ability to conduct its business successfully. The Group's operating performance, risk profile or capital structure may also be affected by these corporate opportunities and there is a risk that any of the Group's credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

The Group may be exposed to risks pertaining to the provision of advice, recommendations or guidance about financial products and services in the course of its sales and marketing activities which may adversely affect the Group's business and operations

Such risks can include:

- the provision of unsuitable or inappropriate advice (commensurate with a customer's objectives and appetite for risk);
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;
- a failure to appropriately manage conflicts of interest within sales and /or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice); and
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice.

Exposure to such risk may increase during periods of declining investment asset values (such as during a period of economic downturn or investment market volatility), leading to sub-optimal performance of investment products and/or portfolios that were not aligned with the customer's objectives and risk appetite.

The Group is regulated under various legislative mechanisms in the countries in which it operates which provide for consumer protection around advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorized to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes.

Risks pertaining to advice about financial products and services may result in material litigation (and associated financial costs), regulatory actions, and/or reputational consequences.

Currency of presentation, exchange rates and certain definitions

Currency of presentation

ANZ publishes consolidated financial statements in Australian Dollars. In this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, references to ‘US$’, ‘USD’ and ‘U.S. dollars’ are to U.S. Dollars and references to ‘$’, ‘AUD’ and ‘A$’ are to Australian Dollars. For the convenience of the reader, this U.S. Disclosure Document contains translations of certain Australian Dollar amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Australian Dollar amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated. Unless otherwise stated, the translations of Australian Dollars into U.S. Dollars have been made at the rate of US$0.9275 = A$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 March 31, 2014. As of May 2, 2014 the Noon Buying Rate was US$0.9257 = A$1.00.

Exchange rates

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

Noon buying rates for Australian Dollars

	USD per AUD1.00			
Year ended September 30	**High**	**Low**	**Average**[1]	**Close**
2011	1.1055	0.9571	1.0322	0.9744
2012	1.0806	0.9453	1.0371	1.0388
2013	1.0579	0.8901	0.9885	0.9342
Month ended[2]				
October 2013	0.9705	0.9366	0.9519	0.9471
November 2013	0.9518	0.9072	0.9324	0.9125
December 2013	0.9150	0.8858	0.8980	0.8929
January 2014	0.9053	0.8715	0.8858	0.8743
February 2014	0.9045	0.8777	0.8974	0.8933
March 2014	0.9275	0.8929	0.9089	0.9275

1. *The average for annual periods is calculated from the Noon Buying Rate on the last day of each month during the period.*
2. *The average for monthly periods is calculated using daily exchange rates.*

In the March 2014 half, 38% (September 2013 half : 33%; March 2013 half: 32%) of ANZ’s operating income was derived from New Zealand and Asia Pacific, Europe & America, and was denominated principally in Chinese Yuan, Euro, British Pounds Sterling, Malaysian Ringgit, New Zealand Dollars, and U.S. Dollars. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ’s earnings through the translation of overseas profits to Australian Dollars. Based on exchange rates applied to convert overseas profits and losses from September 2011 to March 2014, the Australian Dollar moved against these currencies as follows:

Australian Dollar movement against foreign currencies

	1st Half	Full Year		
	2014	**2013**	**2012**	**2011**
Chinese Yuan (CNY)	-10%	-6%	-3%	9%
Euro (EUR)	-12%	-4%	8%	11%
British Pound (GBP)	-13%	-2%	2%	11%
Malaysian Ringgit (MYR)	-4%	-3%	2%	6%
New Zealand Dollar (NZD)	-10%	-6%	-1%	4%
U.S. Dollar (USD)	-8%	-3%	0%	14%

ANZ monitors its 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.

Refer to Section 3: Operating and Financial Review – Supplementary Information on page 56 for further details on exchange rates used in the translation of the results, and the assets and liabilities of overseas branches and controlled entities.

Certain definitions

Our financial year ends on September 30. As used throughout this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, the fiscal half year ended March 31, 2014 is referred to as the “March 2014 half”, and other fiscal half years are referred to in a corresponding manner. Our 2013 and 2012 audited financial results are contained in our 2013 Annual Report.

Operating Results

The following discussion of statutory profit is based on the Condensed Consolidated Financial Statements prepared under IFRS (Refer to the section headed "Selected financial data" on page 2 for a discussion of IFRS).

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

ANZ's results for the past three half year periods are summarized below and are also discussed under the headings of 'Analysis of major income and expense items' and 'Results by segment', which follow.

Summary of ANZ's results over the past three half year periods

	Half year		
	Mar 14 $M	Sep 13 $M	Mar 13 $M
Net interest income	6,778	6,558	6,200
Net funds management and insurance income	611	735	696
Other operating income	2,129	2,230	2,040
Operating income	9,518	9,523	8,936
Operating expenses	(4,286)	(4,213)	(4,044)
Profit before credit impairment and income tax	5,232	5,310	4,892
Provision for credit impairment	(527)	(600)	(588)
Profit before income tax	4,705	4,710	4,304
Income tax expense	(1,318)	(1,376)	(1,362)
Non-controlling interests	(6)	(5)	(5)
Profit attributable to shareholders of the Company	**3,381**	**3,329**	**2,937**

Profit and loss

Comparison of March 2014 half with March 2013 half

Profit after tax increased $444 million (15%). Key factors affecting the result were:

- Net interest income increased $578 million (9%) mainly due to:
  - 14% increase in average interest earning assets to $632.4 billion; and
  - 15% increase in average deposits and other borrowings to $498.5 billion; offset by
  - Reduction in net interest margin of 9 basis point to 2.15%.
- Net funds management and insurance income decreased by $85 million (-12%) mainly due to:
  - Investment income decreased $1,071 million consistent with investment market conditions and in line with the subdued market gains evidenced during the March 2014 half relative to the March 2013 half; partially offset by
  - Policyholder liabilities increased by $937 million (48%) which reflects the inverse relationship with investment income during the period.
- Other operating income increased $89 million (4%) mainly due to:
  - $36 million increase in share of associates' profits primarily due to a combination of volume and earnings growth in the Group's interests in AMMB Holdings Berhad (AMMB), Bank of Tianjin (BoT), Shanghai Rural Commercial Bank, and P.T. Bank Pan Indonesia.
  - $29 million increase in other income which included a one off $12 million dilution gain on investment in Bank of Tianjin, a $26 million insurance settlement, net foreign exchange earnings, gains on financial instruments measured at fair value through profit & loss; partially offset by reduced profit on trading instruments.
  - $24 million increase in net fee and commission income.
- Operating expenses increased $242 million (6%), mainly driven by:
  - Personnel expenses increased $146 million (6%) primarily due to annual salary increases and the adverse impact of foreign exchange movements, partially offset by lower redundancy costs in the March 204 half;
  - Premises expenses increased $35 million (10%) due to increased rental space, including our new Sydney premises, along with rent and utility costs increases and adverse foreign exchange translation;
  - Computer expenses increased $22 million (4%) due to increased depreciation and amortization and higher computer contractors costs and communication costs, partially offset by lower software purchases; and
  - An increase of $39 million in other expenses (5%), primarily due to adverse impact of foreign exchange movements, the impact of Goods and Service Tax ("GST") credits in the March 2013 half, and higher advertising costs, partially offset by lower spend on project consultants.
- Total credit impairment charge decreased $61 million (10%), comprised of:
  - The collective credit impairment charge decreasing by $78 million driven by a significant improvement in the risk profile; offset by
  - An increase in the individual credit impairment charge of $17 million primarily due to larger provisions being raised in IIB.
- The Group's income tax expense decreased by $44 million (3%). The Group's effective tax rate was 28.0%, down 3.6%, which was primarily due to an increase in the overseas tax rate differential during the March 2014 half.

Comparison of March 2014 half with September 2013 half

Profit after tax increased $52 million (2%). Key factors affecting the result were:

- Net interest income increased $220 million (3%) mainly due to a:
  - 6% increase in average interest earning assets to $632.4 billion; and
  - 7% increase in average deposits and other borrowings to $498.5 billion; offset by
  - Reduction in net interest margin of 5 basis points to 2.15%.
- Net funds management and insurance income decreased by $124 million (17%) mainly due to:
  - Investment income decreased $600 million (33%) consistent with investment market conditions and in line with the subdued market gains evidenced during the March 2014 half relative to the September 2013 half.
  - Policyholder liabilities increased by $736 million (42%) which reflects the inverse relationship with the investment income during the period.
- Other operating income decreased $101 million (5%) mainly due to:
  - $376 million reduction in financial instruments measured at fair value through profit & loss. A $140 million loss was reported in the March 2014 half mainly caused by narrowing basis spreads compared with a $236 million gain in the September 2013 half primarily caused by a weakening AUD, offset by
  - $216 million increase in foreign exchange earnings as losses on revenue as a result of the weakening in AUD against New Zealand dollar during the March 2014 half; and
  - $59 million increase in other operating income including a $27 million increase in net fee and commission income, and a $26 million insurance settlement.
- Operating expenses increased $73 million (2%), mainly due to :
  - $76 million (3%) increase in personal expenses due to annual salary increases and the adverse impact of foreign exchange movements;
  - $14 million (4%) increase in premises expenses due to increased depreciation and amortization on new office buildings and fixtures;
  - $15 million (2%) increase in computer expenses due to increased depreciation and amortization and higher computer contractor costs, partially offset by lower software purchases;
  - $7 million (25%) increase in restructuring costs mainly due to restructuring in Global Technology Service and Operations and Group Center; partially offset by
  - $39 million (4%) decrease in other expenses primarily due to lower spend on project consultants and decreased travel and enterainment.
- Total credit impairment charge decreased $73 million (12%), comprised:
  - The collective credit impairment charge decreasing by $100 million driven by a significant improvement in the risk profile; offset by
  - An increase in the individual credit impairment charge of $27 million primarily due to larger provisions being raised in IIB.
- The Group's income tax expense decreased by $58 million (4%). The Group’s effective tax rate was 28.0%, decreased 1.2% primarily due to a favorable Global Wealth tax consolidation adjustment during the September 2013 half.

Analysis of major income and expense items

Net interest income

The following tables analyze net interest income, net interest margin, average interest earning assets and average deposits and other borrowings for the Australia, New Zealand and International and Institutional Banking divisions.

	Half year		
	Mar 14	**Sep 13**	**Mar 13**
Net interest income ($M)	6,778	6,558	6,200
Net interest margin (%)[1]	2.15	2.20	2.24

	Half year		
Net interest margin	**Mar 14 %**	**Sep 13 %**	**Mar 13 %**
Australia[1]	2.48	2.51	2.53
International and Institutional Banking[1]	1.55	1.58	1.65
New Zealand[1]	2.48	2.49	2.50

1. *Net interest income as a percentage of average interest earning assets.*

	Half year		
Average interest earning assets	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Australia	276,779	268,795	259,721
International and Institutional Banking	258,222	240,370	216,536
New Zealand	85,864	77,786	71,497
Other	11,535	9,047	8,510
Group	**632,400**	**595,998**	**556,264**

	Half year		
Average deposits and other borrowings	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Australia	155,314	148,675	144,277
International and Institutional Banking	216,062	195,535	182,389
New Zealand	54,516	48,311	45,023
Other	72,592	73,740	62,091
Group	**498,484**	**466,261**	**433,780**

Comparison of March 2014 half with March 2013 half

The increase in net interest income of $578 million was driven by an increase in average interest earning assets partially offset by a decline in the net interest margin.

Margin

Net interest margin (-9 basis points):

- Asset mix and funding mix (-2 bps): adverse asset mix from an increased proportion of lower margin home loans and trade loans.
- Funding costs (+2 bps): impact from favorable wholesale funding costs.
- Deposit competition (+3 bps): benefit from active margin management across deposit products as a result of lower deposit competition, particularly term deposits.
- Asset competition and risk mix (-7 bps): continued pressure on lending margins, including competition and switching from variable to fixed in the home loan market in Australia and New Zealand, competition in Global Loans and lower spreads within Corporate and Commercial Banking.
- Markets and treasury (-5 bps): primarily due to adverse impact of lower earnings on capital from lower interest rates.

Volume

Average interest earning assets (+$76.1 billion or 14%):

- Australia (+$17.1 billion or 7%): driven by growth in net loans and advances, largely home loans and commercial lending facilities.
- International and Institutional Banking (+$41.7 billion or 19%): $7.5 billion increase in Global Loans and $7.3 billion increase in Transaction Banking loans which grew in line with strategy. Reverse repos, investment in government securities, bonds and the liquidity portfolio within Global Markets increased by $23.2 billion.

- New Zealand (+$14.4 billion or 20%): increased Commercial and Retail lending, primarily in shorter term fixed rate home loans, as well as the impact of stronger NZD.
- Other (+$3.0 billion): Increase in cash balance to facilitate interbank overnight settlement driven by new RBA requirements.

Average deposits and other borrowings (+$64.7 billion or 15%):

- Australia (+$11.0 billion or 8%): driven by growth in customer deposits across the retail and commercial portfolios, largely at call products.
- International and Institutional Banking (+$33.7 billion or 18%): primarily due to increased customer deposits within APEA and Australia. Increase of $17.8 billion in Global Markets driven by customer deposits and external repos for funding purposes.
- New Zealand (+$9.5 billion or 21%): increasing volumes in Retail and Commercial banking, including a focus on growing higher margin savings products, as well as the impact of a stronger NZD.
- Other (+$10.5 billion): reflecting increased short term Negotiable Certificates of Deposit issuance and an increase in cash borrowing balance related to the new RBA requirements.

Comparison of March 2014 half with September 2013 half

The increase in net interest income of $220 million was driven by an increase in average interest earning assets partially offset by a reduction in the net interest margin.

Margin

Net interest margin (-5 bps)

- Asset mix and funding mix (-1 bp): unfavorable asset mix impact from faster growth in lower margin Home Loans business and slower growth in higher margin Cards and Payments business.
- Funding costs (-1 bp): impact from slightly unfavorable wholesale funding costs.
- Deposit competition (+2 bps): benefit from active margin management across deposit products as a result of lower deposit competition, particularly term deposits.
- Asset competition and risk mix (-5 bps): continued pressure on lending margins, including significant competition and switching from variable to fixed in the home loan market in Australia and New Zealand, competition in Global Loans within IIB and lower spreads within Corporate and Commercial Banking.

