2012

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2012

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

The date of this 2012 Half Year U.S. Disclosure Document is May 9, 2012.

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All references in this document to "this U.S. Disclosure Document" should be read as referring to this 2012 Half Year U.S. Disclosure Document of ANZ for the fiscal half year ended March 31, 2012 (and includes the Annex attached hereto).

This U.S. Disclosure Document is dated May 9, 2012. All references in this document to "the date of this U.S. Disclosure Document" are to May 9, 2012.

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 the web sites mentioned 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. As of March 31, 2012, ANZ ranked fourth among Australian banking groups in terms of total assets and had a leading position in all market segments in the New Zealand banking market. ANZ's principal ordinary share listing and quotation is on the Australian Securities Exchange ("ASX"). As of March 31, 2012 ANZ was ranked the fourth 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, 2012, 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 2012 Half Year Condensed Consolidated Financial Statements (including the independent auditor's review report thereon and the notes thereto), 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;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses we may experience as a result;
- adverse impact on our customers and counterparties, including the impact on our natural resource customers of a slow down in natural resource exports to Asia, the impact on our agricultural and tourism customers of continued strengthening of the Australian dollar and the impact on our financial customers of the continuing financial and credit crisis in Europe and the United States;
- general economic conditions in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we operate;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we operate;
- the effects of competition in the geographic and business areas in which we 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 the global crisis, including increased liquidity and capital requirements;
- our ability to adjust to and compete in the Asian geographic markets into which we are expanding;
- 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;
- technological changes;
- environmental factors that impact us or our customers such as natural disasters, earthquakes, floods, volcanic eruptions, bush fires and tsunamis;
- operational factors, such as the failure of or events that compromise our operating systems;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we operate;
- our ability to complete, integrate, and process acquisitions and dispositions;
- adverse impacts on our reputation; and
- various other factors beyond our control.

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 "Principal risks and uncertainties associated with ANZ" below.

Selected financial data

The consolidated balance sheets as of March 31, 2011, September 30, 2011 and March 31, 2012 and income statement data for the fiscal half years ended March 31, 2011, September 30, 2011 and March 31, 2012 have been derived from the Group's "*Condensed Consolidated Financial Statements*" for those half year periods (the "Condensed Consolidated Financial Statements"). The Group's 2012 Half Year 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 Financial Reports 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 unless otherwise stated. Amounts reported in United States Dollars ("USD"), unless otherwise stated, have been translated at the March 31, 2012 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$1.0367 = AUD$1.00.

Summary of consolidated statement of income

	Half year			
	Mar 12[3] USD M	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
Interest income	15,977	15,411	15,423	14,945
Interest expense	(9,773)	(9,427)	(9,586)	(9,299)
Net interest income	6,203	5,984	5,837	5,646
Net funds management and insurance income	598	577	663	742
Other operating income	2,339	2,256	1,827	2,217
Operating income	9,140	8,817	8,327	8,605
Operating expenses	(4,285)	(4,133)	(3,997)	(4,026)
Profit before credit impairment and income tax	4,856	4,684	4,330	4,579
Provision for credit impairment	(558)	(538)	(562)	(675)
Profit before income tax	**4,298**	**4,146**	**3,768**	**3,904**
Income tax expense	(1,268)	(1,223)	(1,074)	(1,235)
Profit for the year	3,030	2,923	2,694	2,669
Less: Profit attributable to non-controlling interests	(4)	(4)	(3)	(5)
Profit attributable to shareholders of the Company	**3,026**	**2,919**	**2,691**	**2,664**
Non-interest income as a % of operating income[1]	32.1%	32.1%	29.9%	34.4%
Dividends on ordinary shares	2,027	1,955	1,631	1,860
Earnings per fully paid ordinary share (cents)				
Basic	115	111	104	104
Diluted	110	106	99	101
Ordinary share dividend payout ratio (%)[2]	60.8%	60.8%	74.6%	62.5%
Dividend per ordinary share (cents)	68.4	66.0	76.0	64.0

1. *Non-interest income comprises income from net funds management and insurance income, and other operating income.*
2. *The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference shares dividends paid. The dividend payout ratio calculation is based on the following dividend payments:*

Proposed 2012 Interim dividend	***Actual Dividend Paid Sep 2011 half***	***Actual Dividend Paid Mar 2011 half***
$1,769 million (not included in table above)	*$2,002 million*	*$1,662 million*

Based on the forecast number of ordinary shares on issue at the dividend rate.

3. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the rate applied in this document.*

Summary of consolidated balance sheet

	As at			
	Mar 12[7] USD M	Mar 12 $M	Sep 11 $M	Mar 11 $M
Shareholders' equity	40,840	39,394	37,906	35,060
Subordinated debt	13,068	12,605	11,993	11,634
Bonds and notes	63,350	61,107	56,551	58,526
Deposits and other borrowings[1]	397,202	383,141	368,729	331,789
Gross loans, advances and acceptances[2,3]	432,652	417,336	402,180	384,283
Less: Individual provision for credit impairment	(1,777)	(1,714)	(1,697)	(1,717)
Less: Collective provision for credit impairment	(3,104)	(2,994)	(3,176)	(3,177)
Net loans, advances and acceptances[1]	427,771	412,628	397,307	379,389
Total assets	625,375	603,236	594,488	537,447
Net assets	40,891	39,443	37,954	35,129
Risk weighted assets[4]	295,289	284,836	279,964	264,236
Summary of consolidated ratios				
Net profit after income tax as a percentage of:				
Average total assets	1.0%	1.0%	0.9%	1.0%
Average shareholders' equity[5]	15.6%	15.6%	14.9%	15.8%
Average ordinary shareholders' equity as a percentage of average total assets	12.4%	12.4%	12.4%	12.3%
Ratio of earnings to fixed charges[6]	43.7	43.7	39.0	41.7
Capital adequacy ratios:				
Tier 1	11.3%	11.3%	10.9%	10.5%
Tier 2	1.3%	1.3%	1.2%	1.6%
Total	12.6%	12.6%	12.1%	12.1%
Number of shares on issue (millions)	2,679.5	2,679.5	2,629.0	2,596.4

1. *In 2011 a reclassification of certain assets from Liquid Assets to Net Loans and Advances occurred following a review of the definition of the Liquid Assets category and the reclassification of certain customer deposit liabilities from Deposits and Other Borrowings to Due From Other Financial Institutions.*
2. *Net of unearned income and including capitalized brokerage/mortgage origination fees.*
3. *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.*
4. *Risk weighted assets are calculated using Basel II methodology.*
5. *Excludes non-controlling interests.*
6. *For the purpose of this ratio, earnings consists of operating profit before income tax. Fixed charges consist of interest expense plus one-third of the rental expense. The ratio is expressed as earnings divided by fixed charges.*
7. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the rate applied in this document.*

Summary of credit quality data

	Mar 12[5] USD M	Mar 12 $M	Sep 11 $M	Mar 11 $M	Sep 10 $M	Mar 10 $M
	As at					
Gross impaired assets:						
Subject to provision for credit impairment	4,481	4,322	4,376	4,784	5,892	5,142
Without provision for credit impairment	355	342	274	419	183	188
Restructured items	352	340	700	704	141	560
Non-performing commitments and contingencies	351	339	231	314	345	671
Total gross impaired assets	**5,539**	**5,343**	**5,581**	**6,221**	**6,561**	**6,561**
Provision for credit impairment:						
Individual provision	1,777	1,714	1,697	1,717	1,875	1,593
Collective provision	3,104	2,994	3,176	3,177	3,153	3,037
Total provision for credit impairment	**4,881**	**4,708**	**4,873**	**4,894**	**5,028**	**4,630**
Gross loans, advances and acceptances:[1]						
Gross loans and advances[1,2]	431,951	416,660	401,210	383,706	356,925	339,982
Acceptances[3]	701	676	970	577	11,495	12,510
Total gross loans, advances and acceptances	**432,652**	**417,336**	**402,180**	**384,283**	**368,420**	**352,492**
Gross impaired assets as a percentage of:						
Gross loans and advances	1.3%	1.3%	1.4%	1.6%	1.8%	1.9%
Gross loans, advances and acceptances	1.3%	1.3%	1.4%	1.6%	1.8%	1.9%
Individual provision for credit impairment as a percentage of gross impaired assets	32.1%	32.1%	30.4%	27.6%	28.6%	24.3%
Total provision for credit impairment as a percentage of:						
Gross loans and advances[1,2]	1.1%	1.1%	1.2%	1.3%	1.4%	1.4%
Gross loans, advances and acceptances[1]	1.1%	1.1%	1.2%	1.3%	1.4%	1.3%
Risk weighted assets[4]	1.7%	1.7%	1.7%	1.9%	1.9%	1.9%

1. *Net of unearned income and including capitalized brokerage/mortgage origination fees.*
2. *Loans and advances are disclosed in the balance sheet net of individual and collective provisions. For ease of presentation gross amounts are shown here.*
3. *In 2011 the Group ceased re-discounting commercial bill acceptances. This has impacted balance sheet classifications as there is no intention to trade the commercial bills as negotiable instruments. Therefore, they are classified as commercial bill loans initially recognized at fair value and subsequently measured at amortized cost.*
4. *Risk weighted assets are calculated using Basel II methodology.*
5. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the rate applied in this document.*

Assets, liabilities, income and profit before tax

Results by Division

For the half year ended March 31, 2012 ANZ operated on a divisional structure with Australia, Asia Pacific, Europe and America (APEA), Institutional and New Zealand being the major operating divisions. ANZ manages Institutional APEA on a matrix structure, and thus the results for Institutional APEA are included in both APEA and Institutional division. Consequently, to avoid double counting, Institutional APEA is deducted in all divisional reporting tables.

In February 2012 the Group announced that it had put in place a new senior management structure and other organizational changes designed to further support its super regional aspirations, give focus to areas of growth and opportunity, and strengthen succession planning within the senior management team. As these changes are implemented, it is anticipated that reportable segments will be revised. The segments disclosed below are unchanged from those reported at September 30, 2011, consistent with how the business was managed and reported to the Chief Operating Decision Maker (the Chief Executive Officer) during the reporting period.

	Half year					
Division[1]	Mar 12 $M	%	Sep 11 $M	%	Mar 11 $M	%
External assets						
Australia	283,987	47%	272,331	46%	268,752	50%
Asia Pacific, Europe & America	96,654	16%	88,108	15%	64,757	12%
Institutional	233,770	39%	237,868	40%	188,236	35%
New Zealand	70,013	12%	70,273	12%	67,058	12%
Other	1,662	0%	661	0%	1,628	0%
Less: Institutional Asia Pacific, Europe & America	(82,850)	-14%	(74,753)	-13%	(52,984)	-10%
	603,236	**100%**	**594,488**	**100%**	**537,447**	**100%**
External liabilities						
Australia	183,812	33%	175,115	31%	171,210	34%
Asia Pacific, Europe & America	100,092	18%	93,028	17%	72,927	15%
Institutional	188,751	33%	201,333	36%	158,167	31%
New Zealand	57,724	10%	56,447	10%	53,041	11%
Other[2]	116,957	21%	108,205	19%	106,105	21%
Less: Institutional Asia Pacific, Europe & America	(83,543)	-15%	(77,594)	-14%	(59,132)	-12%
	563,793	**100%**	**556,534**	**100%**	**502,318**	**100%**
Income[3]						
Australia	9,982	55%	10,057	56%	9,745	55%
Asia Pacific, Europe & America	1,874	10%	1,556	9%	1,600	9%
Institutional	5,070	28%	4,643	26%	4,699	26%
New Zealand	2,413	13%	2,473	14%	2,569	14%
Other	106	1%	48	0%	203	1%
Less: Institutional Asia Pacific, Europe & America	(1,201)	-7%	(864)	-5%	(912)	-5%
	18,244	**100%**	**17,913**	**100%**	**17,904**	**100%**
Profit before tax						
Australia	1,951	47%	2,091	56%	1,924	49%
Asia Pacific, Europe & America	530	13%	404	11%	502	13%
Institutional	1,551	37%	1,268	34%	1,505	39%
New Zealand	546	13%	504	13%	504	13%
Other	(39)	-1%	(290)	-8%	(196)	-5%
Less: Institutional Asia Pacific, Europe & America	(393)	-9%	(209)	-6%	(335)	-9%
	4,146	**100%**	**3,768**	**100%**	**3,904**	**100%**

1. *For discussion of operating results see 'Section 3: Operating and financial review and prospects - Results by division'.*
2. *Other external liabilities includes a major proportion of the Group's wholesale funding within Group Treasury.*
3. *Income consists of interest income and non-interest income (comprising net funds management and insurance income and other operating income).*

Overview

ANZ 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. ANZ is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZ'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 at the close of trading on March 31, 2012, ANZ had a market capitalization of approximately A$62.3 billion. As at March 31, 2012, ANZ had total assets of A$603.2 billion, and shareholders' equity of A$39.4 billion. ANZ's principal ordinary share listing and quotation is on the Australian Securities Exchange ("ASX"). Its ordinary shares are also quoted on the New Zealand Stock Exchange ("NZX").

ANZ 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. ANZ also operates in a number of other countries including the United Kingdom and the United States.

ANZ'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 goals include increasing Asia Pacific, Europe & America profit after tax contribution to ANZ to between 25% and 30% by 2017. While there is a strong focus on organic growth, ANZ continues to explore appropriate acquisitions throughout Asia where opportunities arise.

Principal Activities of Regions and Divisions - effective until March 1, 2012 and for 2012 half year reporting purposes

Refer to "*Section 2: Information on the Group – Principal activities of segments*" on pages 8-9 of ANZ's 2011 Annual U.S. Disclosure Document (dated November 11, 2011) for a detailed discussion of the Group's business and divisional structure for 2012 half year reporting purposes. The segments disclosed in this U.S. Disclosure Document for the 2012 half year are unchanged from that reported by ANZ at September 30, 2011 (as described in the 2011 Annual U.S. Disclosure Document) consistent with how the business was managed and reported to the Chief Operating Decision Maker (ANZ's Chief Executive Officer) during the reporting period.

As the Group continuously reviews its business structure, the description of its business is subject to change from time to time. Recent organizational changes to ANZ are described immediately below.

Organizational changes - effective from March 1, 2012

On February 15, 2012, in addition to a number of senior management changes (as described in the "*Section 4: Directors, Senior Management/Executives and Employees*" of this U.S. Disclosure Document), ANZ announced certain organizational changes (which took effect on March 1, 2012) designed to support its super regional aspirations, give focus to areas of growth and opportunity and strengthen succession planning within the senior management team.

The following key organizational changes became effective on March 1, 2012:

- Global Institutional and Asia Pacific, Europe and America (APEA) (previously separate divisions) have joined to create a single new division, International and Institutional Banking;
- Global Wealth and Private Banking (previously ANZ managed its wealth and private banking businesses separately within the Australia, Asia Pacific, Europe & America and New Zealand divisions) have come together to form a new global division, Global Wealth and Private; and
- Corporate Banking Australia and the Health segment teams (both previously part of Institutional) have shifted to become part of Commercial within the Australia division.

Thus, although for 2012 half year reporting purposes we present our segments as they were prior to March 31, 2012, beginning on March 1, 2012, the Group now operates its business through a revised structure incorporating the above changes. These organizational structural changes are still in the process of implementation. As the changes are finalized and implemented it is anticipated that revised reportable segments will be established. The new structure will be reflected in the reporting of the results for ANZ's full fiscal year ending on September 30, 2012.

The Group's strategic priorities

The Group's primary strategy is to become a super regional bank focusing on Australia, New Zealand and the Asia Pacific region. This includes a goal to rebalance profits across the geographies and drive revenues sourced from Asia Pacific, Europe & America to account for 25% to 30% of Group profit after tax by 2017. While there is a strong focus on organic growth, ANZ continues to explore appropriate acquisitions throughout Asia where opportunities arise.

Refer to "*Section 2: Information on the Group - The Group's strategic priorities*" on page 10 of ANZ's 2011 Annual U.S. Disclosure Document (dated November 11, 2011) for a detailed discussion of ANZ's super regional strategy and ambitions out to 2017.

There have been no material changes or developments in the Group's strategy since the 2011 Annual U.S. Disclosure Document.

As at March 31, 2012, 14% of the Group's profit after tax was sourced from Asia Pacific, Europe & America.

Recent developments

No significant events for ANZ have occurred between March 31, 2012 and the date of this U.S. Disclosure Document.

Supervision and regulation

Australia

Overview of APRA's prudential and regulatory supervision

Since July 1, 1998, the Australian Prudential Regulation Authority ("APRA") has been responsible for the prudential and regulatory supervision of Australian authorized deposit-taking institutions ("ADIs"), which covers banks (including ANZ), 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. The Reserve Bank of Australia has retained overall responsibility for monetary policy, financial system stability, and payments system regulation. APRA draws authority from the Australian Prudential Regulation Authority Act 1998.

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

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, securitization 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 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 formalized 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 (including its implementation of the Basel Committee's Basel III proposals) refer to pages 42-47 of "Section 3: Operating and financial review and prospects" of this U.S. Disclosure Document.

Basel II and other capital regulatory considerations

The common framework for determining the appropriate level of bank regulatory capital is set by the Basel Committee under a framework developed in 2004 that is commonly known as "Basel II". A key objective of Basel II is to improve the stability of the global financial system by encouraging improved risk management practices and requiring financial institutions, including ADIs, to hold levels of regulatory capital commensurate with their risk profile. In particular, Basel II introduced a more risk-sensitive and detailed regulatory capital regime for credit risk, and introduced for the first time an explicit regulatory capital charge for operational risk.

A major innovation of the accord is that Basel II allows ADIs of varying sophistication in their risk management practices to enter the regulatory capital framework at one of three levels, with incentives embedded (by way of the potential for reduced regulatory capital requirements) to attract ADIs with more sophisticated risk measurement and management approaches to reach the more advanced levels. ADIs are required to choose their approach and be accredited at a level of compliance in each of credit and operational risk.

On December 10, 2007, APRA advised that the Group had achieved Advanced accreditation under the Basel II rules for the purposes of calculating its minimum capital requirements, which enables use of the Advanced Internal Ratings Based ("AIRB") methodology for credit risk weighted assets and Advanced Measurement Approach for the operational risk weighted asset equivalent. This means the Group has used the most sophisticated approaches for the three major types of risk facing banks, being credit risk, operational risk, and market risk, for regulatory capital determination from January 1, 2008 when the Basel II principles took effect in Australia.

Under Basel II, financial institutions are required to make extensive qualitative and quantitative disclosures with respect to capital adequacy and credit risk management. ANZ provides this information quarterly in its Basel II Pillar III Report.

In addition, on December 10, 2007 ANZ National Bank Limited ("ANZNBL") received accreditation from the Reserve Bank of New Zealand ("RBNZ") to use the AIRB methodology which took effect on January 1, 2008.

Pre Basel III liquidity

Liquidity is controlled by individual agreements between APRA and each ADI that take into consideration the specific operations of each organization. APRA requires that ADIs have a comprehensive liquidity policy statement that defines the guidelines and systems for managing domestic and foreign currency liquidity, including a formal contingency plan for dealing with a liquidity crisis. The Directors of ANZ must approve this statement. An ADI's liquidity management policy should cater to a range of potential conditions and APRA requires an ADI's liquidity risk to be assessed under two specific scenarios.

- The first scenario is known as the 'going-concern' scenario and refers to the normal behavior of cash flows in the ordinary course of business. It constitutes a key day-to-day focus of an ADI's liquidity management. APRA requires that an ADI must be able to meet all commitments and obligations under this 'going concern' scenario, within the ADI's normal funding capacity over at least the following 30 calendar days.
- The second scenario, known as the 'name crisis' scenario, models the behavior of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of an ADI, or adverse rating changes. Under the 'name crisis' scenario, APRA requires an ADI to have sufficient liquidity to remain cash flow positive for at least five business days.

Proposed changes to the capital and liquidity frameworks

In December 2010, the Basel Committee released their liquidity package entitled *"Basel III: International framework for liquidity and risk measurement, standards and monitoring"*. The Basel III liquidity proposals aim to strengthen the resilience of banks to liquidity risk, and are centered upon the following two key measures:

- Liquidity Coverage Ratio (LCR): a severe name specific stress scenario, whereby the 'ADI is required to maintain sufficient liquidity to meet its needs for a 30 day calendar time horizon under a significant severe liquidity stress scenario'. This stress assumes a significant customer deposit run and no access to wholesale funding markets; and
- Net Stable Funding Ratio (NSFR): a one year structural liquidity measure requiring all 'core' assets to be funded by 'core' or 'stable' sources.

Following the publication of earlier discussion papers relating to liquidity prudential requirements, APRA issued a Discussion Paper and a draft Prudential Standard in November 2011 addressing the Basel III's Committee proposals for enhanced liquidity risk management. These proposals include enhancements to qualitative aspects of liquidity management including governance, the requirement for a clear Board approved liquidity risk tolerance statement that emphasises the importance of stress testing, funding strategies, internal pricing and contingency funding plans. Many of these aspects have been integrated into ANZ's liquidity management framework for some time and ANZ believes it is well positioned to satisfy these qualitative liquidity risk management enhancements.

The changes to the quantitative requirements include the introduction of two new liquidity ratios to measure and enhance liquidity risk (the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as described above) and are more significant. A component of the liquidity required under the proposed standards will likely be met through the previously announced 'Committed Liquidity Facility' from the Reserve Bank of Australia (RBA), however, the size and availability of the facility is not yet agreed with APRA and the RBA. While ANZ has an existing stress scenario framework and structural liquidity risk metrics and limits in place, the requirements proposed by APRA are in general more challenging. These changes will impact the future composition and size of ANZ's liquidity portfolio, the size and composition of the Bank's funding base and, consequently, could affect future profitability. APRA is proposing to release further details on the implementation of Basel III liquidity requirements during the latter half of calendar 2012 and to implement the LCR ratio on January 1, 2015 and the NSFR ratio on January 1, 2018 in line with the Basel Committee's timetable for liquidity risk.

For a summary of the regulatory changes which would result from the Basel Committee's Basel III proposals (including in respect of the capital and liquidity standards, the Life Insurance and General Insurance Capital reforms and the proposed Level 3 Conglomerate rules), refer to Section 3 – "Operating and financial review and prospects - Capital management" and "- Liquidity risk" below.

The Basel Committee is yet to release details of contingent and 'bail-in' capital requirements.

Other regulators

In addition to APRA's prudential and regulatory supervision, ANZ is supervised and regulated in some respects by the 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 organizations and professionals who deal and advise in investments, superannuation, insurance, deposit-taking, and credit. ANZ provides products and participates in markets regulated by ASIC.

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 ANZ, comply with the Australian competition, fair trading, and consumer protection laws.

The Group is required to comply with certain anti-money laundering and counter-terrorism 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 the 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 ANZ and its branch operations, and the supervision and regulation by other regulators described above, local banking operations in all of ANZ's offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators, such as the RBNZ, the Office of the Comptroller of the Currency (the "Comptroller"), the Federal Reserve Bank of New York ("FRB-NY"), the UK Financial Services 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, ANZ'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 capitalization requirements on operations in their home jurisdictions.

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, creating crimes and 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 ANZ's U.S. bank subsidiaries and U.S. broker-dealer subsidiary, as well as ANZ's New York branch.

Those regulations impose obligations on 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 reputation 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 (also known as the Financial Modernization Act) (the "GLB"), ANZ successfully sought certification as a Financial Holding Company (a "FHC") by the Federal Reserve Board. An FHC is allowed to engage, or acquire companies engaged, in the U.S. in activities that are determined by the Federal Reserve Board and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the Federal Reserve Board to be complementary to financial activities.

Under the GLB, the activities of a FHC are subject to restrictions if it is determined that the FHC (in the case of ANZ, 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.

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

Under the IBA, a federal branch of a non-U.S. bank is subject to the receivership provisions to the same extent as a national bank. The Comptroller may take possession of the business and property of a federal branch. Accordingly, the Comptroller has at its disposal a wide range of supervisory and enforcement tools for addressing violations of laws and regulations, and breaches of safety and soundness, which can be 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 license at its own initiative or at the recommendation of the FRB.

Also, under the IBA, a non-U.S. bank is subject to certain restrictions with respect to opening new U.S. domestic deposit-taking branches and establishing new U.S. subsidiary banks in States outside of its 'home-state', which in ANZ's case is New York. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. Implementation of the Dodd-Frank Act will require many lengthy rulemaking processes that are expected to result in the promulgation of 200 or more new regulations. Once fully implemented, the Dodd-Frank Act will affect many aspects, in the U.S. and internationally, of the business of banking, including securitization, proprietary trading, investing, OTC derivatives and other activities.

ANZ's businesses may be affected by a variety of new regulations under the Dodd-Frank Act including, but not limited to, greater regulation of over-the-counter derivatives, including stricter capital and margin requirements, the central clearing of standardized over-the-counter derivatives, and heightened supervision of all over-the-counter derivatives dealers, and major market participants. In addition, if ANZ is designated as 'systemically important' under the Dodd-Frank Act, U.S. regulators may have increased regulatory authority over ANZ, and may have the power to require ANZ to sell or transfer assets and terminate activities if U.S. regulators determine that the size or scope of activities of ANZ pose a threat to U.S. financial stability. The extent of these impacts will depend on the rules the U.S. regulatory agencies develop and implement under the Dodd-Frank Act over the next several years.

The Foreign Account Tax Compliance Act ("FATCA") was enacted on March 18, 2010. FATCA requires foreign financial institutions (such as ANZ) to provide the U.S. Internal Revenue Service with information on certain foreign accounts held by U.S. persons. FATCA is expected to require significant investment by affected institutions in compliance and reporting framework that will meet FATCA standards.

ANZ 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, 2012, 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 1980's 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 resulted in an overall uplift in mortgage market share to the major banks. This uplift subsequently declined in 2010.

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.

Institutional division offers a wide range of financial market services to our large corporate and institutional customer base including foreign exchange, derivative and fixed interest activities, project and structured finance, corporate finance (mergers and acquisitions, and other advisory), primary markets origination, and syndication and leasing finance. Competitors gain recognition through the quality of their client base, perceived skill sets, client insights, reputation, and brands. In domestic markets, Institutional's competitors at the large corporate and institutional customer level are generally the other major Australian banks, as well as some international investment banks operating in niche markets, the boutique operations of large multi-national banking conglomerates or domestic investment banks with a focus on niche areas. Institutional's key competitive strength is its focused geographic and sector experience, 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 appropriate repricing for risk. This followed a decline in margins over the majority of the previous 10 years. Competition intensified once again in 2011 and, in conjunction with increased funding costs, has contributed to a contraction in Institutional margins in the half year ended March 31, 2012.

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'. ANZ is currently ranked 5th in market share in these markets.

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 Australia Ltd to become the new market leader.

For the past two years a number of Government reviews have focused on Australia's compulsory defined contribution retirement system and financial advice industry. Recommendations, if implemented, 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 National operates is very concentrated and highly competitive. ANZ National'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 of an Australian bank. Together with ANZ National (including the New Zealand branch of ANZBGL), these banks (including the New Zealand branches of their Australian bank parents) held approximately 88% of the New Zealand banking system's assets as at December 31, 2011 and participate across all customer segments from individuals to large corporations.

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.

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.

The non-bank financial sector in New Zealand is relatively small, constituting approximately 3.4% of total financial system assets. It is made up principally of two groups of participants: finance companies (typically involved in asset finance/property development) and savings institutions (mostly co-operative/mutual societies). Several New Zealand finance companies are no longer trading, being either in receivership or in moratorium as a consequence of credit quality and/or liquidity failures. Savings institutions are going through a period of change due to increased regulation/compliance costs, elevated funding costs and adverse credit quality.

On November 1, 2008 the New Zealand Government announced a wholesale funding guarantee facility. The guarantee was based around approval on a transaction by transaction basis. Details of approved transactions can be found on www.treasury.govt.nz/economy/guarantee/wholesale. A non refundable fee was charged for each transaction. On April 30, 2010 the New Zealand Government closed the wholesale funding guarantee facility.

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.

ANZ has had a long standing presence in Asia and the Pacific and currently has operations in 14 Asian markets and 12 countries (in addition to Australia and New Zealand) across the Pacific. Our competitive position across these markets ranges from holding significant market share in a number of countries across the Pacific, to being a new and emerging entrant in several Asian markets. This range is reflective of the length of presence and specific strategic approach that ANZ is taking in each market. A priority for ANZ is to expand in a number of franchise markets in Asia that we believe will be high growth and where we see competitive space for us to participate in that growth.

Risk factors relating to business/principal risks and uncertainties

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 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, natural disasters and by movements and events that occur in global financial markets.

The global financial crisis in 2008 and 2009 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 in many regions. More recently, sovereign risk (particularly in Europe) and its potential impact on financial institutions in Europe and globally has emerged as a significant risk to the recovery prospects of the global economy. The impact of the global financial crisis and its results (such as heightened sovereign risk) continue to affect global economic activity and capital markets.

The economic effects of the global financial crisis and the more recent European sovereign debt crisis have been widespread and far-reaching with unfavorable ongoing impacts on retail sales, 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, subsequent volatility in financial markets and the more recent European sovereign debt crisis (and potential contagion from it) suggest ongoing vulnerability and adjustment in these and other areas of consumer and business behavior.

The sovereign debt crisis could have serious implications for the European Union and the euro which, depending on the circumstances in which they take place, could adversely impact the Group's business operations and financial condition. 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, albeit less so than in many European countries and in the U.S.

Should the difficult economic conditions of these countries 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 these negative economic and business impacts 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 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, and decreasing consumer and business confidence.