Volume

Average interest earning assets (+$36.4 billion or 6%)

- Australia (+$8.0 billion or 3%): driven by growth in net loans and advances, largely in the variable home loan portfolio.
- International and Institutional Banking (+$17.9 billion or 7%): Global Loans increased by $5.0 billion with strong re-financing levels in Australia and Transaction Banking loans increased by $1.6 billion, primarily in Asia. Reverse repos, investment in government securities and the liquidity portfolio within Global Markets increased by $8.6 billion.
- New Zealand (+$8.1 billion or 10%): Increased Commercial and Retail lending volumes, particularly shorter term fixed rate home loans as the economic environment improved, as well as the impact of a stronger NZD.
- Other (+$2.4 billion): Increase in cash balance to facilitate interbank overnight settlement attributed to new RBA requirements.

Average deposits and other borrowings (+$32.2 billion or 7%)

- Australia (+$6.6 billion or 4%): driven by growth in customer deposits across the retail and commercial portfolios, largely at call products.
- International and Institutional Banking (+$20.5 billion or 10%): increase in term deposits, with growth concentrated in APEA and Australia. Increase of $11.2 billion in deposits within Global Markets driven by customers and external repos for funding purposes and commodities trading in Asia.
- New Zealand (+$6.2 billion or 13%): increased customer deposits in both Commercial and Retail, as well as the impact of a stronger NZD.
- Other (-$1.1 billion): decreased short term wholesale funding borrowings, partially offset by increased cash borrowings balance related to the new RBA requirements.

Net funds management and insurance income

	Mar 14 $M	Sep 13 $M	Mar 13 $M
Funds management income	458	444	418
Investment income	1,232	1,832	2,303
Insurance premium income	534	829	519
Commission income/(expense)	(230)	(239)	(207)
Claims	(345)	(364)	(345)
Changes in policy liabilities[1]	(998)	(1,734)	(1,935)
Elimination of treasury share gain/(loss)[2]	(40)	(33)	(57)
Total net funds management and insurance income	**611**	**735**	**696**

1. *Includes policyholder tax gross up, which represents contribution tax (recovered at 15% on the superannuation contribution made by members) debited to the policyholder account once a year in July when the statement is issued to the members at the end of the June 30 financial year.*
2. *ANZ shares held by ANZ in the consolidated managed funds and life business. Realized and unrealized gains and losses from these shares are reversed as these are not permitted to be recognized in income.*

Comparison of March 2014 half with March 2013 half

Net funds management and insurance income decreased $85 million (12%). Key factors affecting the result were:

- Investment income decreased $1,071 (47%) million consistent with investment market conditions. Approximately 54% of the portfolio is invested in equities, which recorded strong gains during the March 2013 half and more subdued gains during the March 2014 half.
- Funds management income increased $40 million (10%) is predominantly due to growth in Kiwi Saver funds under management and average Australian funds under management.
- Insurance premium income increased by $15 million (3%) mainly due to higher new business in New Zealand. Australian insurance premiums were flat compared to the March 2013 half mainly as a result of the exit of a group life insurance plan during the March 2014 half offset by increases in OneCare premiums
- Changes in policyholder liabilities increased by $937 million (48%) which reflects the inverse relationship with investment income during the period.

Comparison of March 2014 half with September 2013 half

Net funds management and insurance income decreased $124 million (17%). Key factors affecting the result were:

- Investment income decreased $600 million (33%) consistent with investment market conditions and in line with the subdued market gains evidenced in the March 2014 half relative to the September 2013 half.
- Insurance premium income decreased by $295 million (36%) as a result of higher premiums in the September 2013 half driven by the seasonality of group risk annual premiums being written predominantly in the second half of the year. Insurance premiums were also affected by the exit of a group life insurance plan in the March 2014 half.
- Claims decreased by $19 million (5%) primarily attributable to the exit of a group life insurance plan in the March 2014 half as well as decreases in group life claims across the industry.
- Changes in policyholder liabilities increased by $736 million (42%) which reflects the inverse relationship with the investment income during the period.

Other operating income

	Mar 14 $M	Sep 13 $M	Mar 13 $M
Net fee and commission income	1,255	1,228	1,231
Net foreign exchange earnings	593	377	467
Share of associates' profit	247	271	211
Profit on trading instruments	24	48	315
Other	10	306	(184)
Total other operating income	**2,129**	**2,230**	**2,040**

Comparison of March 2014 half with March 2013 half

Other operating income increased $89 million (4%). Key factors affecting the result were:

- Net fee and commission income increased $24 million (2%) mainly due to:
  - Transaction Banking increased $17 million, primarily due to an $8 million increase in fees relating to issuance of Letters of Credit in China, Korea and Singapore, $3 million increase in fees from guarantees and Letters of Credit issued in Europe and $3 million increase in fees earned in the Pacific due to volume growth.
  - Retail Asia Pacific increased $13 million, primarily due to higher income from investment and insurance products in Hong Kong and Singapore and weakening of the AUD during the March 2014 half.
  - New Zealand increased $13 million, mainly due to weakening of the AUD during the March 2014 half.
  - Cards and Payments decreased $5 million, primarily due to reduced income as a result of improved customer payment behavior on consumer credit card products.
- Net foreign exchange earnings increased $126 million (27%) mainly due to:
  - Global Markets increased $231 million where increased volatility has led to increased customer hedging activity with high levels of customer demand in China, Hong Kong and Taiwan.
  - IIB (excluding Global Markets) increased $32 million, mainly driven by growth in cross border transaction volumes in Transaction Banking and higher gains in Retail Asia Pacific due to the weakening of AUD.
  - Other decreased $126 million, primarily due to realized losses on foreign currency revenue hedges (offsetting translation gains elsewhere in the Group).
- Share of associates' profit increased $36 million (17%) mainly due to:
  - AMMB Holdings Berhad (AMMB) increased by $13 million mainly due to strong non-interest income growth driven by Retail and Insurance segments.
  - Bank of Tianjin (BoT) increased $12 million due to increased earnings driven by strong lending growth in both Enterprise and Retail clients, growth in interbank assets and weakening of the AUD.
  - Shanghai Rural Commercial Bank (SRCB) increased $5 million mainly due to weakening of the AUD.
  - P.T. Bank Pan Indonesia increased by $2 million due to increased earnings driven by lending growth more than offsetting the weakening of the Indonesian Rupiah ("IDR").
- Profit on trading instruments decreased $291 million (-92%) as movements in interest rates and credit spreads resulted in reduced levels of fixed income trading gains being recorded in the Global Markets business.
- Other income increased by $194 million (105%) mainly due to:
  - Global Wealth increased $33 million, primarily due to resolution of an insurance settlement relating to a legacy New Zealand funds management matter.
  - Global Loans increased $7 million mainly due to the profit on the restructuring of structured lease assets.
  - Asia Partnerships increased $12 million due to the BoT dilution gain (from non-participation in a rights issue) recorded in the March 2014 half.
  - Losses on mark to market of financial instruments measured at fair value through profit & loss were caused by narrowing basis spreads during 1H14 and 1H13. However, the losses in 1H14 were offset by gains caused by a weakening AUD resulting in a reduction of $101 million.

Comparison of March 2014 half with September 2013 half

Other operating income decreased $101 million (5%). Key factors affecting the result were:

- Net fee and commission income increased $27 million (2%) mainly due to:
  - Transaction Banking increased $13 million, primarily due to a $10 million increase in fees relating to the issuance of Letters of Credit in China, Korea, and Singapore and $3 million increase in guarantee fees in Australia.
  - Retail Asia Pacific increased $9 million, primarily due to higher income from investment and insurance products in Hong Kong and Singapore.

- Net foreign exchange earnings increased $216 million (57%) primarily attributable to:
  - Global Markets increased $66 million as increased volatility led to increased customer hedging activity.
  - Other decreased $25 million driven by realized losses on foreign currency revenue hedges (offsetting translation gains elsewhere in the Group).
  - Cards and Payments decreased $12 million due to seasonally lower travel card volumes.
  - Losses on revenue and net investment hedges reduced $175 million principally as a result of the weakening in AUD against NZD during 1H14.
- Share of associates' profit decreased $24 million (9%) largely due:
  - AMMB decreased $12 million mainly due to seasonal factors impacting non-annuity earnings.
  - BoT increased $7 million due to increased earnings driven by growth in both Corporate lending and interbank assets.
  - SRCB decreased $12 million mainly due to an impairment of an investment held by SRCB.
  - P.T. Bank Pan Indonesia decreased $6 million mainly due to seasonal factors impacting earnings and the weakening of the IDR.
- Profit on trading instruments decreased $24 million (50%) mainly due to less favorable trading conditions in the Global Markets business.
- Other income decreased $293 million (-97%) mainly due to:
  - Asia Partnerships increased by $39 million due to a write down of the investment in Saigon Securities Inc. (SSI) of $26 million in the September 2013 half and a dilution gain of $12 million (from non-participation in a rights issue) relating to BoT recorded in the March 2014 half.
  - Global Wealth increased $21 million, primarily due to resolution of an insurance settlement relating to a legacy New Zealand funds management matter.
  - Global Loans increased by $8 million mainly due to the profit on the restructuring of structured lease assets.
  - New Zealand decreased $14 million as the September 2013 results included the gain on sale of EFTPOS New Zealand Limited.
  - Losses on mark to market of financial instruments measured at fair value through profit & loss of $140 million were caused by narrowing basis spreads during 1H14. Gains of $236 million recorded during 2H13 were caused by a weakening AUD.

Operating expenses

	Mar 14 $M	Sep 13 $M	Mar 13 $M
Personnel expenses	2,493	2,417	2,347
Premises expenses	391	377	356
Computer expenses	640	625	618
Restructuring costs	35	28	57
Other expenses	727	766	666
Total operating expenses	**4,286**	**4,213**	**4,044**
Total full time equivalent staff (FTE)	**48,857**	**48,865**	**48,871**

1. *Comparative information has been restated to include technology contractors, consistent with how FTE is reported and managed internally.*

Comparison of March 2014 half with March 2013 half

Operating expenses increased $242 million (6%). Key factors affecting the result were:

- Personnel expenses increased $146 (6%) million primarily due to annual salary increases and the adverse impact of foreign exchange movements, partially offset by lower redundancy costs in the March 2014 half;
- Premises expenses increased $35 million (10%) due to increased rental space, including our new Sydney premises, along with rent and utility costs increases and adverse foreign exchange translation;
- Computer expenses increased $22 million (4%) due to increased depreciation and amortization and higher computer contractors costs and communication costs, partially offset by lower software purchases; and
- An increase of $39 million in other expenses (5%), primarily due to adverse impact of foreign exchange movements, the impact of Goods and Service Tax (“GST”) credits in the March 2013 half, and higher advertising costs, partially offset by lower spend on project consultants.

Comparison of March 2014 half with September 2013 half

Operating expenses increased $73 million (2%). Key factors affecting the result were:

- Personnel expenses increased $76 million (3%) due to the adverse impact of foreign exchange movements and annual salary increases.
- Premises expenses increased $14 million (4%) due to rent increases and the transition to new buildings in Sydney and New Zealand.
- Computer expenses increased $15 million (2%) due to increases in depreciation and amortization.
- Restructuring expenses increased $7 million (25%) relative to the September 2013 half.
- Other expenses reduced $39 million (4%) due primarily to both higher advertising spend and the impact of GST credits during the September 2013 half.

Credit impairment charge

Division	Half year Mar 14 $M	Sep 13 $M	Mar 13 $M
Australia	403	434	386
International and Institutional Banking	161	133	184
New Zealand	(34)	9	28
Global Wealth	(1)	3	1
Other[1]	(2)	21	(11)
Total credit impairment charge	**527**	**600**	**588**

	Half year					
	Mar 14 $M		Sep 13 $M		Mar 13 $M	
Division	Individual credit impairment charge	Collective credit impairment charge	Individual credit impairment charge	Collective credit impairment charge	Individual credit impairment charge	Collective credit impairment charge
Australia	374	29	401	33	370	16
International and Institutional Banking	215	(54)	113	20	167	17
New Zealand	13	(47)	37	(28)	58	(30)
Global Wealth	-	(1)	2	1	-	1
Other[1]	(1)	(1)	21	-	(11)	-
Total	**601**	**(74)**	**574**	**26**	**584**	**4**

1. *Other includes discontinued businesses.*

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

The credit impairment charge consists of two components; the individual credit impairment charge and the collective credit impairment charge.

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

Under IFRS, a discounted cash flow methodology is used to calculate the individual provision for credit impairment.

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

The collective credit impairment charge is calculated as the change in the collective provision for credit impairment during the reporting period. The collective provision for credit impairment at the end of the reporting period reflects the impact on estimated future cash flows for loans where there is an incurred loss and that loss will become observable over an emergence period. The emergence period represents the time from when a loss event occurs until the Group assesses the loan for individual impairment and raises an individual provision. The impact on estimated future cash flows is calculated based on historical loss experience for assets with credit characteristics similar to those in the collective pool. The collective provision also takes into account management's assessment of the impact of large concentrated loss within the portfolio and the economic cycle.

Comparison of March 2014 half with March 2013 half

Total credit impairment charge relating to lending assets, commitments, and debt securities classified as available-for-sale assets decreased $61 million (-10%).

- The total individual credit impairment charge increased $17 million. The key factor affecting the result was:
  - Individual provisions being raised on a few large IIB exposures, partially offset by lower credit impairment charges in Australia and New Zealand due to an improvement in credit quality.
- The total collective credit impairment charge decreased $78 million. The key factors affecting the result were:
  - A significant improvement in the risk profile following the crystallization of individual provisions on a few large IIB exposures, and as a result of upgrades to a number of large customer exposures in IIB and New Zealand. This was partially offset by a net increase in economic cycle provision, primarily related to the mining services industry.
  - A $54 million release in IIB was due to a combination of the crystallization of individual provisions on a few large exposures and improved customer credit ratings, partially offset by an increase in the economic cycle provision. The New Zealand release of $47 million was driven by improved credit quality and a reduction in the economic cycle provision, partially offset by lending growth and a few exposures returning to performing. The $29 million charge in Australia was primarily due to lending growth and an increase in the economic cycle provision.