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in the Middle East, 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 and the recent Christchurch earthquake, 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 recent appreciation in 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, international tourism, manufacturers, and import-competing producers. Similarly, a depreciation in the Australian or New Zealand dollars relative to other currencies would increase debt service obligations in Australia or New Zealand dollar terms of unhedged exposures. Appreciation of the Australian dollar against the New Zealand, United States dollar and other currencies has had a negative translation effect, 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 appreciation, but notwithstanding this, any 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 segments that are considered to provide higher growth prospects or are in greatest demand (for example, customer deposits). 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 payment systems, mortgages, and credit cards. 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. Any regulatory or behavioral change that occurs in response to this policy shift 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 Reserve Bank of Australia ("RBA") and the Reserve Bank of New Zealand ("RBNZ"), the U.S. Federal Reserve and the monetary authorities in Asian jurisdictions in which ANZ carries out business) set official interest rates so as to affect the demand for money and credit in their relevant jurisdictions. Their 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 the recovery prospects of 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 that currently being experienced or which was 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 ongoing operations and funding.

The Group raises funding from a variety of sources including customer deposits and wholesale funding in Australia and offshore markets to ensure that it continues 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, ANZ may be forced to seek alternative funding. The availability of such alternative funding, and the terms on which it may be available, will depend upon a variety of factors, including prevailing market conditions and ANZ's credit ratings. Even if available, the cost of these alternatives may be more expensive or on unfavorable terms.

Since the global financial crisis, developments in the U.S. mortgage industry and in the U.S. and European markets more generally, including recent European sovereign debt concerns did adversely affect the liquidity in global capital markets including an increase in funding costs. Future deterioration in these 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

ANZ'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 ANZ. 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 ANZ'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. On May 18, 2011, Moody's Investors Service Pty. Ltd. downgraded ANZ's deposit and long term, senior, unsecured debt rating to Aa2/stable. Subsequently, on December 2, 2011, as part of the implementation of their new global bank ratings criteria, Standard and Poor's (Australia) Pty. Ltd. downgraded the deposit and long term, senior unsecured debt ratings of the four major Australian banks, including ANZ, by one notch within the AA band from AA/stable to AA-/stable. We can't provide any assurance that we won't be subject to further downgrade in the future.

In addition, the ratings of individual securities (including, but not limited to, Tier 1 Capital and Tier 2 Capital securities) issued by ANZ (and banks globally) could be impacted from time to time by changes in the ratings methodologies used by rating agencies. Ratings agencies may 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 UK Financial Services Authority, U.S. regulators and various Asia Pacific jurisdictions where the Group has operations, to maintain adequate regulatory capital.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as a counterparty's risk grade worsens. These additional regulatory capital requirements compound any reduction in capital resulting from increased provisions for loan losses and 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.

Global and domestic regulators have released proposals, including the Basel III proposals, to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities, and insurance entities. These proposals, 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, our customers and counterparties in the natural resources sector could be adversely impacted in the event of a prolonged slowdown in the Chinese economy. Also, our customers and counterparties in the tourism and manufacturing industries may have been adversely impacted by the recent appreciation of the Australian 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.

Credit exposure may also be increased by a number of factors including deterioration in the financial condition of the counterparty, the value of assets the Group holds as collateral, and the market value of the counterparty instruments and obligations it holds. 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 they could have a materially 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 it does business may adversely affect the Group's 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. Overall, the property market has shown signs of weakness.

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, 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 U.S. 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 due to credit, liquidity or other problems.

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 U.S. financial guarantors. The underlying structures involve credit default swaps ("CDSs") over synthetic collateralized debt obligations ("CDOs"), portfolios of external collateralized loan obligations ("CLOs") or specific bonds/floating rate notes ("FRNs").

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.

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 reputational loss 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 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 bank.

External Fraud: Fraudulent acts or attempts which originate from outside the bank, e.g., valueless cheques, counterfeit credit cards, loan applications in false names, etc.

Employment Practices & Workplace Safety: Risk to our employees' health and safety.

Clients, Products & Business Practices: Risk of market manipulation, product defects, money laundering, misuse of customer information etc.

Business Disruption (including Systems Failures): Risk that our banking operating systems are disrupted or fail. At ANZ, technology risks are key Operational Risks which fall under this category.

Damage to Physical Assets: Risk that a natural disaster, terrorist or vandalism attack damages our buildings or property.

Execution, Delivery & Process Management: Risk that we experience losses as a result of data entry errors, accounting 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 practices and security in place. However, any failure of these systems could result in business interruption, 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 must 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 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. In addition, the Group may in the future have difficulty attracting highly qualified people to fill 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

ANZ is exposed to climate related events (including climate change). These events may include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The impact of these events may temporarily interrupt or restrict the provision of some Group services, and also adversely affect the Group's collateral position in relation to credit facilities extended to customers.

ANZ may also be exposed to other events such as geological events (volcanic or seismic activity, tsunamis); plant and animal diseases or a flu pandemic. These may severely disrupt normal business activity and have a negative effect on the Group's business, operations and financial condition. The most recent example of this would be the major earthquakes in Christchurch New Zealand. Whilst much of the widespread property damage was covered by public (Earthquake Commission) and private insurance, there will potentially be negative impacts on property (and hence security) values and on future levels of insurance and reinsurance coverage across New Zealand.

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 and in the other countries (including but not limited to the United Kingdom, the United States, 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.

The Australian Government and its agencies, including APRA, the RBA and other financial industry regulatory bodies including the Australian Securities and Investments Commission ("ASIC"), 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 U.S. Federal Reserve Board, the U.S. Department of Treasury, the U.S. Office of the Comptroller of the Currency, the U.S. Office of Foreign Assets Control, the UK's Financial Services 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, regulators have proposed various amendments to financial regulation that will affect the Group. APRA, the Basel Committee on Banking Supervision (the "Basel Committee") and regulators in other jurisdictions where the Group has a presence have released discussion papers and proposals in regards to strengthening the resilience of the banking and insurance sectors, including proposals to strengthen capital and liquidity requirements for the banking sector. In addition, the U.S. passed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act which significantly affects financial institutions and financial activities in the U.S.

Uncertainty remains as to the final form that the proposed regulatory changes will take in Australia, the U.S. and other countries in which the Group operate 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) and hold significant levels of additional liquid assets and undertake additional long-term wholesale funding to replace short-term wholesale funding to more closely match the Group's asset maturity profile.

The withdrawal of the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding and the New Zealand Government Wholesale Funding Guarantee Scheme may adversely impact the Group's access to funding and liquidity

In response to the global financial crisis, a number of government-sponsored financial stabilization packages (including guarantees of certain bank obligations) were introduced around the world, including in Australia and New Zealand. International capital markets and liquidity conditions improved following the global financial crisis and banks were able to raise non-government guaranteed funds. Many such government-sponsored financial stabilization packages were withdrawn or phased out, including in Australia and New Zealand in relation to wholesale funding. More recently, heightened sovereign risk and subsequent volatility in financial markets has re-emerged. There is no certainty that financial conditions will improve or that government-sponsored financial stabilization packages would be re-introduced if conditions deteriorated.

The absence of government-sponsored financial stabilization schemes may result in stress on the global financial system or regional financial systems, which could adversely impact the Group and its customers and counterparties. Specifically, it could adversely affect the Group's ability to access sources of funding and lead to a decrease in the Group's liquidity position and increase in its funding costs, negatively affecting Group's business, operations and financial condition.

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 in which it operates. 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 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 and other extrinsic events which may adversely affect its business, operations and financial condition". The Group has exposure to insurance risk in both life insurance and general insurance business, which may adversely affect its 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 at fair value:

- financial instruments classified as "held-for-trading" or "designated as at fair value through profit or loss";
- financial assets classified as "available-for-sale"; and
- derivatives.

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. In certain circumstances, the data for individual financial instruments or classes of financial instruments used by such estimates or techniques may not be available or may become unavailable due to changes in market conditions. In these circumstances, the fair value is determined using data derived and extrapolated from market data, and tested against historic transactions and observed market trends.

The valuation models incorporate the impact of factors that would influence the fair value determined by a market participant. Principal inputs used in the determination of the fair value of financial instruments based on valuation techniques include data inputs such as statistical data on delinquency rates, foreclosure rates, actual losses, counterparty credit spreads, recovery rates, implied default probabilities, credit index tranche prices and correlation curves. These assumptions, judgments and estimates need to be updated to reflect changing trends and market conditions. The resulting change in the fair values of the financial instruments 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 be 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 intangible assets. At reporting date, the Group carried goodwill principally related to its investments in New Zealand and Australia, intangible assets principally relating to assets recognised on acquisition of subsidiaries, and capitalized software balances.

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 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, an 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 contained in Note 15 of the Condensed Consolidated Financial Statements and in the 2011 audited annual consolidated financial statements. There is a risk that these contingent liabilities 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 ANZ 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 divestitures, 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 divestitures 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 ongoing 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.

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$1.0367 = A$1.00, the Noon Buying Rate on March 31, 2012. As at April 27, 2012 the Noon Buying Rate was US$1.0447= 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**
2009	0.8824	0.6122	0.7330	0.8824
2010	0.9675	0.8156	0.9013	0.9640
2011	1.1055	0.9571	1.0322	0.9744
Month ended[2]				
October 2011	1.0707	0.9453	1.0168	1.0610
November 2011	1.0366	0.9686	1.0112	1.0244
December 2011	1.0298	0.9904	1.0122	1.0251
January 2012	1.0651	1.0215	1.0415	1.0598
February 2012	1.0806	1.0629	1.0732	1.0777
March 2012	1.0747	1.0326	1.0513	1.0367

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 fiscal half year ended March 31, 2012, 31% (September 2011: 30%; March 2011: 30%) of ANZ's operating income was derived from New Zealand and Asia Pacific, Europe & America, and was denominated principally in New Zealand Dollars, U.S. Dollars, Chinese Yuan, Euro, British Pounds Sterling and Malaysian Ringgit. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ's earnings through the re-translation of overseas profits to Australian Dollars. Based on exchange rates applied to convert overseas profits and losses from September 2009 to March 2012, the Australian Dollar moved against these currencies as follows:

Australian Dollar movement against foreign currencies

	1st Half	Full Year		
	2012	2011	2010	2009
Chinese Yuan (CNY)	-2%	9%	22%	-22%
Euro (EUR)	6%	11%	23%	-1%
British Pound (GBP)	3%	11%	22%	3%
Malaysian Ringgit (MYR)	3%	6%	14%	-13%
New Zealand Dollar (NZD)	-1%	4%	3%	3%
U.S. Dollar (USD)	1%	14%	23%	-19%

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 Note 1(e) of the 2011 Annual Report for details of these hedging policies.

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 year ended September 30, 2011 is referred to as "2011", and other fiscal years are referred to in a corresponding manner. Our 2011, 2010 and 2009 audited financial results are contained in our 2011 Annual Report.

The Group operates on a divisional structure with Australia, Asia Pacific, Europe and America (APEA), Institutional and New Zealand being the major operating divisions. The Group manages Institutional APEA on a matrix structure. Accordingly, the results for Institutional APEA are included in both the APEA division and Institutional division. Consequently, to avoid double counting Institutional APEA is deducted in all divisional reporting tables.

In February 2012 the Group announced that it had put in place a new senior management structure and other organizational changes designed to further support our super regional aspirations, give focus to areas of growth and opportunity, and to strengthen succession planning within the senior management team. As these changes are implemented it is anticipated that reportable segments will be revised. The segment disclosures below are unchanged are unchanged from the reported at September 30, 2011 in line with how the business was managed and reported to the Chief Operating Decision Maker (the Chief Executive Officer) during the reporting period.

The Group revised its accounting policies on October 1, 2005 to enable the preparation of financial statements that comply with IFRS. The IFRS accounting policies have been consistently applied by all consolidated entities for the years ended September 30, 2011, 2010, 2009, 2008 and 2007.

Operating Results

The following discussion of statutory profit is based on the 2012 Half Year Condensed Financial Statements.

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 division', which follow.

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

	Half year			
	Mar 12 USD $M	Mar 12 $M	Sep 11 $M	Mar 11 $M
Net interest income	6,204	5,984	5,837	5,646
Net funds management and insurance income	598	577	663	742
Other operating income	2,339	2,256	1,827	2,217
Operating income	9,141	8,817	8,327	8,605
Operating expenses	(4,285)	(4,133)	(3,997)	(4,026)
Profit before credit impairment and income tax	4,856	4,684	4,330	4,579
Provision for credit impairment	(558)	(538)	(562)	(675)
Profit before income tax	4,298	4,146	3,768	3,904
Income tax expense	(1,268)	(1,223)	(1,074)	(1,235)
Non-controlling interests	(4)	(4)	(3)	(5)
Profit attributable to shareholders of the Company	**3,026**	**2,919**	**2,691**	**2,664**

Profit and loss

Comparison with September 2011 half

ANZ recorded a profit after tax of $2,919 million for the half year ended March 31, 2012, an increase of $228 million (8%) from $2,691 million for the half year ended September 30, 2011.

Detailed analysis of this result follows on pages 25 to 55, however significant influences on profit after tax were:

- Net interest income increased $147 million (3%) mainly due to:
  - A 5% increase in average interest earning assets to $502 billion;
  - A 6% increase in average deposits to $355.6 billion; and
  - A reduction in average net interest margin of 6 basis points to 2.38%.
- Net funds management and insurance income decreased $86 million with a $140 million loss on ANZ shares held in managed funds and life business.
- Other operating income increased $429 million (23%) mainly due to:
  - Higher net foreign exchange earnings of $184 million primarily due to gains on NZD and USD revenue and net investment hedges;
  - An increase in profit on trading instruments of $362 million resulting from improved trading conditions in comparison to the September 2011 half; and
  - A decline in other income of $121 million due mainly to a decrease of $50 million from fair value economic hedging gains and Asia Partnerships decreasing $43 million primarily due to a write-down in an investment and decreased equity accounted earnings.
- Operating expenses increased $136 million (3%), mainly driven by:
  - An increase in restructuring costs of $113 million relating to restructuring activities in the Australia, Institutional and New Zealand divisions;
  - Increased personnel expenses of $66 million reflecting higher personnel costs driven by annual rate increases and the continued build out of the franchise in APEA; and
  - Decreased other expenses of $78 million mainly due to lower travel, consultancy and advertising fees.
- The Group's income tax expense increased by $149 million (14%). The Group's effective tax rate was 29.5%, up 100 basis points, which was primarily due to an adjustment attributable to policyholder income and contributions tax.

Comparison with March 2011 half

ANZ recorded a profit after tax of $2,919 million for the half year ended March 31, 2012, an increase of $255 million (10%) from $2,664 million for the half year ended March 31, 2011.

Detailed analysis of this result follows on pages 25 to 55, however significant influences on profit after tax were:

- Net interest income increased $338 million (6%) mainly due to:
  - A 10% increase in average interest earning assets to $502 billion;
  - A 13% increase in average deposits to $355.6 billion; and
  - A reduction in average net interest margin of 9 basis points to 2.38%.