Comparison of March 2014 half with September 2013 half

- The total individual credit impairment charge increased $27 million. The key factor affecting the result was:
  - Individual provisions being raised on a few large IIB exposures, partially offset by lower credit impairment charges in Australia and New Zealand due to an improvement in credit quality.
- The total collective credit impairment charge decreased $100 million. The key factors affecting the result were:
  - A significant improvement in the risk profile following the crystallization of individual provisions on a few large IIB exposures, and as a result of upgrades to a number of large customer exposures in IIB and New Zealand. This was partially offset by a net increase in economic cycle provision, primarily related to the mining services industry.
  - The drivers of the current period collective provision are as described above.

Income tax expense

	Mar 14 $M	Sep 13 $M	Mar 13 $M
Income tax expense charged to the income statement	1,318	1,376	1,362
Effective tax rate	28.0%	29.2%	31.6%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison of March 2014 half with March 2013 half

The Group's income tax expense decreased by $44 million (3%).

The effective tax rate decreased 3.6% primarily due to a favorable increase in the overseas tax rate differential during the March 2014 half. A greater percentage of the Group's earnings were generated in lower taxing jurisdictions in the March 2014 half compared with the March 2013 half.

Comparison of March 2014 half with September 2013 half

The Group's income tax expense decreased by $58 million (4%).

The effective tax rate decreased 1.2% primarily due to lower policyholder income and contributions tax adjustment in the March 2014 half. The September 2013 half included a favorable Global Wealth tax consolidation adjustment.

Results by Segment

The Group operates on a divisional structure, with Australia, International and Institutional Banking (IIB), New Zealand and Global Wealth being the major operating divisions. The IIB and Global Wealth divisions are coordinated globally. Other includes functions that service the organization globally and includes Group Center and Discontinued Businesses.

There have been no major structural changes to Divisional segments since September 30, 2013; however certain amounts in the comparatives have been reclassified to conform with current period financial statement presentations.

	Half year		
Division	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Profit before income tax			
Australia	2,114	2,065	2,008
International and Institutional Banking	1,833	1,651	1,647
New Zealand	759	664	550
Global Wealth	313	288	280
Other	(314)	42	(181)
	4,705	4,710	4,304
Income tax expense			
Australia	(635)	(616)	(599)
International and Institutional Banking	(455)	(402)	(434)
New Zealand	(213)	(182)	(154)
Global Wealth	(87)	(20)	(76)
Other	72	(156)	(99)
	(1,318)	(1,376)	(1,362)
Non-controlling interests			
Australia	-	-	-
International and Institutional Banking	(6)	(5)	(5)
New Zealand	-	-	-
Global Wealth	-	-	-
Other	-	-	-
	(6)	(5)	(5)
Profit after income tax and non-controlling interests			
Australia	1,479	1,449	1,409
International and Institutional Banking	1,372	1,244	1,208
New Zealand	546	482	396
Global Wealth	226	268	204
Other	(242)	(114)	(280)
	3,381	3,329	2,937

Australia

The Australia division comprises the Retail and Corporate and Commercial Banking (C&CB) business units.

	Half year		
Australia	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	3,429	3,389	3,281
Other operating income	588	602	588
Operating income	4,017	3,991	3,869
Operating expenses	(1,500)	(1,492)	(1,475)
Profit before credit impairment and income tax	2,517	2,499	2,394
Provision for credit impairment	(403)	(434)	(386)
Profit before income tax	2,114	2,065	2,008
Income tax expense	(635)	(616)	(599)
Profit after income tax	**1,479**	**1,449**	**1,409**
Consisting of:			
Retail	933	902	827
Corporate and Commercial Banking	546	547	586
Other	-	-	(4)
Profit after income tax	**1,479**	**1,449**	**1,409**
Balance Sheet			
Net loans & advances	278,279	271,589	262,065
Other assets	2,912	2,736	2,886
Assets	281,191	274,325	264,951
Customer deposits	156,310	152,371	145,535
Other liabilities	12,330	13,397	14,636
Liabilities	168,640	165,768	160,171
Risk weighted assets	109,839	109,596	105,523
Average net loans and advances	274,910	266,956	257,914
Average deposits and other borrowings	155,314	148,675	144,277
Ratios			
Return on assets	1.07%	1.07%	1.08%
Net interest margin	2.48%	2.51%	2.53%
Operating expenses to operating income	37.34%	37.38%	38.12%
Operating expenses to average assets	1.08%	1.10%	1.14%
Individual provision charge/(release)	374	401	370
Individual provision charge/(release) as a % of average net advances	0.27%	0.30%	0.29%
Collective provision charge/(release)	29	33	16
Collective provision charge/(release) as a % of average net advances	0.02%	0.02%	0.01%
Net impaired assets	717	939	1016
Net impaired assets as a % of net advances	0.26%	0.35%	0.39%
Total full time equivalent staff (FTE)[1]	14,735	14,623	14,551

1. *Comparative information has been restated to include technology contractors, consistent with how FTE is reported and managed internally.*

Comparison of March 2014 half with March 2013 half

Profit after income tax increased 5%. Key factors affecting the result were:

- Net interest income increased 5% driven by a 7% rise in average net loans and advances from above system home loan growth and strong growth in Small Business Banking. Net interest margin contracted 5 bps, with increased lending competition outweighing the benefits of disciplined deposit pricing.
- Operating expenses increased by 2%. Increased personnel expenses, investments in the Banking on Australia transformation program[1] and volume growth were partly offset by productivity gains.
- Credit impairment charges increased by 4%, driven primarily by a higher collective provision charge as a result of lending growth and an increase in the economic cycle provision. Individual provisions increased slightly, with increases in Corporate Banking and Esanda largely offset by improvements in Business Banking, and Retail from improved Home Loan asset realizations and lower delinquencies in Cards and Payments.

Comparison of March 2014 half with September 2013 half

Profit after income tax increased 2%. Key factors affecting the result were:

- Net interest income increased 1% driven by a 3% increase in average net loans and advances primarily due to above system home loan growth, partially offset by subdued C&CB lending conditions. Net interest margin contracted 3 bps, reflecting increased lending competition, partially offset by disciplined deposit pricing.
- Operating expenses increased 1%. Increased personnel expenses, investments in the Banking on Australia transformation program and volume growth were partly offset by lower discretionary expenditure and productivity gains.
- Credit impairment charges decreased 7% driven by lower individual provisions in Retail from improved Home Loan asset realizations and lower delinquencies in Cards and Payments. In C&CB, increased individual provisions in Corporate Banking were more than offset by improvements across all other C&CB segments.

[1] The 'Banking on Australia' transformation program is a major investment program for ANZ's Australia division designed to make it easier for customers to bank with ANZ. The program involves an upgrade of ANZ's distribution networks; simplifying products and processes; providing customers with additional mobile and flexible banking options; further improving the capability of front-line staff; and initiatives to continue support of local communities.

International and Institutional Banking

The International and Institutional Banking division comprises Global Institutional, Retail Asia Pacific and Asia Partnerships business units, along with Relationship & Infrastructure.

	Half year		
International and Institutional Banking	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	1,993	1,906	1,785
Other operating income	1,599	1,409	1,502
Operating income	3,592	3,315	3,287
Operating expenses	(1,598)	(1,531)	(1,456)
Profit before credit impairment and income tax	1,994	1,784	1,831
Provision for credit impairment	(161)	(133)	(184)
Profit before income tax	1,833	1,651	1,647
Income tax expense	(455)	(402)	(434)
Non-controlling interests	(6)	(5)	(5)
Profit after income tax	**1,372**	**1,244**	**1,208**
Consisting of:			
Global Institutional:			
Australia	574	615	599
Asia Pacific, Europe & America	423	351	278
New Zealand	145	99	134
Global Institutional total	1,142	1,065	1,011
Asia Partnerships	239	221	194
Retail Asia Pacific	43	22	27
Relationship & Infrastructure	(52)	(64)	(24)
Profit after income tax	**1,372**	**1,244**	**1,208**
Balance Sheet			
Net loans & advances	136,343	123,472	114,460
Other assets	178,670	173,050	170,983
Assets	**315,013**	**296,522**	**285,443**
Customer deposits	172,023	163,151	151,847
Other liabilities	100,337	91,553	91,766
Liabilities	**272,360**	**254,704**	**243,613**
Risk weighted assets	189,945	174,602	166,303
Average net loans and advances	132,129	120,912	110,331
Average deposits and other borrowings	216,062	195,535	182,389
Ratios			
Return on assets	0.87%	0.83%	0.88%
Net interest margin	1.55%	1.58%	1.65%
Net interest margin (Excluding Global Markets)	2.49%	2.65%	2.76%
Operating expenses to operating income	44.5%	46.2%	44.3%
Operating expenses to average assets	1.01%	1.02%	1.06%
Individual provision charge/(release)	215	113	167
Individual provision charge/(release) as a % of average net advances	0.32%	0.19%	0.30%
Collective provision charge/(release)	(54)	20	17
Collective provision charge/(release) as a % of average net advances	(0.08%)	0.03%	0.03%
Net impaired assets	975	1,326	1,401
Net impaired assets as a % of net advances	0.72%	1.07%	1.22%
Total full time equivalent staff (FTE)[1]	13,040	13,196	13,312

1. *Comparative information has been restated to include technology contractors, consistent with how FTE is reported and managed internally.*

Comparison of March 2014 half with March 2013 half

Profit after income tax increased 14%. Key factors affecting the result were:

- Net interest income increased 12%, driven by growth mainly in targeted products in the Transaction Banking and Global Markets businesses such as trade finance, cash management, FX trading and capital markets. Average deposits were 18% higher and average net loans and advances increased 20%, with growth across all regions, particularly APEA. Net interest margin declined by 10 basis points, driven by price competition (particularly in Australia) and growth focused on higher credit quality in Global Loans, movements in the structured trade finance mix to lower risk products with tighter margins and lower earnings on capital, partially offset by the impact of the management of the Group’s liquidity portfolio and derivative positions within Global Markets.
- Other operating income increased by 6%. Transaction Banking income increased $25 million mainly due to volume driven growth in trade fee income. Asia Partnerships income increased $46 million due to strong earnings and volume growth in the Group’s interests in AMMB, BoT, SRCB, P.T. Bank Pan Indonesia, as well as a gain arising from the dilution of our Bank of Tianjin stake.
- Operating expenses increased 10% primarily due to a weakening AUD during the March 2014 half and investment in targeted growth areas, partially offset by productivity gains.
- Credit impairment charges decreased 13%. Collective credit impairment releases due to counterparty credit rating upgrades, provisions no longer required and crystallization of individual provisions, were partially offset by an increase in economic cycle provision for exposures impacted by global commodity prices and individual provisions being raised by on a few large exposures.

Comparison of March 2014 half with September 2013 half

Profit after income tax increased 10%. Key factors affecting the result were:

- Net interest income increased 5%, driven by Global Markets and Transaction Banking. Average deposits were 10% higher and average net loans and advances increased 9%, with growth concentrated largely in APEA and Australia. Net interest margin declined by 3 basis points driven by price competition (particularly in Australia) and growth focused on higher credit quality in Global Loans, movements in the structured trade finance mix to lower risk products with tighter margins and lower earnings on capital, partially offset by the impact of the management of the Group’s liquidity portfolio and derivative positions within Global Markets.
- Other operating income increased 13%, driven by Global Markets from higher FX sales revenue, favorable trading conditions in the March 2014 half and strong demand for FX hedging products in the APEA region. Transaction Banking improved mainly due to volume driven growth in trade fee income.
- Operating expenses increased 4% primarily due to investment in targeted growth areas partially offset by productivity gains.
- Credit impairment charges increased 21%, due to individual provisions being raised on a few large exposures, partially offset by collective provision releases relating to the crystallization of the individual provisions, counterparty credit rating upgrades and releases of provisions no longer required.

New Zealand

The New Zealand division comprises Retail and Commercial business units.

New Zealand	Half year Mar 14 $M	Sep 13 $M	Mar 13 $M
Net interest income	1,061	973	891
Other operating income	178	186	162
Operating income	1,239	1,159	1,053
Operating expenses	(514)	(486)	(475)
Profit before credit impairment and income tax	725	673	578
Provision for credit impairment	34	(9)	(28)
Profit before income tax	759	664	550
Income tax expense	(213)	(182)	(154)
Profit after income tax	**546**	**482**	**396**
Consisting of:			
Retail	203	171	142
Commercial	344	313	265
Operations & Support	(1)	(2)	(11)
Profit after income tax	**546**	**482**	**396**
Balance Sheet			
Net loans & advances	88,247	81,542	71,710
Other assets	3,819	3,473	3,053
Assets	**92,066**	**85,015**	**74,763**
Customer deposits	51,749	46,494	41,423
Other liabilities	20,057	18,016	16,724
Liabilities	**71,806**	**64,510**	**58,147**
Risk weighted assets	50,430	44,540	40,491
Average net loans and advances	84,756	76,777	70,745
Average deposits and other borrowings	54,516	48,311	45,023
Ratios			
Return on assets	1.24%	1.21%	1.08%
Net interest margin	2.48%	2.49%	2.50%
Operating expenses to operating income	41.5%	41.9%	45.2%
Operating expenses to average assets	1.17%	1.22%	1.29%
Individual provision charge/(release)	13	37	58
Individual provision charge/(release) as a % of average net advances	0.03%	0.09%	0.17%
Collective provision charge/(release)	(47)	(28)	(30)
Collective provision charge/(release) as a % of average net advances	(0.11%)	(0.07%)	(0.08%)
Net impaired assets	446	510	706
Net impaired assets as a % of net advances	0.51%	0.63%	0.98%
Total full time equivalent staff (FTE)	7,323	7,400	7,755

Comparison of March 2014 half with March 2013 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand has been impacted by the appreciation of the NZD against the AUD over the period. Translation of the half year 2014 results to AUD was at an average exchange rate for the half year ended March 31, 2014 of NZ$1.0959 to A$1.00 compared to an average exchange rate for the half year ended March 31, 2013 of NZ$1.2533 to A$1.00.

The exchange rate movement led to a more favorable result for the New Zealand division after translation to AUD. The business recorded a 21% increase in profit after income tax in NZD which corresponded to a 38% increase after translation to AUD.

Profit after income tax increased 38%. Key factors affecting the result were:

- Net interest income increased 19%, driven by lending growth. Average net loans and advances grew 20%, led by above-system growth in mortgages. Net interest margin contracted 2 bps. This was driven by lending competition and unfavorable lending mix as customers continue to favor lower margin fixed rate products over higher margin variable rate products. Return on capital was also lower in a low rate environment. These margin impacts were mostly offset by lower wholesale funding costs and improved deposit margins.
- Other operating income increased 10% primarily due to the strengthening of the NZD and strong growth in credit card earnings. This was partially offset by income foregone following the divestment of EFTPOS New Zealand Limited ('**EFTPOS**').
- Operating expenses increased 8% primarily due to the strengthening NZD, inflation and investment impacts. This was partially offset by productivity gains in the March 2013 half including $14 million of restructuring costs related to the systems integration project..
- Credit impairment charge decreased $62 million. The individual credit impairment charge decreased 78% reflecting a slowing in the level of new provisions, particularly in the CommAgri book. The level of write-backs remains high. Improved credit quality resulted in the collective credit impairment release increasing 57%.

Comparison of March 2014 half with September 2013 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand has been impacted by the appreciation of the NZD against the AUD over the period. Translation of the half year 2014 results to AUD was at an average exchange rate for the half year ended March 31, 2014 of NZD 1.0959 to AUD 1.00 compared to an average exchange rate for the half year ended September 31, 2013 of NZD 1.1733 to AUD 1.00.

The exchange rate movement led to a more favorable result for the New Zealand division after translation to AUD. The business recorded a 5% increase in profit after income tax in NZD which corresponded to a 13% increase after translation to AUD.

Profit after income tax increased 13%. Key factors affecting the result were:

- Net interest income increased 9%, with the benefit from strong lending growth more than offsetting the impact of margin contraction. Net interest margin contracted 1 bp due to lending competition and unfavorable lending mix.
- Other operating income decreased 4% as the September 2013 half included a gain from the divestment of EFTPOS. This impact was partly offset by strong growth in cards income.
- Operating expenses increased 6% primarily due to the strengthening NZD, inflation and investment impacts. This was partially offset by productivity gains from business simplification and leveraging business scale.
- Credit impairment charge decreased $43 million with the individual credit impairment charge 65% lower. The levels of new provisions have slowed, and write-backs remain high. The collective credit impairment release increased 68% despite lending growth, which reflected strong improvements in credit quality across the lending book.

Global Wealth

The Global Wealth division comprises Funds Management, Insurance and Private Wealth which provides investment, superannuation, insurance products and services as well as Private Banking for customers across Australia, New Zealand and Asia.

	Half year		
Global Wealth	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	80	75	64
Other operating income	120	94	80
Net funds management and insurance income	606	611	600
Operating income	806	780	744
Operating expenses	(494)	(489)	(463)
Profit before credit impairment and income tax	312	291	281
Provision for credit impairment	1	(3)	(1)
Profit before income tax	313	288	280
Income tax expense	(87)	(20)	(76)
Profit after income tax	**226**	**268**	**204**
Consisting of Business Segment			
Funds Management[1]	62	78	53
Insurance	98	113	110
Private Wealth	40	27	22
Corporate and Other[2]	26	50	19
Total Global Wealth	**226**	**268**	**204**
Geography			
Australia	156	237	175
New Zealand[3]	71	36	30
Asia Pacific, Europe & America	(1)	(5)	(1)
Total Global Wealth	**226**	**268**	**204**
Income from invested capital[4]	**28**	26	31
Balance Sheet			
Funds under management	**61,652**	58,578	54,805
Average funds under management	**60,552**	56,507	53,218
In-force premiums	**1,955**	1,986	1,893
Customer deposits	**12,699**	11,569	10,042
Net loans & advances	**6,009**	6,187	5,776
Ratios[5]			
Operating expenses to operating income	61.3%	62.7%	62.2%
Funds management expenses to average FUM			
Australia	0.60%	0.57%	0.65%
New Zealand	0.41%	0.46%	0.49%
Insurance expenses to in-force premiums			
Australia	11.7%	11.7%	10.7%
New Zealand	34.6%	36.1%	41.6%
Retail insurance lapse rates			
Australia	12.1%	14.1%	13.3%
New Zealand	14.9%	16.7%	15.7%
Total full time equivalent staff (FTE)[6]	4,090	4,271	4,176
Aligned adviser numbers[7]	**2,061**	2,133	2,160

1. *Funds management includes Pensions & Investments business and E*Trade.*
2. *Corporate and other includes income from invested capital, profits from the Advice and Distribution business and unallocated corporate tax credits.*
3. *Includes the cross border settlement of an insurance claim involving both Australia and New Zealand on a net basis. The individual components of the settlement have been recognized in their respective geographies.*
4. *Income from invested capital represents after tax revenue generated from investing insurance and investment business' capital balances (required for regulatory purposes) net of group funding charges and borrowing costs which is included as part of Corporate and Other results. The invested capital as of March 31, 2014 was $2.1 billion (Sep 13: $2.1 billion), which comprises fixed interest securities of 36% and cash and term deposits of 64% (Sep 13: 33% fixed interest securities and 67% cash and term deposits).*
5. *Funds management expense and FUM only relates to Pensions & Investments business.*
6. *Comparative information has been restated to include technology contractors, consistent with how FTE is reported and managed internally.*
7. *Includes corporate authorized representatives of dealer groups wholly or partially controlled by Global Wealth and ANZ financial planners.*

Comparison of March 2014 half with March 2013 half

Profit after income tax decreased 11%. Key factors affecting the result were:

- Funds Management profit after income tax increased by 17%. This was driven by 14% growth in average FUM as a result of continued gains from investment markets and growth of over $1 billion in net in-flows due to improved planner productivity.
- Insurance profit after income tax declined by 11% primarily reflecting the exit of one large group life insurance plan.
- Private Wealth profit after income tax increased by 82% mainly driven by solid growth in wealth investment solutions. Average customer deposits grew by 24% and average net loans and advances increased by 10%.
- Corporate and other profit after income tax benefited from a $26 million non-recurring insurance settlement.
- Operating expenses grew by 7% reflecting increased investment in strategic growth initiatives focusing on innovations to enable customers to be self-directed, as well as regulatory spend.

Comparison of March 2014 half with September 2013 half

Profit after income tax decreased 16%. Key factors affecting the result were:

- Funds Management profit after income tax decreased by 21% primarily due to a favorable tax consolidation adjustment during 2H13.
- Insurance profit after income tax decreased by 13% due to the exit of one large group life insurance plan.
- Private Wealth profit after income tax improved by 48% with solid growth in average customer deposits and average net loans and advances of 10% and 1% respectively.
- Corporate and other profit after income tax benefited from a $26 million non-recurring insurance settlement.
- Operating expenses were up slightly reflecting productivity gains offsetting the cost growth of digital innovations and regulatory spend.

Results by geographic region

	Half year		
Australia geographic region	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	4,674	4,654	4,477
Other operating income	1,257	1,710	1,606
Operating income	5,931	6,364	6,083
Operating expenses	(2,648)	(2,679)	(2,603)
Profit before credit impairment and income tax	3,283	3,685	3,480
Provision for credit impairment	(478)	(489)	(454)
Profit before income tax	2,805	3,196	3,026
Income tax expense	(885)	(1,056)	(1,068)
Non-controlling interests	-	-	-
Profit after income tax	**1,920**	**2,140**	**1,958**

	Half year		
Asia Pacific, Europe & America geographic region	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	854	767	683
Other operating income	1,038	928	815
Operating income	1,892	1,695	1,498
Operating expenses	(977)	(911)	(829)
Profit before credit impairment and income tax	915	784	669
Provision for credit impairment	(85)	(92)	(99)
Profit before income tax	830	692	570
Income tax expense	(141)	(104)	(106)
Non-controlling interests	(6)	(5)	(5)
Profit after income tax	**683**	**583**	**459**

	Half year		
New Zealand geographic region	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Net interest income	1,250	1,137	1,040
Other operating income	445	327	315
Operating income	1,695	1,464	1,355
Operating expenses	(661)	(623)	(612)
Profit before credit impairment and income tax	1,034	841	743
Provision for credit impairment	36	(19)	(35)
Profit before income tax	1,070	822	708
Income tax expense	(292)	(216)	(188)
Non-controlling interests	-	-	-
Profit after income tax	**778**	**606**	**520**

Balance sheet

	As at ($B)		
	Mar 14	Sep 13[1]	Mar 13[1]
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid	**56.1**	51.0	62.3
Trading and available-for-sale assets	**73.5**	69.6	63.0
Derivative financial instruments	**43.8**	45.9	41.7
Net loans and advances	**509.3**	483.3	454.3
Investments backing policy liabilities	**33.2**	32.1	31.2
Other	**21.9**	21.1	20.1
Total assets	**737.8**	703.0	672.6
Settlement balances owed by ANZ / Collateral received	**12.0**	12.6	16.3
Deposits and other borrowings	**498.3**	466.9	451.1
Derivative financial instruments	**45.9**	47.5	45.1
Bonds and notes	**73.6**	70.4	60.2
Policy liabilities and external unit holder liabilities	**36.7**	35.9	34.8
Other	**24.3**	24.1	22.6
Total liabilities	**690.8**	657.4	630.1
Total equity	**47.0**	45.6	42.5

1. *Comparative amounts have been amended. Refer to Note 21 of the Condensed Consolidated Financial Statements for details.*

Comparison of March 2014 half with March 2013 half

- Trading securities and available-for-sale assets increased by $11 billion, primarily due to a $1 billion increase in fixed income securities held for trading and increases in the Australia and New Zealand prime liquidity portfolios of $8 billion.
- Net loans and advances increased $55 billion, driven by a $16 billion increase in Australia primarily from home loan growth; a $17 billion increase in New Zealand due to home loan growth and favorable foreign exchange rate impact; and a $22 billion increase in IIB primarily relating to Transaction Banking in Asia and Global Loans in both Australia and Asia.
- Deposits and other borrowings increased $47 billion, driven by a $11 billion increase in Australia from growth in Retail and Corporate & Commercial Banking; a $12 billion increase in New Zealand from growth in Retail and Commercial (and the impact of foreign exchange movements); a $21 billion increase in IIB from growth in Transaction Banking and Retail term deposits; and a $7 billion increase in Other.
- Bonds and notes increased $13 billion, attributable to a $7 billion increase in net issuances and a $5 billion increase due to foreign exchange movements.

Comparison of March 2014 half with September 2013 half

- Trading securities and available-for-sale assets increased by $4 billion, primarily due to increases in the Australia and New Zealand prime liquidity portfolios.
- Net loans and advances increased $26 billion, driven by a $7 billion increase in Australia primarily from home loan growth; a $7 billion increase in the New Zealand division due to home loan growth and favorable foreign exchange rate impact; and a $13 billion increase in IIB primarily relating to Transaction Banking in Asia and Global Loans in both Australia and Asia.
- Deposits and other borrowings increased $31 billion, driven by a $4 billion increase in Australia from growth in Retail and Corporate & Commercial Banking; a $6 billion increase in New Zealand from growth in Retail and Commercial (and the impact of foreign exchange movements); a $13 billion increase in IIB from growth in Transaction Banking and Retail accounts; and a $7 billion increase in Group Center.
- Bonds and notes increased $3 billion due to net issuances and foreign exchange movements.

Capital management

		Half year		
Qualifying Capital		**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Tier 1				
Shareholders' equity and non-controlling interests		47,038	45,603	42,503
Prudential adjustments to shareholders' equity	Table 1	(1,071)	(932)	(958)
Gross Common Equity Tier 1 capital		45,967	44,671	41,545
Deductions	Table 2	(15,931)	(15,892)	(15,170)
Common Equity Tier 1 capital		30,036	28,779	26,375
Additional Tier 1 capital instruments	Table 3	7,279	6,401	5,365
Tier 1 capital		37,315	35,180	31,740
Tier 2				
Tier 2 capital components	Table 4	6,335	6,190	6,062
Tier 2 capital		6,335	6,190	6,062
Total qualifying capital		43,650	41,370	37,802
Capital adequacy ratios				
Common Equity Tier 1		8.3%	8.5%	8.2%
Tier 1		10.3%	10.4%	9.8%
Tier 2		1.8%	1.8%	1.9%
Total		12.1%	12.2%	11.7%
Risk weighted assets	Table 5	360,740	339,265	322,582

APRA implementation of Basel 3 capital reforms

Effective January 1, 2013, APRA has fully adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios may not be directly comparable with international peers. Significant APRA Basel 3 reform changes that impacted the calculation of the capital ratios, relative to the APRA Basel 2 methodology, include:

- Investments in wealth and insurance subsidiaries, banking associates and regulatory expected losses in excess of eligible provisions previously deducted from Tier 1 and Tier 2 on a 50/50 basis are now 100% capital deductions from CET1;
- Future expected dividend payments, previously deducted from capital on an accrual basis are now deducted when declared;
- Other changes in capital base includes equity exposures previously subject to thresholds are now deducted 100% from CET1;
- RWA increases mainly from a new charge for risk of mark-to-market losses in derivative exposures when the credit quality of a derivative counterparty is downgraded CVA and increased asset value correlation with respect to exposures to financial institutions; and
- New qualifying criteria for Tier 1 and Tier 2 capital instruments have been introduced. Instruments issued before January 1, 2013 are subject to transitional arrangements that progressively reduces their contribution to regulatory capital over time.