- Net funds management and insurance income decreased $165 million (22%) in line with the decline in average funds under management.
- Other operating income increased $39 million (2%) mainly due to:
  - An increase of $139 million in net foreign exchange earnings which was mostly offset by a decline of $130 million in profit on trading instruments reflecting more difficult trading conditions in the first half of 2012 compared to the first of 2011.
- Operating expenses increased $107 million (3%), mainly driven by:
  - Increased personnel expenses of $63 million reflecting higher personnel costs driven by annual rate increases and the continued build out of the Institutional franchise in APEA;
  - Increased computer expenses of $52 million mainly due to higher depreciation and amortization, rentals and repairs and software purchases; and
  - Decreased other expenses of $32 million mainly due to lower travel and advertising fees.
- Provision for credit impairment decreased by $137 million (20%) primarily due to including provisions in the March 2011 half for the Queensland and Victorian floods.
- The Group's income tax expense decreased by $12 million (1%). The Group’s effective tax rate was 29.5%, down 210 basis points, which was primarily due to an adjustment attributable to policyholder income and contributions tax.

Analysis of major income and expense items

Net interest income

The following table analyzes net interest income, interest spread, and net interest average margin for Australia, Asia Pacific, Europe & America and New Zealand on a geographic basis.

	Half year		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Net interest income	5,984	5,837	5,646
Average interest earning assets	502,138	476,814	458,029
Net interest margin (%)	2.38	2.44	2.47

	Half year		
Interest spreads and net interest margin	Mar 12 %	Sep 11 %	Mar 11 %
Australia			
Net interest spread[1]	2.14	2.23	2.17
Interest attributable to net non-interest bearing items	0.38	0.38	0.42
Net interest margin - Australia[2]	2.52	2.61	2.59
Asia Pacific, Europe & America			
Net interest spread[1]	1.46	1.39	1.64
Interest attributable to net non-interest bearing items	-	-	(0.04)
Net interest margin - Asia Pacific, Europe & America[2]	1.46	1.39	1.60
New Zealand			
Net interest spread[1]	2.15	2.10	2.06
Interest attributable to net non-interest bearing items	0.35	0.30	0.29
Net interest margin - New Zealand[2]	2.50	2.40	2.35
Group			
Net interest spread[1]	2.11	2.17	2.20
Interest attributable to net non-interest bearing items	0.27	0.27	0.27
Net interest margin - Group[2]	**2.38**	**2.44**	**2.47**

1. *Average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities.*
2. *Net interest income as a percentage of average interest earning assets.*

Comparison with September 2011 half

Volume

Average interest earning assets were up $25.3 billion (5%) in March 2012 over the half ending September 2011. Key factors influencing this result included:

- Australia increased by $10.9 billion (3%) driven by growth in residential mortgages ($6.8 billion, 4%) and lending to Commercial and Corporate customers ($4.6 billion, 5%). This was partly offset by lower repo funding and short sales with bank counterparties in our Markets business (-$1.1 billion, -3%);
- Asia Pacific, Europe and America grew by $13.6 billion (20%) with growth in Singapore and America (+$7.0 billion) from higher Trade loans and Government securities and deposits, UK/ Europe grew by $1.1 billion (15%) mainly from higher liquid assets and trading securities. Remainder is spread across countries mainly from increased customer lending;
- New Zealand declined by -$0.1 billion; and
- Movement in exchange rates had a $1.0 billion impact.

Average deposits and other borrowings increased $25.9 billion (7%). Key factors influencing this result included:

- Australia increased $16.8 billion (7%), primarily in Treasury ($10.5 billion, 20%) from higher Certificates of Deposits and Commercial paper due to a shift to short term funding sources and higher customers deposits in Banking Products ($3.5 billion, 5%), Commercial Banking Businesses ($2.1 billion, 5%) and Private Banking ($1.6 billion);
- Asia Pacific, Europe and America increased $7.3 billion (11%) due to increased customer deposits in UK/Europe ($1.8 billion, 14%), America ($1.3 billion, 17%) and across Asia ($4.2 billion, 10%); and
- New Zealand increased by $0.5 billion.

Margin

Net interest margin decreased by 6 basis point to 2.38%. Significant influences on net interest margin were:

- Higher cost of deposits (-5 basis points) mainly due to competitive pressures (-5 basis points);
- Higher funding costs (-2 basis points) from the increase in wholesale funding costs;
- Funding and Asset mix changes (-1 basis points) primarily from unfavorable asset mix due to growth in low margin Trade Loans and Mortgages (-3 basis points) partly offset by the benefit of lower reliance on wholesale funding as growth in customer deposits and other sources meets ongoing funding requirements (+2 basis points);
- Asset margin (+1 basis point) with small margin improvements across a number of businesses partly offset by margin decline in Australian Mortgages;
- Other items (+2 basis point) impacts of various minor items including interest recovery on impaired assets and break cost recoveries; and
- Global Markets had a -1 basis point impact on the total Group margin as higher earnings from managing balance sheet risk (+1 basis point), was offset by lower earnings from lending and investment activities (-1 basis points) and the dilution impact of the Global Markets balance sheet on the Group (-1 basis point).

Comparison with March 2011 half

Net interest income increased $338 million (6%) from $5,646 million for the half year ended March 31, 2011 to $5,984 million for the half year ended March 31, 2012.

Volume

Average interest earning assets were up $44.1 billion (10%) over the half ending March 2011. Key factors influencing this result included:

- Australia increased by $18.6 billion (6%) driven by growth in residential mortgages ($11.5 billion, 7%) and lending to Commercial and Corporate customers ($5.9 billion, 6%) and higher trading securities in our Markets business (+$1.2 billion, 3%);
- Asia Pacific, Europe and America grew by $26.1 billion (46%) with growth in America (+$6.4 billion) as surplus liquidity was placed with the U.S. Federal Reserve, Japan and China $5.2 billion from growth in domestic lending and investment of surplus liquidity, Singapore (+$6.0 billion, 49%) from higher trading securities and customer lending, Taiwan and Hong Kong ($4.1 billion, 39%) from higher Corporate lending, UK/ Europe grew by $1.9 billion (29%) mainly from higher liquid assets and trading securities. Remainder across spread across countries mainly from increased customer lending;
- New Zealand declined -$0.4 billion; and
- Movement in exchange rates had a -$0.2 billion impact.

Average deposits and other borrowings increased $47.6 billion (15%). Key factors influencing this result included:

- Australia increased $31.7 billion (15%), primarily in Treasury ($14.3 billion, 30%) from higher Certificates of Deposits and Commercial paper primarily due to a shift to short term funding sources and higher customers deposits in Commercial and Corporate Businesses ($7.8 billion, 8%) and Banking Products ($7.8 billion, 11%);
- Asia Pacific, Europe and America increased $16.5 billion (30%) due to higher Institutional customer deposits in Singapore ($5.9 billion, 47%), Japan ($2.3 billion, 43%), Hong Kong ($2.6 billion, 48%) and in the UK/Europe ($1.1 billion, 8%) and America ($2.4 billion, 37%); and
- New Zealand declined by -$0.1 billion.

Margin

Net interest margin decreased by -9 basis points to 2.38%. Key factors influencing this result included:

- Higher cost of deposits (-8 basis points) mainly due to competitive pressures in Australia (-7 basis points);
- Higher funding costs (-7 basis points) from the increase in wholesale funding costs.
- Asset margin impact (+4 basis points) from asset repricing on the New Zealand lending book, trade loans (mainly in Asia) and the Australian retail and Commercial book;
- Funding and Asset mix changes (+3 basis points) primarily from the benefit of lower reliance on wholesale funding as growth in customer deposits and other sources meets ongoing funding requirements (+7 basis points) partly offset by unfavorable Asset mix due to growth in low margin Institutional assets and Australian Mortgages (-4 basis points);
- Other items (+2 basis point) were lower from the impacts of various minor items; and
- Global Markets had a -3 basis point impact on the total Group margin as higher earnings from managing balance sheet risk (+2 basis point) was offset by lower earnings from lending and investment activities (-1 basis points) higher funding cost of derivatives (-1 basis point) and the dilution impact of the Global Markets balance sheet on the Group (-3 basis point).

Net funds management and insurance income

	Mar 12 $M	Sep 11 $M	Mar 11 $M
Funds management income	417	426	442
Investment income/(loss)	1,912	(1,816)	1,305
Insurance premium income	590	652	532
Commission income (expense)	(200)	(253)	(237)
Claims	(309)	(285)	(263)
Changes in policyholder liabilities[1]	(1,757)	1,875	(1,021)
Elimination of Treasury share gain/(loss)[2]	(76)	64	(16)
Total net funds management and insurance income	**577**	**663**	**742**

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 [Australian] 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. As at March 31, 2012 ANZ shares held by ANZ totaled 31,550,422 shares.*

Comparison with September 2011 half

Net funds management and insurance income decreased $86 million (13%). Significant influences on the result were:

- $3,728 million increase in investment income due to the improvement in investment market conditions resulted in a corresponding decrease of $3,632 million in changes in policy liabilities, which are predominantly life investment contracts for a net gain of only $96 million. All investment income earned is passed on to the policyholder increasing both policy liabilities and assets backing policy liabilities.
- The foregoing gain was more than offset by a $140 million negative movement in the elimination of Treasury share gain/(loss) from a $64 million gain in the second half of 2011 to a $76 million loss in the first half of 2012, which was primarily due to movements in the ANZ share price and the quantity of ANZ shares held in the consolidated managed funds and life business.

Comparison with March 2011 half

Net funds management and insurance income decreased $165 million (22%). Significant influences on the result were:

- The $607 million increase in investment income due to the improvement in investment market conditions resulted in a corresponding decrease of $736 million in changes in policy liabilities, which are predominantly life investment contracts, for a loss of $129 million. All investment income earned is passed on to the policyholder increasing both policy liabilities and assets backing policy liabilities.
- A $60 million negative movement in the elimination of Treasury share gain/(loss) from a $16 million loss in the first half of 2011 to a $76 million loss in the first half of 2012, which was primarily due to movements in the ANZ share price and the quantity of ANZ shares held in the consolidated managed funds and life business.

Other operating income

	Mar 12 $M	Sep 11 $M	Mar 11 $M
Net fee and commission income	1,218	1,214	1,177
Net foreign exchange earnings	570	386	431
Profit on trading instruments	274	(88)	464
Other	194	315	145
Total other operating income	**2,256**	**1,827**	**2,217**

Comparison with September 2011 half

Other operating income increased $429 million (23%) in the March 2012 half over the September 2011 half:

- Net fee and commission income increased $4 million mainly due to:
  - Transaction Banking increasing $8 million (3%) driven by volume growth;
  - Global Loans increasing $6 million (7%) driven by growth in loan syndication; and
  - Cards & Payments decreasing $13 million (4%) due to higher interchange costs, pricing and seasonality.
- Net foreign exchange earnings increased $184 million (48%) mainly due to:
  - Revenue and net investment hedges increasing $159 million; and
  - Global Markets increasing by $24 million (7%) reflecting the growth in the foreign exchange sales and trading business.
- Profit on trading instruments increased $362 million mainly due to an increase in Global Markets income reflecting improved trading conditions in the first half of 2012 compared to the second half of 2011.
- Other income decreased by $121 million (38%) mainly due to:
  - Fair value economic hedging gains decreasing $50 million;
  - Asia Partnerships decreased $43 million due to a $31 million write-down of the investment in Saigon Securities Inc (SSI) and equity accounted earnings decreased $19 million mainly due to lower earnings from Shanghai Rural Commercial Bank (SRCB) as a result of a release of a credit provision in the second half of 2011, offset by a $10 million gain on disposal of Sacombank; and
  - Global Services & Operations decreased $21 million due to the $19 million profit on sale of 20 Martin Place in Sydney in the September 2011 half.

Comparison with March 2011 half

Other operating income increased $39 million (2%):

- Net fee and commission income increased $41 million (3%) mainly due to:
  - Transaction Banking increasing $32 million driven mainly by volume growth; and
  - Pacific increasing $7 million driven by volume growth in Retail.
- Net foreign exchange earnings increased $139 million (32%) mainly due to:
  - Global Markets increasing by $80 million (30%) reflecting the growth in the foreign exchange sales and trading business;
  - Revenue and net investment hedges increasing $41 million; and
  - Transaction Banking increasing $11 million (18%) driven by higher volumes.
- Profit on trading instruments decreased $190 million mainly due to a reduction in Global Markets income reflecting more difficult trading conditions in the first half of 2012 compared to the first half of 2011.
- Other income increased by $49 million (34%) mainly due to:
  - Fair value economic hedging losses decreasing $113 million; and
  - Asia Partnerships decreasing $43 million due to a $31 million write-down of the investment in SSI and equity accounted earnings decreased $57 million mainly due to lower earnings from SRCB largely as a result of a one-off gain of $48 million booked in the first half of 2011, offset by the $10 million gain on disposal of Sacombank and the $35 million impairment charge relating to the carrying value of our investment in Sacombank (a 10% equity investment ANZ held in Saigon Thuong Tin Commercial Joint Stock Bank) in the first half of 2011.

Operating expenses

	Mar 12 $M	Sep 11 $M	Mar 11 $M
Personnel expenses	2,427	2,361	2,364
Premises expenses	353	341	344
Computer expenses	558	535	506
Other expenses	657	735	689
Restructuring costs	138	25	123
Total operating expenses	**4,133**	**3,997**	**4,026**

Comparison with September 2011

Operating expenses increased $136 million (3%) between September 2011 and March 2012:

- Personnel expenses increased $66 million (3%) as a result of annual salary increases and the continued build out of our APEA capability. Inflationary increases in New Zealand were offset by a 3% reduction in staff numbers from simplifying the business.
- Premises expenses increased $12 million (4%) reflecting inflationary increases and Asian expansion.
- Computer expenses increased $23 million (4%) mainly driven by an increase in depreciation and amortization partly offset by lower data communication costs, software purchases and software impairment.
- Other expenses decreased $78 million (-11%) due to lower travel, consultancy and advertising fees.
- Restructuring expenses increased $113 (large%) million due to restructuring activity in Australia division and Institutional, and increased costs associated with New Zealand Simplification (the project to move all NZ customers onto one technology platform).

Significant factors affecting operating expenses by division were as follows:

- Australia costs increased by $55 million (3%), mainly due to inflationary impacts, annual salary increases and increased restructuring cost.
- Asia Pacific, Europe & America costs increased by $64 million (8%), reflecting continued but targeted investments in IT systems, expanding distribution and building front line capability across the region.
- Institutional division costs growth was $39 million (4%), driven by higher amortization and personnel costs from annual salary increases and restructuring costs partly offset by tight control of discretionary costs.
- New Zealand costs decreased by $1 million (0%), reflecting productivity gains from simplifying the business offsetting inflationary increases.