Comparison of March 2014 half with September 2013 half

Common Equity Tier 1 Ratio

The APRA Basel 3 Common Equity Tier 1 ratio at March 31, 2014 of 8.3% represents a decrease of 15 basis points from the September 30, 2013 ratio of 8.5%.

The key contributors to the decrease were:

- Statutory profit after preference share dividends of $3.4 billion (+100 basis points);
- Increase in RWA was $21.5 billion, excluding the impact of exchange rate movements and methodology changes was $11.7 billion due to:
  - Portfolio growth and mix (-29 basis points);
  - Risk migration incorporating decline in RWA and decrease in Expected Loss versus Eligible Provision shortfall (+4 basis points); and
  - Higher non-credit risk RWA (-2 basis points).
- Movements in capitalized software and intangibles (-7 basis points);
- Net increase in capital retention of insurance businesses and associates excluding the impact of exchange rate movements (-9 basis points);
- Ordinary share dividends (-74 basis points); and

- Other items (net +2 basis points) from the following items:
  - Decrease in net deferred tax assets, benefit of higher available for sale reserve, other capital items and net FX impacts (+7 basis points); and
  - The net impact of non-recurring RWA methodology and capital initiatives (-5 basis points).

Comparison of September 2013 half with March 2013 half

Common Equity Tier 1 Ratio

The APRA Basel 3 Common Equity Tier 1 ratio at September 30, 2013 of 8.5% represents an increase of 30 basis points from the March 31, 2013 ratio of 8.2%.

The key contributors to the increase were:

- Statutory profit after preference share dividends of $3.3 billion (+103 basis points);
- Increase in RWA was $16.7 billion, excluding the impact of exchange rate impacts and methodology changes was $9.7 billion due to:
  - Portfolio growth and mix (-17 basis points);
  - Risk migration incorporating decline in RWA and decrease in Expected Loss versus Eligible Provision shortfall (+4 basis points); and
  - Higher non-credit risk RWA (-8 basis points).
- Movements in capitalized software and intangibles (-12 basis points);
- Net increase in capital retention of insurance businesses and associates excluding the impact of exchange rate movements (-4 basis points);
- Ordinary share dividends (-62 basis points); and
- Other items (net +26 basis points) from the following items:
  - Impact of employee shares and reserves, net FX and other capital items, partially offset by an increase in net deferred tax assets (+5 basis points); and
  - Net impact of non-recurring RWA methodology and capital initiatives (+21 basis points).

	Half Year		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Table 1: Prudential adjustments to shareholders' equity			
Treasury shares attributable to OnePath policy holders	**275**	273	253
Reclassification of preference share capital	**(871)**	(871)	(871)
Accumulated retained profits and reserves of insurance, funds management and securitization entities	**(727)**	(583)	(573)
Deferred fee revenue including fees deferred as part of loan yields	**391**	381	362
Available-for-sale reserve attributable to deconsolidated subsidiaries	**(81)**	(90)	(105)
Other	**(58)**	(42)	(24)
Total	**(1,071)**	(932)	(958)
Table 2: Deductions from Common Equity Tier 1 capital			
Unamortized goodwill & other intangibles (excluding OnePath Australia and New Zealand)	**(4,126)**	(3,970)	(3,717)
Intangible component of investments in OnePath Australia and New Zealand	**(2,107)**	(2,096)	(2,075)
Capitalized software	**(2,252)**	(2,102)	(1,800)
Capitalized expenses including loan and lease origination fees	**(1,058)**	(979)	(884)
Applicable deferred net tax assets	**(934)**	(1,102)	(990)
Expected losses in excess of eligible provisions	**(129)**	(376)	(526)
Investment in ANZ insurance and funds management subsidiaries	**(428)**	(453)	(684)
Investment in OnePath Australia and New Zealand	**(984)**	(1,059)	(1,042)
Investment in banking associates	**(3,565)**	(3,361)	(2,956)
Other deductions	**(348)**	(394)	(496)
Total	**(15,931)**	(15,892)	(15,170)
Table 3: Additional Tier 1 capital			
Convertible Preference Shares			
ANZ CPS1	**454**	1,081	1,080
ANZ CPS2	**1,965**	1,963	1,961
ANZ CPS3	**1,331**	1,329	1,327
ANZ Capital Notes	**1,107**	1,106	-
ANZ Capital Notes 2	**1,593**	-	-
Preference Shares	**871**	871	871
Hybrid Securities	**-**	812	740
Regulatory adjustments and deductions	**(42)**	(78)	(17)
Transitional adjustments	**-**	(683)	(597)
Total	**7,279**	6,401	5,365
Table 4: Tier 2 capital			
General reserve for impairment of financial assets	**212**	245	244
Perpetual subordinated notes	**1,108**	1,065	957
Subordinated debt	**5,668**	5,448	5,601
Regulatory adjustments and deductions	**(354)**	(340)	(740)
Transitional adjustments	**(299)**	(228)	-
Total	**6,335**	6,190	6,062

	Half Year		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Table 5: Risk weighted assets			
On balance sheet	**217,606**	208,326	199,121
Commitments	**53,777**	47,809	45,250
Contingents	**12,903**	11,184	10,174
Derivatives	**21,042**	20,332	20,433
Total credit risk	**305,328**	287,651	274,978
Market risk - Traded	**7,104**	4,303	6,850
Market risk - IRRBB	**16,359**	18,287	12,629
Operational risk	**31,949**	29,024	28,125
Total risk weighted assets	**360,740**	339,265	322,582

	Half Year		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Table 6: Credit risk weighted assets by Basel asset class			
Subject to Advanced IRB approach			
Corporate	**123,743**	121,586	114,700
Sovereign	**4,545**	4,360	4,382
Bank	**20,269**	16,270	15,838
Residential mortgage	**50,426**	47,559	44,597
Qualifying revolving retail (credit cards)	**7,260**	7,219	7,234
Other retail	**26,416**	24,328	23,200
Credit risk weighted assets subject to Advanced IRB approach	**232,659**	221,322	209,951
Credit risk specialized lending exposures subject to slotting criteria	**28,522**	27,640	27,842
Subject to Standardised approach			
Corporate	**26,255**	19,285	17,157
Residential mortgage	**1,966**	1,922	1,827
Qualifying revolving retail (credit cards)	**1,796**	1,728	2,068
Other retail	**1,073**	985	1,248
Credit risk weighted assets subject to Standardized approach	**31,090**	23,920	22,300
Credit Valuation Adjustment and Qualifying Central Counterparties	**8,065**	8,501	8,949
Credit risk weighted assets relating to securitization exposures	**1,253**	2,724	2,549
Other assets	**3,739**	3,544	3,387
Total credit risk weighted assets	**305,328**	287,651	274,978

	Collective Provision		Regulatory Expected Loss	
	As at ($M)		As at ($M)	
Table 7: Collective provision and regulatory expected loss by division	**Mar 14**	**Sep 13**	**Mar 14**	**Sep 13**
Australia	**1,152**	1,123	**2,481**	2,393
International and Institutional Banking	**1,265**	1,310	**1,570**	1,046
New Zealand	**372**	399	**784**	763
Global Wealth	**11**	12	**14**	21
Other	**43**	43	**(1)**	19
Collective provision and regulatory expected loss	**2,843**	2,887	**4,848**	4,242

Table 8: Expected loss in excess of eligible provisions	As at ($M) Mar 14 $M	Sep 13 $M	Mar 13 $M
Basel expected loss			
Defaulted	**2,373**	1,854	1,976
Non-defaulted	**2,476**	2,388	2,349
	4,849	4,242	4,325
Less: Qualifying collective provision			
Collective provision	**(2,843)**	(2,887)	(2,769)
Non-qualifying collective provision	**300**	346	341
Standardized collective provision	**212**	245	245
	(2,331)	(2,296)	(2,183)
Less: Qualifying individual provision			
Individual provision	**(1,470)**	(1,467)	(1,543)
Additional individual provision for partial write offs	**(797)**	-	-
Standardized individual provision	**153**	219	249
Collective provision on advanced defaulted	**(275)**	(322)	(322)
	(2,389)	(1,570)	(1,616)
Gross deduction	**129**	376	526

[1.] *Included in eligible provisions post September 2013 due to a change in RWA methodology.*

Table 9: APRA Basel 3 Common Equity Tier 1

	Half Year Mar 14 vs Sep 13	Half Year Sep 13 vs Mar 13
APRA Basel 3 Common Equity Tier 1		
Statutory profit after preference share dividends	+100bps($3.4B)	+103bps($3.3B)
Risk weighted assets		
Portfolio growth and mix	-29bps	-17bps
Risk migration and Expected Losses in excess of Eligible Provisions	+4bps	+4bps
Non-credit risk	-2bps	-8bps
Capital retention in insurance businesses and associates	-9bps	-4bps
Capitalized software and intangibles	-7bps	-12bps
Other items	+2bps	+26bps
Organic Capital Generation	**+59bps**	**+92bps**
Ordinary share dividends	**-74bps**	**-62bps**
Other	**0bps**	**0bps**
Total Common Equity Tier 1 movement	**-15bps**	**+30bps**
March 2014 APRA Basel 3 Common Equity Tier 1 ratio	**8.3%**	**8.5%**

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund increases in assets. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group. The Group maintains a portfolio of liquid assets to manage potential stresses in funding sources. The minimum level of liquidity portfolio assets to hold is based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term.

The Group's approach to liquidity risk management incorporates the following key components:

- Scenario modeling of funding sources

  The Global Financial Crisis ("**GFC"**) highlighted the importance of differentiating between stressed and normal market conditions in a name-specific crisis[1] and the different behavior that offshore and domestic wholesale funding markets can exhibit during market stress events. ANZ's short term liquidity scenario modeling stresses cash flow projections against multiple 'survival horizons' over which the Group is required to remain cash flow positive. In addition, longer term scenarios are in place that measure the structural liquidity position of the balance sheet. Scenarios modeled are either prudential requirements or Board mandated scenarios. Under these scenarios, customer and wholesale balance sheet asset/liability flows are stressed.

- Liquidity portfolio

  The Group holds a diversified portfolio of cash and high credit quality securities that may be sold or pledged to provide same-day liquidity. This portfolio helps protect the Group's liquidity position by providing cash in a severely stressed environment. All assets held in the prime portfolio are securities eligible for repurchase under agreements with the applicable central bank (i.e. 'repo eligible').

  The liquidity portfolio is well diversified by counterparty, currency and tenor. Under the liquidity policy framework, securities purchased for ANZ's liquidity portfolio must be of a similar or better credit quality to ANZ's external long-term or short-term credit ratings and continue to be repo eligible.

  Supplementing the prime liquid asset portfolio, the Group holds additional liquidity in the following:

  - central bank deposits with the US Federal Reserve, Bank of England and Bank of Japan of $17.2 billion;
  - Australian Commonwealth and State Government securities of $6.9 billion and gold and precious metals of $2.5 billion, and
  - cash and other securities to satisfy local country regulatory liquidity requirements which are not included in the liquid assets below.

	As at		
Prime liquidity portfolio (Market Values) [2]	**Mar 14 $B**	**Sep 13 $B**	**Mar 13 $B**
Australia	28.9	27.8	25.3
New Zealand	12.5	11.1	10.5
United States	3.8	2.1	1.3
United Kingdom	5.2	5.1	4.4
Singapore	3.2	3.1	3.2
Hong Kong	0.8	0.6	0.3
Japan	1.3	1.4	1.4
Total excluding internal Residential Mortgage Backed Securities	**55.7**	**51.2**	**46.4**
Internal Residential Mortgage Backed Securities (Australia) [3]	29.6	35.7	35.3
Internal Residential Mortgage Backed Securities (New Zealand)	5.1	3.7	3.3
Total prime portfolio	**90.4**	**90.6**	**85.0**
Other eligible securities including gold and cash on deposit with central banks [4]	26.6	31.0	36.8
Total liquidity portfolio	**117.0**	**121.6**	**121.8**

Wholesale funding

ANZ targets a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.

$13.1 billion of term wholesale debt (with a remaining term greater than one year as at March 31, 2014) was issued during the March 2014 half year. In addition, $1.6 billion of ANZ Capital Notes were issued.

- Access to all major global wholesale funding markets remained available to ANZ during the March 2014 half year.
- All wholesale funding needs were comfortably met.
- The weighted average tenor of new term debt issued during the March 2014 half was 5.3 years (4.3 years in 2013).
- The average term debt portfolio costs are slowly reducing, however, remain substantially above pre global financial crisis levels.