Comparison with March 2011

Operating expenses increased $107 million (3%):

- Personnel expenses increased $63 million (3%) as a result of annual salary increases and the build out of the Institutional franchise in Asia Pacific, Europe & America in 2011. Inflationary increases in New Zealand were offset by a 4% reduction in staff numbers from simplifying the business.
- Premises expenses increased $9 million (3%) reflecting inflationary increases and Asian expansion.
- Computer expenses increased $52 million (10%) due to higher depreciation and amortization, rentals and repairs and software purchases.
- Other expenses decreased $32 million (5%) due to lower travel, consultancy and advertising fees.
- Restructuring costs increased $15 million (12%) due to restructuring activity in Australia division and Institutional in 2012 partly offset by lower restructuring costs associated with New Zealand Simplification.

Significant factors affecting operating expenses by division were as follows:

- Australia costs increased by $50 million (3%), mainly due to inflationary impacts, annual salary increases and increased restructuring cost.
- Asia Pacific, Europe & America costs increased by $84 million (11%), reflecting continued investments in IT systems and build-up of regional revenue generating staff and support capabilities.
- Institutional division costs growth was $74 million (8%), driven by higher personnel costs from annual salary increases and restructuring costs, higher premises costs from investment to build out capabilities in Asia Pacific, Europe & America in 2011 and investment in cash management and FX capability.
- New Zealand costs increased by $10 million (2%), reflecting inflationary increases partly offsetting by productivity gains from simplifying the business.

Provision for credit impairment charge

Division	Half year Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	307	296	414
Asia Pacific, Europe & America	48	67	43
Institutional	185	111	155
New Zealand	79	92	74
Other	(27)	51	16
Less: Institutional Asia Pacific, Europe & America	(54)	(55)	(27)
Total provision for credit impairment charge	**538**	**562**	**675**

	Half year					
	Mar 12 $M		Sep 11 $M		Mar 11 $M	
Division	Individual provision for credit impairment	Collective provision for credit impairment	Individual provision for credit impairment	Collective provision for credit impairment	Individual provision for credit impairment	Collective provision for credit impairment
Australia	319	(12)	370	(74)	298	116
Asia Pacific, Europe & America	52	(4)	77	(10)	52	(9)
Institutional	286	(101)	75	36	148	7
New Zealand	105	(26)	134	(42)	121	(47)
Other	(27)	-	12	39	16	-
Less: Institutional Asia Pacific, Europe & America	(45)	(9)	(48)	(7)	(25)	(2)
Total	**690**	**(152)**	**620**	**(58)**	**610**	**65**

Under ('IFRS'), the provision for 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 as the asset's original effective interest rate.

The provision for credit impairment charge consists of two components: the net individual provision for credit impairment charge, and the collective provision for credit impairment charge.

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

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

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

The collective provision for credit impairment charge is calculated as the change in the collective provision for credit impairment during the reporting period. The collective provision for credit impairment at the end of the reporting period reflects the impact on estimated future cash flows for loans 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 a provision. The impact on estimated future cash flows is calculated based on historical loss experience for assets with credit characteristics similar to those in the collective pool.

The provision for credit impairment charge is calculated by identifying objective evidence of impairment. In assessing the impacts of adopting IFRS standards and preparing for Basel accreditation, the Group performed a detailed analysis of historical incurred losses in both the retail loan portfolio and the wholesale loan portfolio. This analysis identified the events that triggered the losses in these portfolios and resulted in an estimate of the average period between the time when the loss events occurred until the Group assessed the loans for individual impairment and made a provision for credit impairment. The Group considers this period to be the "emergence period". The "emergence period" for retail portfolios was determined based on historical economic modeling. The "emergence period" for wholesale portfolios was determined based on a defaulted loan file review.

Comparison with September 2011 half

Total provision for credit impairment charge relating to lending assets, commitments, and debt securities classified as available-for-sale assets decreased $24 million (4%) between September 2011 and March 2012.

- The individual provision for credit impairment charge increased $70 million (11%), due mainly to Institutional:
  - The increase in Institutional of $211 million reflected provisions on existing problem accounts previously covered by collective provisions or credit valuation adjustments where litigation was resolved or which were transferred to impaired status, and reflects significantly lower recoveries and writebacks than in the second half of 2011; and

- The increase in Institutional has been partially offset by decreases in Australia, New Zealand and Asia Pacific, Europe & America as they have been able to reduce their individual provision balances.

- The collective provision for credit impairment charge decreased by $94 million during the half year to a release of $152 million:
  - Growth across the portfolio added a charge of $74 million, offsetting this was a $174 million release reflecting Institutional accounts where losses were crystallized as individual provisions and the associated collective provision released and an improved credit profile across most portfolios; and
  - A further $51 million was released from the economic cycle adjustment in Australia, New Zealand and Asia Pacific, Europe & America reflecting related individual provisions being crystallized and economic cycle adjustments no longer required.

Comparison with March 2011 half

Total provision for credit impairment charge relating to lending assets, commitments and debt securities classified as available-for-sale assets decreased $137 million (20%) in the March 2012 half compared to the March 2011 half.

The individual provision for credit impairment charge increased $80 million (13%), due mainly to Institutional. The increase in Institutional of $138 million reflected provisions on existing problem accounts previously covered by collective provisions where litigation was resolved or which were transferred to impaired status.

The collective provision for credit impairment charge decreased $217 million. The main driver of the decrease was the Institutional division, where the charge decreased $108 million reflecting accounts where losses were crystallized as individual provisions and the associated collective provision was released.

Credit risk on derivatives

Credit risk on derivatives	Mar 12 $M	Sep 11 $M	Mar 11 $M
Credit intermediation trade related	(52)	51	(55)
Credit risk on impaired derivatives loss/(gain)	32	(2)	(15)
Credit risk on derivatives (gain)/loss	(20)	49	(70)

The credit risk on derivatives gain of $20 million during the half year ended March 31, 2012 (September 2011: a loss of $49 million; March 2011: a gain of $70 million) was primarily due to the positive impact of market movements in credit spreads and AUD/USD rates.

Structured credit intermediation trades

ANZ entered into a series of structured credit intermediation trades from 2004 to 2007. The underlying structures involved credit default swaps over synthetic collateralized debt obligations, portfolios of external collateralized loan obligations or specific bonds/floating rate notes. ANZ 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 U.S. financial guarantors.

Refer to Section 2: Information on the Group – 'Risk factors relating to business/principal risks and uncertainties' on page 17 for a description of ANZ's credit intermediation trades.

ANZ is actively managing this portfolio with a view to reducing the exposure through termination and restructuring of both the bought and sold protection if and when ANZ deems it cost effective relative to the perceived risk associated with a specific trade or counterparty. Costs were incurred in prior periods managing these positions. The notional amount on the outstanding sold trades at March 31, 2012 was US$8.1 billion (September 2011: US$8.3 billion; March 2011: US$8.4 billion).

	As at		
	Mar 12 $M	**Sep 11 $M**	**Mar 11 $M**
Financial impacts on credit intermediation			
Mark-to-market credit exposure to financial guarantors	447	803	443
Cumulative costs relating to financial guarantors			
Credit valuation adjustment for outstanding transactions	139	197	143
Realized close out and hedge costs	320	314	317
Cumulative life to date costs	**459**	**511**	**460**

The cumulative costs include realized losses relating to restructuring of trades in order to reduce risks and realized losses on termination of sold protection trades. It also includes foreign exchange hedging losses.

The credit risk expense on structured credit derivatives still remains volatile reflecting the impact of market movements in credit spreads and AUD/USD rates. It is likely there will continue to be volatility in this market value. The overall credit exposure however is significantly reduced reflecting reduction in credit spreads, relative stabilization in the credit markets and progress in unwinding these trades. The remaining trades continue to be actively managed with a view to termination where appropriate opportunities arise.

Income tax expense

	Mar 12 $M	Sep 11 $M	Mar 11 $M
Income tax expense charged to the income statement	1,223	1,074	1,235
Effective tax rate	29.5%	28.5%	31.6%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison with September 2011 half

The Group's income tax expense increased by $149 million (14%) from $1,074 million for the half year ended September 30, 2011 to $1,223 million for the half year ended March 31, 2012.

The effective tax rate increased 1.0% from 28.5% to 29.5% for the half year ended March 31, 2012.

The increase was due primarily to the increase in the consolidation of income tax expense attributable to income relating to policyholder income and contributions tax.

Comparison with March 2011 half

The Group's income tax expense decreased by $12 million (1%) from $1,235 million for the half year ended March 31, 2011 to $1,223 million for the half year ended March 31, 2012.

The effective tax rate decreased 2.1% from 31.6% to 29.5% for the half year ended March 31, 2012.

The decrease was due primarily to a reduction in the consolidation of income tax expense attributable to income relating to policyholder income and contributions tax.

Results by Division

ANZ operates on a divisional structure with Australia, Asia Pacific, Europe & America (APEA), Institutional and New Zealand being the major operating divisions. The Group manages Institutional Asia Pacific, Europe & America on a matrix structure. Accordingly, the divisional analysis on the following pages reflects this matrix reporting structure. In February 2012 the Group announced that it had put in place a new senior management structure and other organizational changes which will be reflected in the fiscal year 2012 reporting. The segments disclosed below are unchanged from those reported at September 30, 2011, consistent with how the business was managed and reported to the Chief Operating Decision Maker (the Chief Executive Officer) during the reporting period.

See page 7 for a detailed description of the organizational changes.

	Half year		
Division	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
Profit before income tax			
Australia	1,951	2,091	1,924
Asia Pacific, Europe & America	530	404	502
Institutional	1,551	1,268	1,505
New Zealand	546	504	504
Other	(39)	(290)	(196)
Less: Institutional Asia Pacific, Europe & America	(393)	(209)	(335)
	4,146	3,768	3,904
Income tax expense			
Australia	(586)	(627)	(574)
Asia Pacific, Europe & America	(107)	(62)	(107)
Institutional	(428)	(361)	(422)
New Zealand	(149)	(147)	(147)
Other	(39)	82	(67)
Less: Institutional Asia Pacific, Europe & America	86	41	82
	(1,223)	(1,074)	(1,235)
Non-controlling interests			
Asia Pacific, Europe & America	(4)	(4)	(5)
Institutional	-	-	(2)
Other	-	1	-
Less: Institutional Asia Pacific, Europe & America	-	-	2
	(4)	(3)	(5)
Profit after income tax and non-controlling interests			
Australia	1,365	1,464	1,350
Asia Pacific, Europe & America	419	338	390
Institutional	1,123	907	1,081
New Zealand	397	357	357
Other	(78)	(207)	(263)
Less: Institutional Asia Pacific, Europe & America	(307)	(168)	(251)
	2,919	2,691	2,664

Australia Division

	Half year		
Australia Division	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
Net interest income	2,911	2,974	2,900
Other operating income	1,160	1,171	1,201
Operating income	4,071	4,145	4,101
Operating expenses	(1,813)	(1,758)	(1,763)
Profit before credit impairment and income tax	2,258	2,387	2,338
Provision for credit impairment	(307)	(296)	(414)
Profit before income tax	1,951	2,091	1,924
Income tax expense and non-controlling interests	(586)	(627)	(574)
Profit after income tax	**1,365**	**1,464**	**1,350**

Key factors in the performance of the Australia division are briefly discussed below:

Comparison with September 2011 half

Profit decreased 7%, with profit before credit impairment and income tax down 5%.

Net interest income decreased 2% driven by a 13 basis points decline in net interest margin. The main contributors to this decline were from higher wholesale funding costs and competitive pricing on deposits along with the impact of a shift in deposit product mix towards lower margin savings deposits. These items more than offset any benefit from asset repricing late in the half.

- Other operating income decreased 1% with Retail experiencing higher interchange costs reducing merchant services fees, plus seasonally lower first half annual fees in Commercial Cards and lower international conversion fees in Consumer Cards. These were largely offset by an uplift in Wealth due to growth in Insurance from lower lapse rates and Funds Management driven by realization of project benefits arising from investment management and custodial arrangements.
- Operating expenses were up 3% largely due to inflationary impacts, annual salary increases in October 2011, higher average FTE levels and restructuring costs, which were partly offset by lower discretionary spending, a GST refund and existing provision releases.
- Provision for credit impairment increased 4% in the half, reflecting higher collective provisions, partially offset by lower individual provisions. The increase in collective provision charge was driven by the release of surplus flood provisions in the September half rather than any significant deterioration in the March half. The individual provision charge decreased by 14% mainly driven by the improved economic climate in Commercial due in part to improving farm incomes and write-backs associated with the flood provisioned accounts.

Comparison with March 2011 half

Profit increased 1%, with profit before credit impairment and income tax down 3%. Significant influences on the profit were:

- Net interest income was flat and net interest margin declined 15 basis points over the period due to higher wholesale funding costs and competitive pricing on deposits along with the impact of a shift in deposit product mix towards lower margin savings deposits, which more than offset any benefit from asset repricing activity.
- Other operating income decreased 3% because of a reduction in Wealth and reduced E*Trade income. The reduction in Wealth was due to a 17% decline in Insurance income because of a deterioration in claims experience. The reduced E*Trade income was due to adverse investor sentiment and subdued market returns which impacted volumes along with the occurrence of a one off impairment charge.
- Operating expenses were up 3%, from inflationary impacts, annual salary increases, higher average FTE levels and restructuring costs, which were partly offset by tighter control of discretionary spending and lower incentive costs.
- Provision for credit impairment decreased 26% reflecting a lower collective provision charge partly offset by an increase in individual provision charge. The increase in individual provision charge was predominantly driven by Retail with a large provision raised for a merchant facility. The collective provision reduction reflects the raising of the flood provisions in March 2011 and release of surplus flood provisions not required in the March 2012 half combined with slower volume growth.

Asia Pacific, Europe & America Division

Asia Pacific, Europe & America Division	Half year Mar 12 $M	Sep 11 $M	Mar 11 $M
Net interest income	684	578	565
Other operating income	714	649	716
Operating income	1,398	1,227	1,281
Operating expenses	(820)	(756)	(736)
Profit before credit impairment and income tax	578	471	545
Provision for credit impairment	(48)	(67)	(43)
Profit before income tax	530	404	502
Income tax expense and non-controlling interests	(111)	(66)	(112)
Profit after income tax	**419**	**338**	**390**

Comparison with September 2011 half

The functional currency of Asia Pacific, Europe & America Division is U.S. dollars. Therefore, the result was impacted by the weaker USD against the AUD over the period. Translation of the March 2012 half results to Australian dollars was at an average exchange rate of US$1.0320 to A$1.00 compared to an average exchange rate for the September 2011 half results of US$1.0544 to A$1.00. These exchange rates are wholesale rates used internally for ANZ’s financial reporting and they are not the Noon Buying Rate.

Profit after tax increased 24%, driven by strong earnings growth in the Institutional business mainly due to strong performances in Global Markets and Transaction Banking. Global Markets benefited from a recovery in trading income and delivered solid growth in customer-driven revenue. The gain on sale of a credit card portfolio in Taiwan contributed to the higher Retail earnings. Asia Partnerships’ profit contribution was impacted by the impairment charge relating to the carrying value of our investment in Saigon Securities Incorporation (SSI) and lower earnings from Shanghai Rural Commercial Bank (SRCB) but partially offset by the gain on sale of the investment in Saigon Thuong Tin Commercial Joint-Stock Bank (Sacombank).

Key factors affecting the result were:

- Net interest income increased 18% compared with the September 2011 half, driven by balance sheet growth and loan repricing in the Institutional business.
- Other operating income grew 10%. Strong growth in fees and other income by Global Markets and the gain on sale of the credit card portfolio were partially offset by the SSI impairment charge and lower earnings from Asia Partnerships.
- Operating expenses increased 8%, reflecting continued but targeted investments in IT systems, expanding distribution and building front line capability across the region. Employee numbers were similar to the September 2011 half.
- Provision charges for credit impairment decreased 28%. Individual provision charges were lower due to higher recoveries in the March 2012 half achieved mainly in the Retail businesses in Asia (in particular, Taiwan) and higher charges in the September 2011 half arising from a small number of legacy Institutional positions. Collective provision charges were higher for the March 2012 half year due to the release in the September 2011 half following the de-risking of the previously RBS-owned portfolios.
- Net interest margin was maintained with increased deposit and funding costs largely offset by asset repricing.

Comparison with March 2011 half

The functional currency of Asia Pacific, Europe & America Division is U.S. dollars. Therefore, the result was impacted by the weaker USD against the AUD over the period. Translation of the March 2012 half results to Australian dollars was at an average exchange rate of US$1.0320 to A$1.00 compared to an average exchange rate for the March 2011 half results of US$0.9956 to A$1.00. These exchange rates are wholesale rates used internally for ANZ’s financial reporting and they are not the Noon Buying Rate.

Profit after tax increased 7% driven by continued growth in the Institutional business (in particular, Global Markets and Transaction Banking). Earnings from the Retail business for the March 2012 and 2011 halves included the gains on sale of credit card portfolios in Taiwan.

Key factors affecting the result were:

- Net interest income was 21% higher with solid balance sheet growth across all business lines.
- Operating expenses increased 11%, reflecting continued investments in IT systems and build-up of regional revenue generating staff and support capabilities. Employee numbers were similar to the March 2011 half.
- Provision charges for credit impairment were 12% higher compared with the March 2011 half. Individual provision charges were higher with the charges arising from a small number of legacy institutional positions, partially offset by higher recoveries in the Retail businesses in Asia (in particular, Taiwan). Higher collective provision charges for the March 2012 half year were driven by growth in loans and advances.
- Net interest margin was lower, reflecting increased pricing competition and the product mix impact of de-risking the portfolio.

Institutional Division

Institutional is included as a separate segment as it operates as a global line of business across the geographic regions of Australia, New Zealand and Asia Pacific, Europe & America. The results for Institutional are also reported in the applicable region.

	Half year		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Net interest income	1,697	1,599	1,570
Other operating income	1,072	774	1,049
Operating income	2,769	2,373	2,619
Operating expenses	(1,033)	(994)	(959)
Profit before credit impairment and income tax	1,736	1,379	1,660
Provision for credit impairment	(185)	(111)	(155)
Profit before income tax	1,551	1,268	1,505
Income tax expense and non-controlling interests	(428)	(361)	(424)
Profit after income tax	**1,123**	**907**	**1,081**

	Half year		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	682	599	703
Asia Pacific, Europe & America	307	168	251
New Zealand	134	140	126
Profit after income tax	**1,123**	**907**	**1,081**

Comparison with September 2011 half

Institutional profit after tax grew 24% to $1,123 million. Significant influences on profit after tax were:

- Total revenue increased 17%, customer revenues were up 7% with Resources and Financial Institutions sectors showing the greatest growth.
- Net interest margin (excluding Global Markets) was down 10 basis points with margin compression in the Australia lending book as the credit repricing post global financial crisis continued to run off and the impact of geographic mix with increased volumes in the lower spread Asian region.
- Expenses increased 4% with amortization and restructuring initiatives being the main drivers.
- Provisions for credit impairment increased half on half by 67%, reflecting significantly lower recoveries and writebacks compared to second half 2011.

Comparison with March 2011 half

Profit after tax increased by 4%. Significant influences on profit after tax were:

- Operating income increased 6% with strong results in Transaction banking partially offset by a flat performance in Global Markets and a fall in Global Loans.
- Net interest margin (excluding Global Markets) declined 30 basis points due to competitive pressures in the domestic market, geographic diversification with growth skewed to the lower spread Asian region, and relative growth in shorter dated trade assets.
- Expenses grew at 8% with ongoing investment in strategic capability builds including cash management and payments infrastructure as well as restructuring in Australia and New Zealand. Expense growth in Asia reflected the build out of foreign exchange capability and investment in cash platforms.
- Provisions for credit impairment increased by 19% compared to prior comparative period, with higher individual provisions (up by $138 million) largely offset by a reduction in collective provision charges (down by $108 million).

New Zealand

New Zealand Division	Half year Mar 12 $M	Sep 11 $M	Mar 11 $M
Net interest income	897	872	852
Other operating income	240	237	228
Operating income	1,137	1,109	1,080
Operating expenses	(512)	(513)	(502)
Profit before credit impairment and income tax	625	596	578
Provision for credit impairment	(79)	(92)	(74)
Profit before income tax	546	504	504
Income tax expense and non-controlling interests	(149)	(147)	(147)
Profit after income tax	**397**	**357**	**357**

Comparison with September 2011 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand region has been impacted by the devaluation of the NZ dollar against the Australia dollar over the period. Translation of the results to Australian dollars was at an average exchange rate for the half year ended March 31, 2012 of NZ$1.2959 to A$1.00 compared to an average exchange rate for the half year ended September 2011 of NZ$1.2945 to A$1.00. These exchange rates are wholesale rates used internally for ANZ's financial reporting and they are not the Noon Buying Rate.

Profit after income tax increased by $40 million (11%) between September 2011 and March 2012. Significant influences on profit after tax were:

- Profit before credit impairment and tax for the March 2012 half year increased 5%, with revenue 3% higher from margin improvement, and costs held flat as we continue to tightly manage expenditure. Profit increased 11%, enhanced by a lower credit impairment charge and the tax benefit from a reduction in the corporate tax rate from 30% to 28%.
- Net interest income increased 3%, with net interest margin stronger at 2.65%. Favorable lending mix has contributed as customers continue to favor variable over fixed rate mortgages. On the liability side our strong funding position has allowed us to focus on improving deposit margins. However, the increasing cost of wholesale funding and the flow-on effects of this on competition for retail deposits are expected to place downward pressure on margins during the second half. Lending volumes were flat over the half as households and businesses continued to repay debt and strengthen their financial position, and we maintained our commitment to responsible lending by avoiding risky mortgage lending above 95% of home value.
- Other operating income increased 1%, largely reflecting growth in the Wealth insurance business from favorable lapse and claims experience. Retail fees remained constrained in a competitive environment.
- Operating expenses were held flat. We have continued to realize efficiency gains from simplifying the business, and in the current environment we have kept in place constraints on discretionary expenditure. The cost to income ratio improved 130 basis points to 45.0%, maintaining the downward trend over four consecutive halves.
- Provision for credit impairment charge decreased $13 million as risk levels continue to reduce.

Comparison with March 2011 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand region has been impacted by the devaluation of the NZ dollar against the Australia dollar over the period. Translation of the results to Australian dollars was at an average exchange rate for the half year ended March 31, 2012 of NZ$1.2959 to A$1.00 compared to an average exchange rate for the half year ended March 2011 of NZ$1.3158 to A$1.00. These exchange rates are wholesale rates used internally for ANZ's financial reporting and they are not the Noon Buying Rate.

Profit after tax increased 11% compared with March 2011 half last year, with good revenue growth (5%) supported by strong management of costs and stabilizing credit risk.

Key components of the result were:

- Net interest income increased 5%, reflecting net interest margin improvement of 16 basis points. This was driven by favorable lending mix from an increased proportion of variable rate lending, lower mortgage break costs, and improved deposit margins. Lending volumes declined 2%, with the agri sector in particular still impacted by de-leveraging, although there are signs of this starting to moderate.
- Other operating income increased 5%, with the Wealth business delivering strong growth in insurance and funds management, partly offset by lower earnings from the real estate business following the sale of management rights during the second half of 2011. Positive revaluations of net policyholder assets also contributed to the Wealth result. Retail fee growth was constrained, with a marginally lower result reflecting a reduction in the Bonus Bonds management fee implemented during the second half of 2011.
- Operating expenses increased 2%, with inflationary impacts largely offset by productivity gains and savings from constraints on discretionary expenditure. The cost to income ratio improved 150 basis points compared with the March 2011 half.
- Provision for credit impairment charge increased 7%, with a lower individual provision charge being offset by a lower release from collective provision.

Balance sheet

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Assets			
Liquid assets and due from other financial institutions[1]	45,806	33,723	26,777
Trading securities and investment securities[2]	55,984	58,338	47,289
Derivative financial assets	36,873	54,118	29,646
Net loans and advances including acceptances[2]	412,628	397,307	379,389
Investments relating to insurance business	30,204	29,859	32,958
All other assets[3]	21,741	21,143	21,388
Total assets	603,236	594,488	537,447
Liabilities			
Due to other financial institutions[1]	26,964	23,012	22,014
Deposits and other borrowings[1,2]	383,141	368,729	331,789
Derivative financial liabilities	35,119	50,088	29,796
Liability for acceptances[2]	676	970	577
Bonds and notes	61,107	56,551	58,526
Insurance policy liabilities	33,531	32,536	35,219
All other liabilities	23,255	24,648	24,397
Total liabilities	563,793	556,534	502,318
Net assets	39,443	37,954	35,129

1. *In 2011 a reclassification of certain assets from Liquid Assets to Net Loans and Advances occurred following a review of the definition of the Liquid Assets category and the reclassification of certain customer deposit liabilities from Deposits and Other Borrowings to Due From Other Financial Institutions.*
2. *In 2011 the Group ceased re-discounting commercial bill acceptances. This has impacted balance sheet classifications as there is no intention to trade the commercial bills as negotiable instruments, therefore they are classified as commercial bill loans initially recognized at fair value and subsequently measured at amortized cost:*
   September 2011 – Trading securities: $nil; Net loans and advances $17,326 million; Customers' liability for acceptances $nil; Liability for acceptances $nil.
3. *Excludes notional goodwill in equity accounted entities.*

Explanations for material movements in balance sheet accounts include:

Assets

Liquid assets & due from other financial institutions

Comparison with September 2011 half

Liquid assets and due from other financial institutions increased by $12 billion (36%) between September 2011 and March 2012 primarily due to:

- An increase of $10.9 billion in liquid assets mainly due to the Group's drive to attract more deposits in Australia resulting in surplus funds and an increase in central bank deposits in the U.S. ($5.6b) and Japan ($3.2b).

Comparison with March 2011 half

Liquid assets and due from other financial institutions increased by $19.0 billion to $45.7 billion at March 31, 2012. Growth in liquid assets was most evident in Asia Pacific, Europe & America ($16.5 billion) primarily from increases in central bank deposits in the U.S. and Japan. Due from other financial institutions increased $2.5 billion to $10.0 billion at March 31, 2012 primarily due to an increase in U.K. and an across the board increase in Australia.

Trading and investment securities

Comparison with September 2011 half

Trading and investment securities decreased $2.4 billion (4%), trading securities declined by $3.2 billion primarily due to a change in composition of securities held in the Australian Liquidity Portfolio which was partially offset by an increase in assets available for sale assets by $0.9 billion (4%).

Comparison with March 2011 half

Trading and investment securities increased $8.7 billion (18%) due primarily to a raised liquidity requirement in New Zealand ($3.1 billion) due to uncertainties over the ongoing funding environment and an increase of $3 billion in Singapore due to regulatory requirements.

Derivative financial assets

Comparison with September 2011 half

Derivative financial assets decreased by $17.2 billion (32%), due to appreciation in the AUD against other currencies over the half year since the sharp decline prior to September 2011.

Comparison with March 2011 half

Derivative financial assets increased by $7.2 billion to $36.8 billion at March 31, 2012, resulting from continued volatility in the foreign exchange, interest rate and credit derivative markets.

Net loans and advances including acceptances

Comparison with September 2011 half

Net loans and advances, including acceptances, increased by $15.3 billion (4%) primarily due to:

- Net loans and advances, including acceptances, in Australia growing by $13.0 billion (4%), with housing loans in Mortgages increasing by $8.5 billion (5%);
- Net loans and advances, including acceptances, in Asia Pacific, Europe & America increasing by $2.0 billion (5%), with non-house lending increasing by $1.8 billion (5%); and
- Net loans and advances, including acceptances, in New Zealand increased by $0.3 billion (0.5%) mainly due to subdued customer demand for loans and advances as a result of the current economic climate.

Comparison with March 2011 half

Net loans and advances, including acceptances increased by 9% to $413 billion at March 31, 2012. Excluding the impact of exchange rates, the increase was $28.5 billion or 7%.

- Net loans and advances, including acceptances, in Australia grew by $19.8 billion, with housing loans in Mortgages increasing by $13.2 billion (8%);
- Net loans and advances, including acceptances, in New Zealand declined by $1.2 billion once the impact of exchange rates is excluded; and
- Net loans and advances, including acceptances, in Asia Pacific, Europe & America increased by $9.8 billion (32%), mainly as a result of an increase in non house lending of $8.3 billion spread across the region. Foreign exchange impacts were negligible.

Investments relating to insurance business

Investments relating to OnePath Australia and OnePath New Zealand were valued at $30.2 billion at half year ended March 31, 2012 (September 2011: $29.9 billion; March 2011: $32.9 billion).

All other assets

Comparison with September 2011 half

All other assets increased by $0.6 billion (3%) mainly due to an increase in outstanding settlements for traded securities and an increase in commodity trading balances which were seasonally higher at March 2012.

Comparison with March 2011 half

All other assets increased by $0.4 billion (2%) from capitalized software from the continued development of foreign exchange, cash management and payments infrastructure across Institutional and APEA.

Liabilities

Due to other financial institutions

Comparison with September 2011 half

Due to other financial institutions increased $4.0 billion to $27 billion at half year ended March 31, 2012 primarily due to increased funding requirements across the Group.

Comparison with March 2011 half

Due to other financial institutions increased $5.0 billion to $27 billion at half year ended March 31, 2012 primarily due to increased funding requirements across the Group.

Deposits and Other Borrowings

Comparison with September 2011 half

Deposits and other borrowings increased $14.4 billion (4%) mainly due to:

- An increase in deposits and other borrowings in Australia ($6.9 billion or 3%) as customers responded to continued attractive rates on offer partially offset by a reduction in Institutional, which declined due to the impact of competitive pressures;

- Deposits and other borrowings in Asia Pacific, Europe & America continued to grow at a steady rate with an increase of $6.1 billion (8%) due to a number of initiatives to raise customer deposits levels in order to reduce the Group's reliance on wholesale funding; and
- Deposits and other borrowings in New Zealand increased of $1.4 billion (3%) as customers continued to have a cautious outlook following on from the earthquake and economic situation.