1. *A "name-specific crisis" refers to the behavior of cashflows in adverse operating circumstances specific to the ADI, where it has significant difficulty in rolling over or replacing its liabilities.*
2. *Market value is post the repo discount applied by the applicable central bank.*
3. *Reduction in internal RMBS in Australia during the March 2014 half is due to the higher prescribed haircuts from the RBA effective Nov 13.*
4. *Liquid asset holdings in Australia and New York are netted down against overnight interbank borrowings.*

The following tables show the Group's funding composition:

	Mar 14 $M	Sep 13 $M	Mar 13 $M
Customer deposits and other liabilities[1]			
Australia	156,310	152,371	145,535
International and Institutional Banking	172,023	163,151	151,847
New Zealand	51,749	46,494	41,423
Global Wealth	12,699	11,569	10,042
Other	(4,759)	(4,756)	(4,712)
Total customer deposits	388,022	368,829	344,135
Other funding liabilities[2]	10,895	13,158	12,373
Total customer deposits and other liabilities (funding)	398,917	381,987	356,508
Wholesale funding[3]			
Bonds and notes[4]	72,747	69,570	59,422
Loan capital	13,226	12,804	11,666
Certificates of deposit	57,707	58,276	61,564
Commercial paper issued	16,041	12,255	14,486
Other wholesale borrowings[5]	43,871	38,813	42,920
Total wholesale funds	203,592	191,718	190,058
Shareholders' Equity (excl preference shares)	46,167	44,732	41,632
Total Funding	648,676	618,437	588,198
Wholesale funding maturity[3,6]			
Short term wholesale funding (excluding Central Banks)[7,8]	82,937	73,650	72,351
Central Bank deposits	17,512	15,374	18,360
Total short term wholesale funding	100,449	89,024	90,711
Long term wholesale funding			
- Less than 1 year residual maturity	18,695	20,292	31,977
- Greater than 1 year residual maturity	77,127	75,240	61,392
Hybrid capital including preference shares	7,321	7,162	5,978
Total wholesale funding and preference share capital excluding shareholders' equity	203,592	191,718	190,058
Total funding maturity			
Total short term wholesale funding	15%	15%	15%
Long term wholesale funding			
- Less than 1 year residual maturity	3%	3%	5%
- Greater than 1 year residual maturity	12%	12%	11%
Total customer liabilities (funding)	62%	62%	61%
Shareholders' equity and hybrid debt	8%	8%	8%
Total wholesale funding and preference share capital excluding shareholders' equity	100%	100%	100%

1. *Includes term deposits, other deposits and an adjustment to Other to eliminate Global Wealth investments in ANZ deposit products.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Global Wealth.*
3. *Liability for acceptances have been removed as they do not provide net funding.*
4. *Excludes term debt issued externally by Global Wealth.*
5. *Includes borrowings from banks, net derivative balances, special purpose vehicles, other borrowing and Euro Trust Securities (preference shares).*
6. *Long term wholesale funding amounts are stated at original hedged exchange rates. Movements due to currency fluctuations in actual amounts borrowed are classified as short term wholesale funding.*
7. *RBA open-repo arrangement netted down by the exchange settlement account cash balance.*
8. *Liquid Asset holdings in Australia netted down against overnight interbank repo treasury borrowings.*

Term debt maturity profile

	Years ended September 30					
Year of maturity	2014 $M	2015 $M	2016 $M	2017 $M	2018 $M	>2018 $M
Senior term debt	3,865	24,008	12,307	13,198	8,369	8,843
Government guaranteed term debt	119	77	-	-	-	-
Covered bonds	-	650	5,958	2,220	2,726	6,720
Subordinated and perpetual debt	-	-	-	2,726	1,456	2,580
Total	**3,984**	**24,735**	**18,265**	**18,144**	**12,551**	**18,143**

Supplementary financial information

Loan quality

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

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

Impaired assets and loans

Gross impaired assets	As at ($M)		
	Mar 14 $M	Sep 13 $M	Mar 13 $M
Impaired loans	3,314	3,751	3,978
Restructured items	60	341	524
Non-performing commitments and contingencies	246	172	183
Gross impaired assets	**3,620**	**4,264**	**4,685**
Individual provisions			
Impaired loans	(1,396)	(1,440)	(1,518)
Non-performing commitments and contingencies	(74)	(27)	(25)
Net impaired assets	**2,150**	**2,797**	**3,142**

Gross impaired assets by division	As at ($M)		
	Mar 14 $M	Sep 13 $M	Mar 13 $M
Australia	**1,463**	1,685	1,746
International and Institutional Banking	**1,471**	1,758	1,893
New Zealand	**668**	765	1,013
Global Wealth	**18**	30	33
GTSO and Group Center	**-**	26	-
Gross impaired assets	**3,620**	4,264	4,685

Impaired and restructured items by size of exposure	As at ($M)		
	Mar 14 $M	Sep 13 $M	Mar 13 $M
Less than $10 million	**2,204**	2,235	2,246
$10 million to $100 million	**897**	1,491	1,659
Greater than $100 million	**519**	538	780
Gross impaired assets	**3,620**	4,264	4,685
Less: Individually assessed provisions for impairment	**(1,470)**	(1,467)	(1,543)
Net impaired assets	**2,150**	2,797	3,142

Restructured items

	As at		
	Mar 14 $M	Sep 13 $M	Mar 13 $M
Australia	-	3	39
International and Institutional Banking	46	326	336
New Zealand	14	13	151
Global Wealth	-	-	-
Other	-	(1)	(2)
Total restructured items[1]	60	341	524

1. *Represents customer facilities which for reason of financial difficulty have been re-negotiated on terms which the Bank considers as uncommercial but necessary in the circumstances, and are not considered non-performing. Includes both on and off balance sheet exposures.*

Comparison of March 2014 half with March 2013 half

Gross impaired assets decreased 23% primarily due to several exposures returning to performing in IIB and New Zealand, combined with lending book credit quality improvements. The Group has an individual provision coverage ratio on impaired assets of 40.6% at March 31, 2014, up from 32.9% as of March 31, 2013.

Comparison of March 2014 half with September 2013 half

Gross impaired assets decreased 15% primarily due to several exposures returning to performing in IIB and New Zealand, combined with asset realizations and write-offs. The Group has an individual provision coverage ratio on impaired assets of 40.6% at March 31, 2014, up from 34.4% as of September 30, 2013.

	As at		
New impaired assets	Mar 14 $M	Sep 13 $M	Mar 13 $M
Impaired loans	1,431	1,687	1,551
Restructured items	10	24	13
Non-performing commitments and contingencies	100	5	7
Total new impaired assets	1,541	1,716	1,571

	As at		
New impaired assets by division	Mar 14 $M	Sep 13 $M	Mar 13 $M
Australia	758	940	782
International and Institutional Banking	516	446	453
New Zealand	263	296	335
Global Wealth	4	8	1
Other	-	26	-
Total new impaired assets	1,541	1,716	1,571

Comparison of March 2014 half with March 2013 half

New impaired assets decreased 2% primarily due to decreases in the Australia and New Zealand divisions as portfolio credit quality improved. This was partially offset by some increases in IIB due to the downgrade of a few large customers.

Comparison of March 2014 half with September 2013 half

New impaired assets decreased 10% primarily due to decreases in the Australia and New Zealand divisions as portfolio credit quality improved. This was partially offset by some increases in IIB due to the downgrade of a few large customers.

Impaired loans – five half year summary

	As at				
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Gross impaired loans	3,314	3,751	3,978	4,364	4,664
Subject to individual provision for credit impairment	3,097	3,427	3,613	4,011	4,322
Without individual provision for credit impairment	217	324	365	353	342
Gross impaired loans					
Australia	1,452	1,665	1,691	1,729	1,678
International and Institutional Banking	1,197	1,292	1,401	1,615	1,651
New Zealand	647	737	853	984	1,271
Global Wealth	18	30	33	36	37
Other	-	27	-	-	27
Total gross impaired loans	**3,314**	**3,751**	**3,978**	**4,364**	**4,664**
Individual provisions for credit impairment	(1,396)	(1,440)	(1,518)	(1,773)	(1,714)
Net impaired loans[1]	2,150	2,797	3,142	2,591	2,950
Ratio of individual provision for credit impairment to gross impaired loans	42.1%	38.4%	38.2%	40.6%	36.7%

1. *Excluding restructured items of $60 million (Sep 2013: $341 million, Mar 2013: $524 million, Sep 2012: $525 million; Mar 2012 $340 million) and off-balance sheet commitments that have been classified as non-performing commitments and contingencies of $246 million (Sep 13: $172 million Mar 2013 $183 million, Sep 2012: $307 million; Mar 2012 $339 million) net of a provision of $74 million (Sep 2013: $27 million, Mar 2013:$25 million, Sep 2012: $44 million, Mar 2012: $13 million).*

Non-performing commitments and contingencies

Set out below are off balance sheet facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, or guarantees to third parties) and undrawn on balance sheet facilities where the customer is defined as impaired.

	As at		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Australia	11	17	16
International and Institutional Banking	228	140	156
New Zealand	7	15	9
Global Wealth	-	-	-
Other	-	-	2
Gross impaired commitments and contingencies	246	172	183

Other potential problem loans

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

Accruing loans – past due 90 days or more

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

	As at		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Australia	1,761	1,554	1,454
New Zealand	222	191	184
International and Institutional Banking	78	55	57
Global Wealth	5	18	1
Total past due loans	2,061	1,818	1,696

Comparison of March 2014 half with March 2013 half

The 90 past due but not impaired volumes increased by 22%, compared with the March 2013 half, predominantly due to increases within the Australian mortgage portfolio. This was driven by a combination of portfolio growth, hardship ageing treatment changes, seasonality and specific state-based increases.

Comparison of March 2014 half with September 2013 half

The 90 past due but not impaired volumes increased by 13%, compared with the September 2013 half, predominantly due to increases within the Australian mortgage portfolio. This was driven by a combination of portfolio growth, hardship ageing treatment changes, seasonality and specific state based increases.

Provision for credit impairment

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date.

For further discussion on credit impairment charges refer to pages 32 to 33 of this document.

	As at		
Individual provision balance	**Mar 14 $M**	**Sep 13 $M**	**Mar 13 $M**
Australia	746	687	730
International and Institutional Banking	496	432	493
New Zealand	222	255	307
Global Wealth	6	15	14
Other	-	78	(1)
Total individual provision	1,470	1,467	1,543

	Half year		
	Mar 14 $M	**Sep 13 $M**	**Mar 13 $M**
Collective provision			
Balance at start of period	2,887	2,769	2,765
Charge/(credit) to income statement	(74)	26	4
Adjustment for exchange rate fluctuations	30	92	-
Total collective provision[1]	2,843	2,887	2,769
Individual provision			
Balance at start of period	1,467	1,543	1,773
New and increased provisions	966	957	932
Write-backs	(257)	(247)	(240)
Adjustment for exchange rate fluctuations	12	54	(3)
Discount unwind	(30)	(47)	(55)
Bad debts written-off	(688)	(793)	(864)
Total individual provision	1,470	1,467	1,543
Total provision for credit impairment	4,313	4,354	4,312

1. *Collective provision includes amounts for off-balance sheet credit exposures: $597 million at March 31, 2014 (Sep 2013: $595 million; Mar 2013: $531 million). The impact on the income statement for the year ended March 31, 2014 was an $8 million charge (Sep 2013: $35 million charge; Mar 2013: $2 million charge).*

Provision movement analysis	Half year Mar 14 $M	Sep 13 $M	Mar 13 $M
New and increased provisions			
Australia	550	582	558
International and Institutional Banking	246	205	295
New Zealand	150	144	113
Global Wealth	-	4	4
Other	20	22	(38)
	966	957	932
Write-backs	(257)	(247)	(240)
	709	710	692
Recoveries of amounts previously written-off	(108)	(136)	(111)
Individual credit impairment charge for loans and advances	601	574	581
Impairment on available-for-sale assets	-	-	3
Collective credit impairment charge/(release) to income statement	(74)	26	4
Charge to income statement	527	600	588

Concentrations of credit risk/loans and advances by industry category

Although ANZ's loan portfolio is spread across many countries, at March 31, 2014, 66% of gross loans and advances were booked in Australia (Sep 2013: 67%; Mar 2013: 69%), and 19% were booked in New Zealand (Sep 2013: 18%; Mar 2013: 17%). The inherent risk characteristics of ANZ's loan portfolio are therefore very much linked to general economic conditions in Australia and New Zealand, where the portfolio is diversified across different regions, industries, customer types, and products.

As of September 30, 2013, ANZ's largest credit exposure in Australia was in the category 'Personal Lending' (50%), which includes consumer lending secured by a mortgage. Over the past year, growth was recorded in ANZ's Mortgages Australia portfolio (7%) as a result of continuing customer demand for retail housing and investment loans.

The Group monitors its portfolios to identify and assess risk concentrations. The Group's strategy is to maintain well-diversified, credit portfolios focused on achieving an acceptable risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess, and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product, and risk grade. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including nature of counterparty, probability of default, and collateral provided.

Also refer to Note 33 of ANZ's 2013 Annual Report.

Exchange Rates

Major exchange rates used in translation of results of offshore controlled entities and branches and investment in associates were as follows:

	Balance sheet			Profit & Loss Average		
	As at			Half Year		
	Mar 14	**Sep 13**	**Mar 13**	**Mar 14**	**Sep 13**	**Mar 13**
Chinese Yuan	**5.7480**	5.6976	6.4793	**5.5544**	5.8062	6.4746
Euro	**0.6716**	0.6896	0.8152	**0.6672**	0.7193	0.7938
Great British Pound	**0.5552**	0.5760	0.6886	**0.5565**	0.6148	0.6574
Indian Rupee	**55.296**	58.531	56.738	**56.400**	56.056	56.240
Indonesian Rupiah	**10,488.7**	10,860.1	10,127.4	**10,719.3**	9,689.6	10,034.1
Malaysian Ringgit	**3.0169**	3.0334	3.2351	**2.9644**	2.9978	3.1876
New Zealand Dollar	**1.0668**	1.1237	1.2469	**1.0959**	1.1733	1.2533
Papua New Guinea Kina	**2.2356**	2.2385	2.2297	**2.2054**	2.1095	2.1850
United States Dollar	**0.9233**	0.9312	1.0424	**0.9113**	0.9474	1.0387

Derivative financial instruments

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

The following table provides an overview of the Group's exchange rate, interest rate, commodity and credit derivatives. It includes all contracts, both trading and hedging.

Notional principal amount is the face value of the contract and represents the volume of outstanding transactions. Fair value is the net position of contracts with positive market values and negative market values.

	As at 31 March 2014			As at 30 September 2013		
	Notional Principal amount $M	Total fair value Assets $M	Total fair value Liabilities $M	Notional Principal amount $M	Total fair value Assets $M	Total fair value Liabilities $M
Foreign exchange contracts						
Spot and forward contracts	**542,709**	**7,001**	**(7,408)**	463,606	7,593	(7,539)
Swap agreements	**393,063**	**11,159**	**(14,100)**	377,385	10,352	(12,692)
Futures contracts	**1,401**	**105**	**(67)**	546	22	(23)
Options purchased	**92,030**	**2,017**	**-**	65,991	1,376	-
Options sold	**129,306**	**-**	**(1,812)**	78,352	-	(1,449)
	1,158,509	**20,282**	**(23,387)**	985,880	19,343	(21,703)
Commodity contracts						
Derivative contracts	**27,269**	**1,172**	**(1,127)**	23,169	1,346	(1,232)
Interest rate contracts						
Forward rate agreements	**75,950**	**2**	**(4)**	84,547	3	(5)
Swap agreements	**2,249,000**	**20,303**	**(19,032)**	2,076,377	23,359	(22,476)
Futures contracts	**151,466**	**330**	**(333)**	100,849	456	(498)
Options purchased	**43,803**	**1,373**	**-**	26,909	1,049	-
Options sold	**48,735**	**-**	**(1,590)**	35,282	-	(1,233)
	2,568,954	**22,008**	**(20,959)**	2,323,964	24,867	(24,212)
Credit default swaps						
Structured credit derivatives purchased	**4,777**	**103**	**-**	4,811	137	-
Other credit derivatives purchased[1]	**15,452**	**189**	**(227)**	14,332	121	(143)
Total credit derivatives purchased	**20,229**	**292**	**(227)**	19,143	258	(143)
Structured credit derivatives sold	**4,777**	**-**	**(127)**	4,811	-	(169)
Other credit derivatives sold[1]	**14,081**	**75**	**(49)**	13,045	64	(50)
Total credit derivatives sold	**18,858**	**75**	**(176)**	17,856	64	(219)
	39,087	**367**	**(403)**	36,999	322	(362)
Total	**3,793,819**	**43,829**	**(45,876)**	3,370,012	45,878	(47,509)

1. *The notional amounts comprise vanilla credit default swap transactions including credit indices such as ITraxx (Europe and Australia) and CDX. In the case of back-to-back deals, where a risk position from one counterparty is "closed out" with another counterparty, the notional amounts are not netted down in the above table. For example, ANZ may sell credit protection over a particular corporate bond (or reference asset) to a counterparty and simultaneously offset that credit exposure by buying credit protection over the same corporate bond (or reference asset) from another counterparty. Netting may only occur when there is an offsetting deal with the same counterparty. These credit default swap trades are transacted in conjunction with other financial instruments by reference to the traded market risk limit framework which includes VaR, name and rating specific concentration limits, sensitivity limits and stress testing limits.*

Refer to "Section 4: Directors, Senior Management/Executives and Employees" on pages 64 to 85 of ANZ's U.S. Disclosure Document dated November 15, 2013 for a comprehensive discussion of the Group's Directors, Senior Management and Executives, and Corporate Governance.

During the period since the 2013 Annual U.S. Disclosure Document to the date of this U.S. Disclosure Document, there were no material changes to these matters with the exception of the following:

Changes to Directors

On December 18, 2013, Dr Gregory Clark and Mr David Meiklejohn retired from the ANZ Board at the 2013 Annual General Meeting.

On February 27, 2014, Mr David Gonski joined the ANZ Board, and on May 1, 2014, he succeeded Mr John Morschel as Chairman of the Board. In accordance with the requirements of ANZ's Constitution, Mr Gonski will retire and stand for election by shareholders as a director at the ANZ Annual General Meeting on December 18, 2014. Mr Gonski is currently Chairman of Coca-Cola Amatil, the Sydney Theatre Company, National E-Health Transition Authority and Chancellor of the University of New South Wales. He is also a director of Singapore Telecommunications, Infrastructure NSW and of the Lowy Institute for International Policy and a member of the ASIC External Advisory Panel.

Previously, Mr Gonski was Chairman of ASX Limited, Guardians of the Future Fund, Investec Bank (Australia) Limited and a Director of ANZ, Singapore Airlines and Westfield Holdings Limited. He was Chairman of the Australia Government's Review of Funding for Schooling and Swiss Re Life & Health Australia Limited. Mr Gonski is a solicitor and was previously a partner at Freehills (now Herbert Smith Freehills).

On April 1, 2014, the Board of Directors announced that Mr John T Macfarlane will join the ANZ Board on May 22, 2014 following a decision by Mr Peter Hay to retire.

Mr Macfarlane is one of Australia's most experienced international bankers. Most recently he was Chairman and CEO of Deutsche Bank Australia and New Zealand. Previously at Deutsche Bank he was a member of the Global Banking Executive Committee and Co-Chair of the Asia Pacific Executive Management Committee. Mr Macfarlane also served as Chief Country Officer of Deutsche Bank Group in Japan and as Chief Executive Officer of Bankers Trust in New Zealand. Mr Macfarlane will stand for election as a Director at ANZ's Annual General Meeting on December 18, 2014.

On April 30, 2014, Mr John Morschel, Mr Peter Hay and Ms Alison Watkins retired from the ANZ Board.

Changes to Senior Management and Executives

On April 4, 2014, Ms Anne Weatherston, Chief Information Officer stepped down. Her responsibilities were assumed by Mr Alistair Currie, pending the appointment of a replacement. In line with ANZ's succession planning policy, the Bank will evaluate internal and external candidates.

Major Shareholders

We are not directly or indirectly controlled by another corporation, any government or any other natural or legal person(s), separately or jointly. As of the date of this U.S. Disclosure Document, we know of no person who is the beneficial owner of 5% or more of our ordinary shares. For further information regarding major shareholders (including share and option holdings by key management personnel (including directors)) refer to the Remuneration Report and Shareholder Information Section contained in our 2013 Annual Report (attached as Annex A to the U.S. Disclosure Document dated November 15, 2013).

Refer to the discussion headed "Limitations Affecting Security Holders" under Section 6 below for details of the Australian law limitations on the right of non-residents or non-citizens of Australia to hold, own or vote on shares in the Company.

Description of Ordinary Shares and Constituent Documents

Constitution

A copy of the Company's Constitution, as approved by shareholders on December 17, 2010, is available on the U.S. Investor Website. There have been no changes to the Constitution since then. The Company's Constitution does not contain a limit on how many shares the Company may have on issue at any time.

Dividend rights

Holders of ordinary shares are entitled to receive such dividends as may be determined by the directors from time to time in accordance with the Company's Constitution. Dividends that are not claimed are required to be dealt with in accordance with laws relating to unclaimed monies.

The Company must not pay a dividend unless:

- the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and
- the payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
- the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

Payment of a dividend on ordinary shares may also be restricted by the terms of preference shares carrying a prior right to the payment of a dividend. Before paying any dividend, directors must ensure that they are in compliance with APRA prudential standards. See "Information on the Group—Supervision and Regulation" for more information on APRA prudential standards.

Voting rights

Subject to any applicable laws as described further below and agreements to the contrary, each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands (unless the shareholder has appointed two proxies in which case neither can vote) or, on a poll, one vote for each fully paid ordinary share held.

Right to share in surplus assets

In the event of a winding-up of the Company, ordinary shareholders rank after creditors and preference shareholders and are fully entitled to any surplus proceeds on liquidation.

Rights to redemption

Ordinary shareholders have no right to redeem their shares.

Further calls

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. There are no partly paid ordinary shares.

There is no provision of the Constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares on issue.

Preference shares

The Constitution authorizes the Board to issue preference shares with any rights attaching to them that the Board determines prior to their issue. These include rights to dividends that are cumulative or non-cumulative and that are in priority to the rights of ordinary shareholders, and rights to a return of capital and to participate in surplus assets in a winding up in priority to the rights of ordinary shareholders. Preference shareholders have rights to vote only in limited circumstances unless the Board otherwise determines prior to issue of the preference shares. There is no limit on the amount of preference shares which the Company may issue.

Changes to the rights of shareholders

The Company's Constitution has effect as a contract between the Company and each shareholder, and between each shareholder, under which each person agrees to observe and perform the Constitution as it applies to that person. In accordance with the Corporations Act, the Company may modify or repeal its Constitution, or a provision of its Constitution, by a special resolution that has been passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

An ADI statutory manager appointed by APRA has power under the Banking Act 1959 to, among other things, cancel shares or rights to acquire shares in the Company or vary or cancel rights attached to shares, notwithstanding the Constitution, the Corporations Act, the terms of any contract to which the Company is party or the listing rules of any financial market in whose list the Company is included.

Share rights – American Depositary Shares ("ADSs")

Each ADS confers an interest in 5 fully paid ordinary shares in the Company which have been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share represented by an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are vested in the custodian or depositary as the holder of the fully paid ordinary shares, although holders of American depositary receipts, which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

Convening of and admission to general meetings

The Board may call a meeting of the Company's shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting or at least 100 shareholders entitled to vote at the general meeting. Shareholders who hold at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days' notice must be given of a meeting of the Company's shareholders. Written notice must be given to all shareholders entitled to attend and vote at a meeting. All ordinary shareholders are entitled to attend to vote at general meetings of the Company. Voting rights attaching to other classes of shares in the Company may differ.

The directors may, in accordance with the Constitution and the Corporations Act, determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holding of shares that are quoted on the stock market of the ASX.

Transfer

A holder of a share may transfer it by any means permitted by the Corporations Act, subject to limited restrictions in the Constitution and applicable law. See further "Limitations Affecting Security Holders" below.

Limitations on ownership and changes in control

The Constitution contains certain limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in Item 7 above, "Major Shareholders and Related Party Transactions".

The Constitution requires any sale or disposal of the Company's main undertaking to be subject to ratification by the Company in general meeting. The ASX Listing Rules may also require ANZ to obtain shareholder approval to affect any such sale or disposal. Except for that provision, there are no provisions in the Constitution which would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

If the Company issues partly paid shares to a person and that person fails to pay a call on those shares when required, the Board may give that person a notice which requires the member to pay the called amount and provides information in respect of how and when the called amount is to be paid. If the requirements of the notice are not satisfied, the Board, via resolution, may forfeit the partly paid share (and all dividends, interest and other money payable in respect of that share and not actually paid before the forfeiture) by resolution before the called amount is paid.

In addition, unless the terms of issue provide otherwise, under the Constitution the Company has a first and paramount lien on each share for all money called or payable at a fixed time in respect of that share that is due and unpaid, and certain amounts paid by the Company for which the Company is indemnified under the terms of the Constitution. If the Company has a lien on a share, and an amount secured by the lien is due and payable, the Company may give notice to the person registered as the holder of the share requiring payment of the amount and specifying how and when the payment must be made. If the requirements of that notice are not fulfilled, the Company may sell the share as if it had been forfeited.

The Board may also direct the sale of a share that is part of a "non-marketable parcel". For these purposes, a "non-marketable parcel" is a parcel of shares of a single class registered in the same name or same joint names which is less than the number that constitutes a marketable parcel of shares of that class under the ASX Listing Rules, or, subject to applicable law as specified in the Constitution, any other number determined by the Board from time to time.

Constitution provisions governing disclosure of shareholdings

There are no provisions of the Constitution which provide an ownership threshold above which share ownership must be disclosed. However, the Corporations Act requires a person to disclose certain prescribed information to the Company and the ASX if the person has or ceases to have a 'substantial holding' in the Company. The term 'substantial holding' is defined in the Corporations Act as broadly, a relevant interest in 5% or more of the total number of votes attaching to voting shares and is not limited to direct shareholdings.

The Corporations Act also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company's shares and the interest held by any other person in those shares.

Changes in capital

The Constitution does not make any provision governing changes in the capital of the Company that is more stringent than is required by Australian law.

Change in Control

There are no arrangements known to ANZ, the operation of which may at a subsequent date result in a change in control of ANZ.

Related Party Transactions

All related party loans were made in the ordinary course of business and did not involve more than the normal risk of collectability or present other unfavorable features. For further information on related party transactions refer to Note 20 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

CHESS

CHESS stands for the "Clearing House Electronic Subregister System" and is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of the ASX. ASX Settlement Pty Limited authorizes certain participants such as brokers, custodians, institutional investors and settlement agents to access CHESS and settle trades made by themselves or on behalf of clients.

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on +61-3-8654-8576 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Legal Proceedings

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed necessary have been made. In some instances ANZ has not disclosed the estimated financial impact of the individual item as this may prejudice the interests of the Group. Refer to Note 19 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for a discussion of material legal proceedings as at March 31, 2014.

Significant events since the end of the financial period

On April 10, 2014 ANZ announced the sale of ANZ Trustees to Equity Trustees Limited for $150 milion. The transaction is expected to be completed in July 2014 subject to regulatory approval. The gain on sale will be recognized in the second half of the 2014 fiscal year.

On May 5, 2014, ANZ announced it has been advised in recent discussions with APRA that APRA is considering clarifying the composition of the Level 2 Authorized Deposit-Taking Institution (ADI) Group.

This change will impact the capital benefit arising from external debt issued by ANZ Wealth Australia Limited.

ANZ currently has two debt issuances issued by ANZ Wealth Australia Limited of approximately $400 million each, maturing in June 2015 and March 2016 respectively.

Should the change come into effect as currently proposed, it would reduce ANZ's Level 2 capital ratios by approximately 20 basis points, subject to any transitional arrangements agreed with APRA. We expect to meet any additional capital requirements through organic capital generation.

Other than the matters described above, there have been no significant events for ANZ have occurred from March 31, 2014 to the date of this U.S. Disclosure Document.

Dividend Distribution Policy

The Board of Directors of ANZ will determine the amount and timing of dividend distributions to holders of ordinary shares based on the financial performance and financial position of the Group.

ANZ has a dividend reinvestment plan ('DRP') and a bonus option plan ('BOP'). For the proposed 2014 interim dividend, ANZ intends to provide ordinary shares under the DRP and BOP through the issue of new ordinary shares. For the purposes of the DRP and BOP terms and conditions in respect of the proposed 2014 interim dividend, no discount will be applied when calculating the "Acquisition Price".