Comparison with March 2011 half

Deposits and other borrowings increased $51.4 billion to $383.1 billion at March 31, 2012 mainly due to:

- Australia increased $25.4 billion resulting from growth in Institutional reflecting a slight shift in mix from longer to short term funding and Retail deposits growth as customers responded to attractive rates;
- New Zealand increased $5.6 billion (10%) resulting from an initiative to increase customer deposits and additional short term funding to suit future funding requirements; and
- Asia Pacific, Europe & America increased by $20.4 billion (26%) primarily from America and UK ($9.3 billion) from increased customer deposits to support funding requirements for the Group, Singapore ($4.9 billion) through customer deposit levels, Japan ($2.2 billion) and Hong Kong ($1.9 billion).

Derivative financial liabilities

Comparison with September 2011 half

Derivative financial liabilities decreased by $15 billion (30%), which was attributable to an appreciation of the Australian dollar against other currencies over the half year since the sharp decline prior to September 2011.

Comparison with March 2011 half

Derivative financial liabilities increased $5.3 billion to $35.1 billion at half year ended March 31, 2012. The increase was driven principally by continued volatility in foreign exchange, interest rate and credit derivative markets.

Liability for acceptances

Comparison with September 2011 half

Liability for acceptances decreased $0.3 billion (30%) to $676 million as a result of the balance sheet reclassification of customers' liability for acceptances in September 2010.

Comparison with March 2011 half

Liability for acceptances increased $99 million from $577 million at March 31, 2011 to $676 million at half year ended March 31, 2011. The increase was mainly driven by customers selected bills over long term funding.

Bonds and notes

Comparison with September 2011 half

Bonds and notes increased $4.6 billion (8%) due to increased volumes in senior term debt held by Group Treasury.

Comparison with March 2011 half

Bonds and notes increased $2.6 billion to $61.1 billion at March 31, 2012 due to increased volumes in term debt.

Insurance policy liabilities

Insurance policy liabilities were valued at $33.5 billion at half year ended March 31, 2011 (September 2011: $32.5 billion; March 2011: $35.2 billion).

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognized actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

All other liabilities

Comparison with September 2011 half

All other liabilities decreased by $1.4 billion (6%) to $23.3 billion at half year ended March 31, 2012, primarily due to the timing of trade dated liabilities with corporate counterparties.

Comparison with March 2011 half

All other liabilities decreased by $1.1 billion (5%) to $23.3 billion at half year ended March 31, 2012.

Capital management

Qualifying Capital	As at Mar 12 $M	 Sep 11 $M	 Mar 11 $M
Tier 1			
Shareholders' equity and non-controlling interests	39,443	37,954	35,129
Prudential adjustments to shareholders' equity	(3,170)	(3,479)	(2,637)
Fundamental Tier 1 capital	36,273	34,475	32,492
Deductions	(10,858)	(10,611)	(10,070)
Common Equity Tier 1 capital	25,415	23,864	22,422
Non-innovative Tier 1 capital instruments	5,081	5,111	3,751
Innovative Tier 1 capital instruments	1,592	1,641	1,597
Tier 1 capital	32,088	30,616	27,770
Tier 2			
Upper Tier 2 capital	1,173	1,228	1,166
Subordinated notes	5,757	5,017	6,176
Deductions	(3,217)	(3,071)	(3,055)
Tier 2 capital	3,713	3,174	4,287
Total qualifying capital	35,801	33,790	32,057
Capital adequacy ratios			
Common Equity Tier 1[1]	8.9%	8.5%	8.5%
Tier 1	11.3%	10.9%	10.5%
Tier 2	1.3%	1.2%	1.6%
Total	12.6%	12.1%	12.1%
Risk weighted assets[2]	284,836	279,964	264,236

1. *Common Equity Tier 1 is Tier 1 excluding hybrid Tier 1 capital instruments.*
2. *Risk weighted assets are calculated using Basel II methodology.*

Common Equity Tier 1 Ratio

The Common Equity Tier 1 ratio at March 2012 of 8.9% represents an increase from September 2011 of 40 basis points and an increase from March 2011 of 43 basis points. The key contributors to the increase were:

	Half Year Mar 12 vs Sep 11	 Sep 11 vs Mar 11
Common Equity Tier 1		
Underlying profit after preference share dividends	+106bps($3.0B)	+107bps($2.8B)
Ordinary share dividends net of reinvestment	-37bps($1.0B)	-46bps($1.2B)
Risk weighted assets (excluding FX impact)		
Portfolio growth and mix	-26bps	-43bps
Risk migration and Expected Losses in excess of Eligible Provisions	+5bps	+7bps
Portfolio data review	+5bps	+2bps
Non-credit risk	-11bps	0bps
Capital retention in insurance businesses and associates	-1bps	-9bps
Non-underlying profit items	-2bps	-5bps
Capitalized software	-6bps	-9bps
Other items	+7bps	-1bps
Total Common Equity Tier 1 movement	**+40bps**	**+3bps**
Tier 1 (in addition to Common Equity Tier 1 above)		
Hybrid Tier 1 capital	0bps	+51bps
Additional Tier 1 usage attributable to risk weighted asset growth and other	-7bps	-11bps
Total Tier 1 movement	**+33bps**	**+43bps**

Hybrid capital and Tier 1 capital

ANZ raises hybrid Tier 1 capital to further strengthen the Group's capital base and supplement its Common Equity Tier 1 capital position, ensuring compliance with APRA's prudential capital requirements and meeting Group operating targets for Tier 1. The total amount of qualifying hybrid Tier 1 capital is known as Residual Tier 1 capital which is limited to 25% of Tier 1 capital. Innovative Tier 1 capital, a sub category of Residual Tier 1 capital, is limited to 15% of Tier 1 capital. As at March 31, 2012, ANZ's hybrid Tier 1 capital usage and instrument details were as follows:

Instrument	$M	% of Net Tier 1 capital	Limit	Amount in issue currency	Accounting classification	Interest rate
UK Stapled Securities	691			GBP450 million	Debt	Coupon 6.54%
ANZ Convertible Preference Shares (CPS1)	1,081			AUD1,081 million	Debt	90 day BBSW + 2.50% (gross pay equivalent)
ANZ Convertible Preference Shares (CPS2)	1,969			AUD1,969 million	Debt	90 day BBSW + 3.10% (gross pay equivalent)
ANZ Convertible Preference Shares (CPS3)	1,340			AUD1,340 million	Debt	180 day BBSW + 3.10% (gross pay equivalent)
Non-innovative instruments	**5,081**					
Euro Trust Securities	871			EURO500 million	Equity	Euribor (3 month) + 0.66%
U.S. Trust Securities	721			USD750 million	Debt	Coupon: 5.36%
Innovative instruments	**1,592**	**5.4%**	**15%**			
Residual Tier 1 capital	**6,673**	**22.1%**	**25%**			

Regulatory change

APRA has released draft prudential capital standards on March 30, 2012 detailing the implementation of the majority of Basel III capital reforms in Australia. APRA is proposing to adopt the Basel III reforms with increased capital deductions from Common Equity Tier 1 capital, an increase in capitalization rates including prescribed minimum capital buffers, tighter requirements around Additional Tier 1 and Tier 2 securities, and transitional arrangements for existing Tier 1 and Tier 2 securities that do not conform to the new regulations.

APRA views the Basel III reforms as a minimum and hence has not incorporated some of the concessions proposed in the Basel III rules and set higher requirements in other areas which will result in Australian bank Basel III reported capital ratios not being directly comparable with international peers.

In addition, APRA is proposing an accelerated implementation timetable for the Basel III capital reforms around minimum capital ratios and deductions effective January 1, 2013. Introduction of the prescribed minimum capital buffers will be effective January 1, 2016 and the Leverage Ratio from January 1, 2015.

APRA has yet to release draft capital standards on the Basel III reforms dealing with the improvements in capital disclosures, leverage ratio, counterparty credit risk, contingent capital, and measures to address systematic and inter-connected risks. These are expected later in 2012.

Deferred acquisition costs and deferred income

The Group recognizes deferred acquisition costs relating to the acquisition of interest earning assets as assets. The Group also recognizes deferred income that is integral to the yield of an originated financial instrument, net of any direct incremental costs. This income is deferred and recognized as net interest income over the expected life of the financial instrument under AASB 139: 'Financial Instruments: Recognition and Measurement'. Deferred acquisition costs relating to OnePath Australia and New Zealand are excluded from this analysis.

The balances of deferred acquisition costs and deferred income were:

	Deferred Acquisition Costs[1]			Deferred Income		
	Mar 12	Sep 11	Mar 11	Mar 12	Sep 11	Mar 11
	$M	$M	$M	$M	$M	$M
Australia	647	597	583	68	86	95
Asia Pacific, Europe & America	6	-	-	93	86	57
Institutional	-	-	-	312	284	261
New Zealand	44	32	32	30	28	27
Group Centre	64	59	51	-	-	-
Less: Institutional Asia Pacific, Europe & America	-	-	-	(78)	(70)	(42)
Total	761	688	666	425	414	398

1. *Deferred acquisition costs largely include the amounts of brokerage capitalized and amortized in Australia and New Zealand. Deferred acquisition costs also include capitalized debt raising expenses.*

Deferred acquisition costs analysis:

	Half Year Mar 2012		Half Year Sep 2011	
	Amortization Charge	Capitalized Costs[1]	Amortization Charge	Capitalized Costs[1]
	$M	$M	$M	$M
Australia	173	223	160	174
Asia Pacific, Europe & America	1	7	-	-
Institutional	-	-	-	-
New Zealand	11	23	11	11
Group Centre	12	17	10	18
Less: Institutional Asia Pacific, Europe & America	-	-	-	-
Total	197	270	181	203

1. *Costs capitalized during the year exclude brokerage trailer commissions paid.*

Software capitalization

At March 31, 2012, the Group's intangibles included $1,743 million in relation to costs incurred in acquiring and developing software. Details are set out in the table below:

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Balance at start of period	1,572	1,349	1,217
Software capitalized during the period	324	368	277
Amortization during the period	(150)	(127)	(122)
Software impaired/written-off	(1)	(21)	(23)
Foreign exchange movements	(2)	3	-
Total software capitalization	1,743	1,572	1,349
Less: software capitalized excluded from Capital calculation	(83)	(82)	(86)
Capitalized software as per deductions from Tier 1 capital	1,660	1,490	1,263

Capitalized cost analysis:

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	84	67	48
Asia Pacific, Europe & America	34	61	59
Institutional	118	139	91
New Zealand	13	20	16
Group Centre	75	81	63
Total	324	368	277

Net book value by division:

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	413	390	399
Asia Pacific, Europe & America	300	283	229
Institutional	653	581	485
New Zealand	72	66	51
Group Centre	305	252	185
Total	1,743	1,572	1,349

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 short term stresses in funding sources. The minimum level of 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 highlighted the importance of differentiating between stressed and normal market conditions in a name-specific crisis and the different behavior that offshore and domestic wholesale funding markets can exhibit during market stress events. ANZ's liquidity scenario modeling stresses site and total bank cash flow projections against multiple 'survival horizons' over which period the Group is required to remain cash flow positive. Scenarios modeled are either prudential requirements, i.e. a 'going-concern' scenario, or 'name crisis' scenario; or Board mandated scenarios including 'Name-specific' stresses and 'Funding Market' events. 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 this 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:

  - central bank deposits with the U.S. Federal Reserve, Bank of Japan and European Central Bank of $18.3 billion;
  - secondary sources of liquidity including Australian Commonwealth and State Government securities and gold of $8.9 billion; and
  - additional 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)[1]	**Mar 12 $B**	**Sep 11 $B**	**Mar 11 $B**
Australia	21.2	20.8	24.9
New Zealand	10.5	9.1	8.5
United States	1.4	1.4	1.2
United Kingdom	3.1	2.7	2.2
Asia	6.5	6.7	2.0
Total excluding Internal RMBS	**42.7**	**40.7**	**38.8**
Internal RMBS (Australia)	24.6	26.8	24.6
Internal RMBS (New Zealand)	4.0	3.9	3.7
Total prime portfolio	**71.3**	**71.4**	**67.1**
Other Eligible Securities and deposits with Central Banks	27.2	19.9	5.7
Total liquidity portfolio	**98.5**	**91.3**	**72.8**

1. *Market value is post the repo discount applied by the applicable central bank.*

Liquidity risk, cont'd

Regulatory Change

Following the publication of earlier discussion papers relating to liquidity prudential requirements, Australian Prudential Regulation Authority (APRA) issued a Discussion Paper and a draft Prudential Standard addressing the Basel Committee on Banking Supervision's proposals for enhanced liquidity risk management. These proposals include enhancements to qualitative aspects of liquidity management including governance, the requirement for a clear Board approved liquidity risk tolerance statement that emphasizes the importance of stress testing, funding strategies, internal pricing and contingency funding plans. Many of these aspects have been integrated into ANZ's liquidity management framework for some time and ANZ is well positioned to meet these enhancements. The changes to the quantitative requirements include the introduction of two new liquidity ratios to measure and enhance liquidity risk (the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)) and are more significant. A component of the liquidity required under the proposed standards will likely be met via the previously announced Committed Liquidity Facility from the Reserve Bank of Australia (RBA), however the size and availability of the facility is not yet agreed with APRA and the RBA. While ANZ has an existing stress scenario framework and structural liquidity risk metrics and limits in place, the requirements proposed are in general more challenging. These changes will impact the future composition and size of ANZ's liquidity portfolio, the size and composition of the Bank's funding base and consequently could affect future profitability. APRA is proposing to release further details on the requirements during the second half of 2012 and to implement the LCR ratio on January 1, 2015 and the NSFR ratio on January 1, 2018 in line with the Basel Committee's timetable for liquidity risk.

Funding

ANZ manages its funding profile using a range of funding metrics and balance sheet disciplines. This approach is designed to ensure that an appropriate proportion of the Group's assets are funded by stable funding sources including core customer deposits, longer dated wholesale funding (with a remaining term exceeding one year) and equity. This includes targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency. Diversification was further enhanced in March 2012 half with the introduction of a covered bond funding programme.

Customer deposits and other funding liabilities was $317.9 billion, representing 60% of total funding.

$16.2 billion of term wholesale debt was issued during first half 2012 ($15.3 billion of which will be greater than 1 year as at September 2012) including $8.0 billion of covered bonds. As at March 2012, term wholesale funding represented 13% of total funding, an increase from 12% as at September 2011.

- ANZ maintained access to all major global wholesale funding markets during the March 2012 half.
- Approximately 80% of ANZ's 2012 term funding requirements were completed during the first half. Benchmark term debt issues were completed in AUD, USD, EUR, JPY, CHF and NZD.
- All short-term wholesale funding needs were comfortably met.
- The weighted average tenor of new term debt issuance increased to 4.9 years (4.7 years in 2011).
- The weighted average cost of new term debt issuance increased significantly (up 41 bps) in the March 2012 half relative to September 2011 as a result of further global market disruption. Financial market conditions improved towards the end of the March 2012 half, however average portfolio costs remain substantially above pre-crisis levels and continue to increase as maturing term wholesale funding is replaced at higher spreads.