Exchange Controls

There are currently no general Australian exchange control regulations in force which restrict the payment of dividends, interest or other remittances to holders of our securities. Exchange controls are, however, implemented in Australia from time to time to reflect Australian public policy, and operate to prohibit the entry into certain transactions with specified persons or entities without the consent of the applicable Australian regulatory body. These include the following:

1. The Autonomous Sanctions Regulations 2011 prohibit dealing with certain "designated persons or entities" by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit. "Designated persons or entities" include:
   - (a) persons who have been indicted for an offense by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia, as well as certain supporters of the former Milosevic regime;
   - (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
   - (c) certain persons or entities associated with the weapons of mass-destruction or missiles program of the Democratic People's Republic of Korea (North Korea);
   - (d) certain persons associated with the Myanmar regime;
   - (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;
   - (f) certain close associates of the former Gaddafi regime, entities under the control of the Qadhafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya;
   - (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and
   - (h) certain individuals associated with Commodore Josaia Voreqe Bainimarama, the Republic of Fiji Military Forces, the Fijian interim government or the Fijian judiciary.
2. Under Part 4 of the Charter of the United Nations Act 1945 and pursuant to the Charter of the United Nations ("Dealings with Assets") Regulations 2008, sanctions against using or dealing with financial or other assets of persons or entities listed by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette from time to time. Such persons or entities include those in:
   - (a) Liberia (see the Charter of the United Nations (Sanctions – Liberia) Regulations 2008);
   - (b) Côte d'Ivoire (see the Charter of the United Nations (Sanctions – Côte d'Ivoire) Regulations 2008);
   - (c) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008);

(d) Democratic People's Republic of Korea (North Korea) (see the Charter of the United Nations (Sanctions – Democratic People's Republic of Korea) Regulations 2008);

(e) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008);

(f) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulations 2008);

(g) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008);

(h) Al-Qaida and the Taliban (see the Charter of the United Nations (Sanctions – Al-Qaida and the Taliban) Regulations 2008);

(i) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008);

(j) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008);

(k) Eritrea (see the Charter of the United Nations (Sanctions – Eritrea) Regulations 2010); and

(l) Libya (see the Charter of the United Nations (Sanctions – Libyan Arab Jamahiriya) Regulations 2011.

3. Under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (or, where applicable, the Financial Transaction Reports Act 1988), transfer of physical currency or e-currency of A$10,000 (or the foreign equivalent) and above must be reported by certain persons (including ANZ) to the Australian Transaction Reports and Analysis Center.

Limitations Affecting Security Holders

The following Australian laws impose limitations on the right of persons to hold, own or vote on shares in our company.

- Foreign Acquisitions and Takeovers Act 1975

  The acquisition of shares in Australian companies by foreign interests is regulated by the Foreign Acquisitions and Takeovers Act. The Foreign Acquisitions and Takeovers Act applies (subject to certain monetary thresholds) to, among other things, any acquisition or issue of shares which results in either:

  - a foreign person or foreign-controlled corporation alone or together with any associates being in a position to control 15% or more of the voting power or potential voting power or hold any legal or equitable interest in 15% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business; or
  - two or more foreign persons or foreign-controlled corporations, together with any associates of any of those foreign persons or foreign-controlled corporations being in a position to control 40% or more of the voting power or potential voting power or hold any legal or equitable interest in 40% or more of the issues shares or rights to issued shares in a corporation carrying on an Australian business.

  In either of these cases, and in certain other circumstances, the Federal Treasurer may prohibit the acquisition if it would be contrary to the Australian national interest.

- Financial Sector (Shareholdings) Act 1998

  The Financial Sector (Shareholdings) Act 1998 prohibits a person (together with their associates, if any), or two or more persons under an arrangement, from acquiring shares in a financial sector company if the acquisition would result in a person, together with their associates, holding a stake in the company of more than 15%. However, the Federal Treasurer may grant approval to a person to hold a stake of greater than 15% but only if satisfied that it is in the Australian national interest. No such approvals have been granted in respect of our shares.

- Corporations Act 2001and ASX Listing Rules

  Shareholding restrictions

  Any person acquiring voting shares in a company is subject to the provisions contained in Chapter 6 of the Corporations Act relating to the acquisition of relevant interests in voting shares. Subject to certain exceptions (and among other prohibitions), section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a company if, because of the acquisition, the person's or someone else's voting power in the company increases:

  - from 20% or below to more than 20%; or
  - from a starting point that is above 20% and below 90%.

  One of the exceptions to section 606 allows a person to acquire voting power of an additional 3% in a company if:

  − throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and

  − as a result of the acquisition neither that person, nor any other person who has had voting power of at least 19% in the preceding six months, would have voting power in the company more than 3% higher than they had six months before the acquisition.

  For the purposes of the Corporations Act, a person's voting power in a company is the total number of votes attached to voting shares in respect of which the person and its associates (which are broadly defined) have a 'relevant interest' as a proportion of the total number of votes attached to all voting shares in the company. Broadly speaking, subject to certain qualifications, a person has a 'relevant interest' in securities if the person is the holder of the securities; has the power to exercise, or control the exercise of, a right to vote attached to the securities; or has the power to dispose of, or control the exercise of a power to dispose of, a security.

  In addition, under the Corporations Act, any person who begins to have or ceases to have, a substantial holding in us, or who already has a substantial holding and there is a movement of at least 1% in their holding, or who makes a takeover bid for our securities, is required to give a notice to us and to ASX Limited providing certain prescribed information, including their name and address and details or their relevant interests in our voting shares. Generally such notice must be provided within two business days after the person becomes aware of the information.

The sale of shares may also be restricted by applicable Australian law, including restrictions under the Corporations Act on the sale of shares to investors within 12 months of their issue (except where certain exemptions apply) on account of the shares, or the securities which convert into those shares, being issued without disclosure as required by the Corporations Act.

Divestment of shares in relation to control transactions

The Corporations Act also enables persons to compulsory acquire shares in a company in certain circumstances, including where they obtain a relevant interest in 90% or more of the issued voting shares of a company through a takeover bid or other means. A person may also compulsorily acquire shares pursuant to a court order in connection with a scheme of arrangement under the Corporations Act, following approval of the scheme of arrangement by the requisite number of shareholders at a prior vote.

The Australian Takeovers Panel also has the ability to make orders requiring persons to divest interests in shares, or to seize shares from persons, or restrict voting rights, where the Takeovers Panel finds (on an application by an interested party) where they make a decision that unacceptable circumstances exist in relation to the affairs of a company that warrant the granting of such an order.

Restrictions on voting under the Corporations Act and ASX Listing Rules

The Corporations Act and ASX Listing Rules impose restrictions on certain persons and their associated or related entities from voting at general meetings of the Company in certain circumstances. These restrictions include, to the extent applicable to a shareholder, voting on: related party transactions involving the shareholder; change of control transactions involving the shareholder; capital actions involving the shareholder (including issues of shares requiring shareholder approval, share consolidations, splits and buy-backs); remuneration related resolutions presented to shareholders for approval, and other similar corporate actions.

- Competition and Consumer Act 2010

  The Competition and Consumer Act 2010 regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia.

Withholding Taxes

Australia imposes withholding taxes on certain payments to non-residents including certain dividend payments (to the extent such dividends are unfranked) and interest payments to non-residents.

Constitution

The Company's Constitution was most recently amended on December 17, 2010. There have been no changes to the Constitution subsequently.

Material Contracts

There have been no material contracts entered into by the Group in the past two years, other than in the ordinary course of its business, upon which it is substantially dependent.

AAS - Australian Accounting Standards.

AASB - Australian Accounting Standards Board.

Cash represents short-term highly liquid instruments that are readily convertible to known amounts of cash and are subject to insignificant risk of change in value. Cash includes coins, notes, money at call, balances held with central banks, securities purchased under agreements to resell ("reverse repos").

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

Customer deposits represent term deposits, other deposits bearing interest, deposits not bearing interest and borrowing corporations debt excluding securitization deposits.

IFRS – International Financial Reporting Standards.

Impaired commitments and contingencies comprise undrawn facilities and contingent facilities where the customer's status is defined as impaired.

Impaired loans comprise drawn facilities where the customer's status is defined as impaired.

Individual provision is the amount of expected credit losses on those financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments.

Net interest average margin is net interest income as a percentage of average interest earning assets.

Net loans and advances include gross loans and advances and acceptances and capitalized brokerage/mortgage origination fees, less unearned income and provisions for credit impairment.

Net tangible assets equals share capital and reserves attributable to shareholders of the Group less preference share capital and unamortized intangible assets (including goodwill and software).

Operating expenses excludes the provision for impairment of loans and advances charge.

Operating income includes net interest and other operating income.

Repo discount is a discount applicable on the repurchase by a central bank of an eligible security pursuant to a repurchase agreement.

Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of a reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

Revenue includes net interest income, net funds management and insurance income, share of associates profit and other operating income.

Settlement balances owed to / from ANZ represents financial assets and/or liabilities which are in the course of being settled. These may include trade dated assets and liabilities, nostro / vostro accounts and settlement accounts.

Segment review description

The Group operates on a divisional structure with Australia, International and Institutional Banking (IIB), New Zealand, and Global Wealth being the major operating divisions. The IIB and Global Wealth divisions are coordinated globally. Other includes functions that service the organization globally and includes Group Center and Discontinued Businesses.

Australia

The Australia division comprises the Retail and Corporate and Commercial Banking business units.

- **Retail**

  Retail is responsible for delivering a range of product solutions including home loans, credit cards, personal loans, merchant services, transaction banking, savings accounts and deposits to our consumer customers, using capabilities in product, analytics, customer research, segmentation, strategy and marketing. It also provides a range of solutions for businesses including physical payment instruments (cash and cheques) as well as online and electronic payments.
  - **Home Loans** provides housing finance to consumers in Australia for both owner occupied and investment purposes, as well as providing housing finance for overseas investors.
  - **Cards and Payments** provides consumer and commercial credit cards, personal loans and merchant services.
  - **Deposits** provides transaction banking, savings and investment products, such as term deposits and cash management accounts.

Retail delivers banking solutions to customers across multiple distribution channels including the Australian branch network, ANZ Direct, specialist sales channels and digital channels (including goMoney, Internet Banking, anz.com). The retail distribution network provides retail and wealth solutions to consumers, as well as providing small business solutions and meeting the various cash and cheque handling needs of corporate, commercial and institutional customers.

- **Corporate and Commercial Banking (C&CB)**
  - **Corporate Banking** provides a full range of banking services including traditional relationship banking and sophisticated financial solutions, primarily to large private companies, smaller listed companies and multi-national corporation subsidiaries.
  - **Regional Business Banking** provides a full range of banking services to non-metropolitan commercial and Agri (including corporate) customers.
  - **Business Banking** provides a full range of banking services, to metropolitan based small to medium sized business clients with a turnover of A$5 million up to A$125 million.
  - **Small Business Banking** provides a full range of banking services to metropolitan and regional based small businesses in Australia with a turnover of up to A$5m and lending up to A$1 million.
  - **Esanda** provides motor vehicle and equipment finance.

International and Institutional Banking ("IIB")

The International and Institutional Banking division comprises Global Institutional, Retail Asia Pacific and Asia Partnerships business units, along with Relationship & Infrastructure.

- **Global Institutional** provides global financial services to government, corporate and institutional clients with a focus on solutions for clients with complex financial needs, based on a deep understanding of their businesses and industries, with particular expertise in natural resources, agriculture and infrastructure. Institutional delivers transaction banking, specialized and relationship lending and markets solutions in Australia, New Zealand, Asia, Pacific, Europe and America.
  - **Transaction Banking** provides working capital and liquidity solutions including regional cash management solutions, deposit products, international payments and clearing, documentary trade, supply chain finance and structured trade finance principally to institutional, corporate and commercial customers.
  - **Global Markets** provides risk management services to corporate and institutional clients globally in relation to foreign exchange, interest rates, credit, commodities, debt capital markets, wealth solutions and equity derivatives. Markets provides origination, underwriting, structuring and risk management services, advice and sale of credit and derivative products globally. Markets also manages the Group's interest rate risk position and liquidity portfolio.
  - **Global Loans** provides term loans and specialist loan structuring and execution. It provides specialist credit analysis, structuring, execution and ongoing monitoring of strategically significant customer transactions including project and structured finance, debt structuring and acquisition finance, structured asset finance and export finance.
- **Retail** which provides retail and small business banking services to customers in the Asia Pacific region and also includes investment and insurance products and services for Asia Pacific customers.
- **Asia Partnerships** which is a portfolio of strategic partnerships in Asia. This includes investments in Indonesia with PT Bank Pan Indonesia, in the Philippines with Metrobank Cards Corporation, in China with Bank of Tianjin and Shanghai Rural Commercial Bank, in Malaysia with AMMB Holdings Berhad and in Vietnam with Saigon Securities Incorporation.
- **Relationship & Infrastructure** includes client relationship management teams for global institutional and financial institution and corporate customers in Australia, New Zealand, Asia Pacific, Europe and America and central support functions. Relationship and infrastructure also includes businesses within IIB which are discontinued.

New Zealand

The New Zealand division comprises Retail and Commercial business units.

- **Retail**
  - Retail provides mortgages, credit cards, unsecured lending, transaction banking services, and savings and deposit products to personal customers in New Zealand.
- **Commercial**
  - **Commercial & Agri (CommAgri)** provides financial solutions through a relationship management model for medium-sized businesses, including agri-business, with a turnover of up to NZD150 million. Asset Finance (including motor vehicle and equipment finance), operating leases and investment products are provided under the UDC brand.
  - **Small Business Banking** provides a full range of banking services to small enterprises, typically with turnover of less than NZ$5 million.

Global Wealth

The Global Wealth division comprises Funds Management, Insurance and Private Wealth which provides investment, superannuation, insurance products and services as well as Private Banking for customers across Australia, New Zealand and Asia.

- **Private Wealth** specializes in assisting individuals and families to manage, grow and preserve their wealth. The businesses within Private Wealth include Private Bank and ANZ Trustees.
- **Funds Management** includes the Pensions and Investment business, E*Trade and Investment Lending.
- **Insurance** includes Life Insurance, General Insurance and ANZ Lender's Mortgage Insurance.
- **Corporate and other** includes income from invested capital, cash profits from advice and distribution business and unallocated corporate tax credits.

GTSO and Group Center

GTSO and Group Center provide support to the operating divisions, including technology, operations, risk management, financial management, strategy and marketing, human resources and corporate affairs. Additionally, Group Center includes Group Treasury, Shareholder Functions and Discontinued Businesses.

Annex: Condensed Consolidated Financial Statements for the half year ended March 31, 2014