The following tables show the Group's funding composition:

	Mar 12 $M	Sep 11 $M	Mar 11 $M
Customer deposits and other liabilities[1]			
Australia	135,880	128,490	121,096
Asia Pacific, Europe & America	70,776	64,824	52,795
Institutional	119,920	117,952	99,342
New Zealand	41,182	39,471	37,572
Other	(4,666)	(3,965)	(3,382)
Less: Institutional Asia Pacific, Europe & America	(54,789)	(50,018)	(40,128)
Total customer deposits	308,303	296,754	267,295
Other[2]	9,624	11,450	11,566
Total customer deposits and other liabilities (funding)	317,927	308,204	278,861
Wholesale funding			
Unsubordinated debt	61,107	56,551	58,526
Loan capital	12,605	11,993	11,634
Certificates of deposit	59,603	55,554	51,513
Liability for acceptances	676	970	577
Commercial paper issued	15,084	14,333	10,769
Due to other financial institutions	26,964	23,012	22,014
Other wholesale borrowings[3]	(864)	(1,128)	2,735
Total wholesale funding	175,175	161,285	157,768
Shareholders' equity (excl preference shares)	38,572	37,083	34,258
Total funding	531,674	506,572	470,887
Wholesale funding			
Short term wholesale funding	74,030	63,333	54,601
Long term wholesale funding[4]			
- Less than 1 year residual maturity	22,782	27,883	26,736
- Greater than 1 year residual maturity	71,677	63,293	71,052
Hybrid capital including preference shares	6,686	6,776	5,379
Total wholesale funding and preference share capital excluding shareholders' equity	175,175	161,285	157,768
Total funding maturity			
Short term wholesale funding	14%	12%	12%
Long term wholesale funding[4]			
- Less than 1 year residual maturity	4%	6%	6%
- Greater than 1 year residual maturity	13%	12%	15%
Total customer liabilities (funding)	60%	61%	59%
Shareholders' equity and hybrid debt	9%	9%	8%
Total funding and shareholders' equity	100%	100%	100%

1. *Includes term deposits, other deposits excluding securitization deposits and an adjustment to eliminate OnePath Australia investments in ANZ deposit products.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in OnePath.*
3. *Includes net derivative balances, special purpose vehicles, other borrowings, and preference share capital Euro hybrids.*
4. *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.*

Term debt maturity profile

	Years ended September 30				
Year of maturity	**2012[1] $M**	**2013 $M**	**2014 $M**	**2015 $M**	**>2015 $M**
Senior term debt	6,358	21,246	7,619	12,202	16,668
Government guaranteed term debt	6,096	420	7,962	77	-
Covered bonds	-	-	-	597	7,416
Subordinated and perpetual debt	924	2,171	1,004	-	3,699
Total	**13,378**	**23,837**	**16,585**	**12,876**	**27,783**

1. *This data refers to term debt maturing from April 1, 2012 to September 30, 2012.*

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

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Impaired loans	4,664	4,650	5,203
Restructured items	340	700	704
Non-performing commitments and contingencies	339	231	314
Gross impaired assets	**5,343**	**5,581**	**6,221**

Comparison with September 2011 half

Gross impaired assets decreased $238 million (4%), largely reflecting the reduction in restructured items.

Net impaired assets decreased $255 million (7%). The Group has an individual provision coverage ratio on impaired loans of 36%, reflecting a prevalence of well secured exposures within impaired assets.

Comparison with March 2011 half

Gross impaired assets at $5,343 million represent an $878 million or 14% decrease over March 31, 2011, driven primarily by reductions in impaired loans and restructured items.

Net impaired assets at $3,629 million represent an $875 million decrease over March 31, 2011.

	As at		
	Mar 12 $M	Sep 11 $M	Mar 11 $M
Total gross impaired loans	4,664	4,650	5,203
Subject to specific provision for credit impairment	4,322	4,376	4,784
Without specific allowance for loan losses	342	274	419

	As at		
Gross impaired loans by geographic region	Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	2,761	2,592	2,993
Asia Pacific, Europe & America	623	666	645
New Zealand	1,280	1,392	1,565
Total gross impaired loans	4,664	4,650	5,203

	Half year		
New impaired loans by geographic region	Mar 12 $M	Sep 11 $M	Mar 11 $M
Australia	1,759	1,169	1,619
Asia Pacific, Europe & America	140	163	149
New Zealand	457	510	669
Total new impaired loans	2,356	1,842	2,437

Impaired loans – five half year summary

	As at				
	Mar 12 $M	**Sep 11 $M**	**Mar 11 $M**	**Sep 10 $M**	**Mar 10 $M**
Gross impaired loans subject to specific provision					
Australia	2,626	2,486	2,856	3,717	3,523
Asia Pacific, Europe & America	417	499	370	630	289
New Zealand	1,279	1,391	1,558	1,545	1,330
Total	4,322	4,376	4,784	5,892	5,142
Individual provisions for credit impairment	(1,701)	(1,687)	(1,700)	(1,849)	(1,560)
Net exposure	2,621	2,689	3,084	4,043	3,582
Gross impaired loans not subject to specific provision					
Australia	135	107	137	120	151
Asia Pacific, Europe & America	206	166	275	57	28
New Zealand	1	1	7	6	9
Total	342	274	419	183	188
Net impaired loans[1]	2,963	2,963	3,503	4,226	3,770
Gross impaired loans					
Australia	2,761	2,592	2,993	3,837	3,673
Asia Pacific, Europe & America	623	666	645	687	317
New Zealand	1,280	1,392	1,565	1,551	1,340
Total	**4,664**	**4,650**	**5,203**	**6,075**	**5,330**
Individual provisions for credit impairment	(1,714)	(1,697)	(1,717)	(1,875)	(1,593)
Net impaired loans[1]	2,950	2,953	3,486	4,200	3,737
Ratio of individual provision for credit impairment to gross impaired loans	36.7%	36.5%	33.0%	30.9%	29.9%

1. *Excluding off-balance sheet commitments that have been classified as non-performing commitments and contingencies of $339 million (Sep 2011: $231 million; Mar 2011: $314 million, Sep 2010: $345 million, Mar 2010: $671 million) net of a provision of $13 million (Sep 2011: $10 million; Mar 2011: $17 million, Sep 2010: $26 million, Mar 2010: $33 million).*

Restructured items

	As at		
	Mar 12 $M	**Sep 11 $M**	**Mar 11 $M**
Australia	319	684	658
Asia Pacific, Europe & America	-	-	-
New Zealand	21	16	46
Total restructured items[1]	340	700	704

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.*

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 12 $M	**Sep 11 $M**	**Mar 11 $M**
Australia	313	205	277
Asia Pacific, Europe & America	4	5	3
New Zealand	22	21	34
Gross impaired commitments and contingencies	339	231	314

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 12 $M	**Sep 11 $M**	**Mar 11 $M**
Australia	1,570	1,523	1,610
Asia Pacific, Europe & America	74	69	98
New Zealand	232	242	247
Total past due loans	1,876	1,834	1,955

Provision for credit impairment

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

Credit exposures, including loans and advances and off-balance sheet items, such as commitments and guarantees, are reviewed at least at each reporting date for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated. Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio.

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

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

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

Provision for credit impairment

	As at		
Individual provision balance	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
Australia	985	908	938
Asia Pacific, Europe & America	326	387	373
New Zealand	403	402	406
Total individual provision	1,714	1,697	1,717

	Half year		
	Mar 12 $M	**Sep 11 $M**	**Mar 11 $M**
Collective provision			
Balance at start of period	3,176	3,177	3,153
Charge/(credit) to income statement	(152)	(58)	65
Adjustment for exchange rate fluctuations	(30)	57	(41)
Total collective provision[1]	2,994	3,176	3,177
Individual provision			
Balance at start of period	1,697	1,717	1,875
New and increased provisions	1,023	1,051	982
Write-backs	(251)	(322)	(291)
Adjustment for exchange rate fluctuations	(29)	51	(43)
Discount unwind	(64)	(82)	(103)
Bad debts written-off	(662)	(718)	(703)
Total individual provision	1,714	1,697	1,717
Total provision for credit impairment	4,708	4,873	4,894

1. *Collective provision includes amounts for off-balance sheet credit exposures: $545 million at March 31, 2012 (Sep 2011: $572 million; Mar 2011: $579 million). The impact on the income statement for the half year ended March 31, 2012 was a $22 million release (Sep 2011 half: $17 million release; Mar 2011 half: $10 million charge).*

	Half year		
Provision movement analysis	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
New and increased provisions			
Australia	772	694	668
Asia Pacific, Europe & America	61	120	92
New Zealand	190	237	222
	1,023	1,051	982
Provision releases	(251)	(322)	(291)
	772	729	691
Recoveries of amounts previously written-off	(117)	(130)	(97)
Individual provision charge for loans and advances	655	599	594
Impairment on available-for-sale assets	35	21	16
Collective provision charge/(credit) to income statement	(152)	(58)	65
Charge to income statement	538	562	675

Concentrations of credit risk / loans and advances by industry category

Although ANZ's loan portfolio is spread across many countries, at half year ended March 31, 2012 72% of gross loans and advances were booked in Australia (September 2011: 72%), and 18% were booked in New Zealand (2011: 19%). The inherent risk characteristics of ANZ's loan portfolio are therefore very much linked to general economic conditions in Australia and New Zealand, where the portfolio is diversified across different regions, industries, customer types, and products.

As at year ended September 30, 2011, ANZ's largest credit exposure in Australia was in the category 'Personal Lending' (49%), which includes consumer lending secured by a mortgage. Over the past half year, growth was recorded in ANZ's Mortgages Australia portfolio (5%) 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 2011 Annual Report.

Refer to "Section 4: Directors, senior management/executives and employees" on pages 69 to 90 of ANZ's 2011 Annual U.S. Disclosure Document dated November 11, 2011 for a comprehensive discussion of the Group's directors, senior management and executives, and corporate governance.

During the period since the 2011 Annual U.S. Disclosure Document to the date of this U.S. Disclosure Document, there were no material changes to these matters except for certain Board member and senior management/executive personnel changes described below.

New appointment to ANZ Board of Directors

On February 28, 2012 Ms Paula Dwyer was appointed to the ANZ Board of Directors, effective from the April 1, 2012. Ms Dwyer's Director's profile follows:

Ms P Dwyer
B Com, FCA, F Fin, FAICD

Independent Non-Executive Director
Non-Executive director since April 2012. Member of the Audit Committee and Risk Committee.

Skills, experience and expertise
Ms Dwyer has extensive experience in financial services and a strong accounting background, and has previously held executive roles in the investment management, corporate finance and accounting industries.

Current Directorships
Chairman: Tabcorp Holdings Limited (from 2011).
Director: Leighton Holdings Limited (from 2012) and Lion Pty Ltd (from 2012).
Member: Australian Government Takeovers Panel (from 2008).

Former Directorships include
Former Director: Suncorp Group Limited (2007-2012), Fosters Group Limited (2011), Astro Japan Property Group Limited (2005-2011), David Jones Limited (2003-2006), Healthscope Limited (2010), CCI Investment Management Limited (1999-2011) and Promina Group Limited (2003-2007).

Age: 51 **Residence:** Melbourne, Australia.

There were no other changes to the composition of the Board during the period.
Following Ms Dwyer's addition to the Board, as at April 1, 2012, the Board comprised eight independent non-executive Directors and one executive Director, the Chief Executive Officer.

Changes to Senior Management and Executives

On October 14, 2011 ANZ announced the appointment of Alistair Currie to the newly defined role of Group Chief Operating Officer with responsibility for technology, shared services and operations including ANZ's Bangalore, Manila and Chengdu hubs, property and major projects. This new role will report to the CEO and forms part of ANZ's Management Board. Mr Currie's appointment became effective on October 15, 2011. ANZ's Chief Information Officer, Anne Weatherston, will report to Mr Currie and remain a member of ANZ's Management Board, reflecting the importance attached to Technology. Coinciding with these changes, ANZ also announced that the Chief Operating Officer, David Cartwright, who had been responsible for Global Services and Operations, was leaving ANZ to pursue the next stage of his career.

On November 17, 2011 ANZ announced the appointment of Nigel Williams as Chief Risk Officer and a member of ANZ's Management Board reporting to the CEO. This appointment became effective on December 16, 2011 and coincided with the planned retirement of the Group's previous Chief Risk Officer, Christopher Page, from ANZ.

On February 15, 2012 ANZ announced a number of senior management changes. The following senior appointments became effective on and from March 1, 2012:

- Shayne Elliott, previously CEO Institutional, will succeed Peter Marriott as Chief Financial Officer. Mr Elliott has initially taken up the role of Chief Financial Officer Designate to complete a three month transition with Mr Marriott who leaves ANZ on May 31, 2012. Mr Elliott also has responsibility for Strategy from March 1, 2012.
- Alex Thursby has taken up an expanded role as CEO International and Institutional Banking focused on ANZ's largest multi-national clients globally and the growth and transformation of ANZ's international franchise. In this role, Mr Thursby will continue to have responsibility for Retail and Commercial in Asia Pacific, and Partnerships.
- Joyce Phillips, previously Group Managing Director Strategy, M&A, Marketing and Innovation, has been appointed to a new role as CEO Global Wealth and Private Banking with responsibility for wealth management and private banking globally. Ms Phillips will retain responsibility for Marketing, Innovation and Digital.

Mr Elliott, Mr Thursby and Ms Phillips remain members of ANZ's Management Board reporting to ANZ Chief Executive Officer Mike Smith. Shayne Elliott's appointment follows agreement with Peter Marriott over his plan to pursue a non-executive career later this year after a distinguished contribution to ANZ including 15 years as Chief Financial Officer of ANZ.

Major Shareholders

We are not directly or indirectly owned or controlled by another corporation, any government or any other natural or legal person(s), separately or jointly. As at 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 2011 Annual Report.

Refer to the discussion headed "Limitations Affecting Security Holders" under Section 6 below for a 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.

Change in Control

As at the date of this Disclosure Document, 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, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and entities, 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 ("Related party disclosure") of the 2012 Half Year Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on (613) 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. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. In some instances we have not disclosed the estimated financial impact as this may prejudice the interests of the Group. Refer to Note 15 ("Contingent liabilities and contingent assets") of the 2012 Half Year Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for a discussion of legal proceedings as at March 31, 2012.

Significant events since March 31, 2012

No significant events for ANZ have occurred from March 31, 2012 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 shareholders 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 2012 final dividend, ANZ intends to provide shares under the DRP and BOP through the issue of new shares. A discount of 1.5% will be applied when calculating the "Acquisition Price" under the DRP and BOP terms and conditions. This discount will apply in respect of the 2012 final dividend and to future dividends until such time as ANZ announces otherwise.

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 Burmese 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 Qadhafi 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 responsible for human rights abuses in Syria; and
   (h) certain individuals associated with Commodore Josia Voregе 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 Financial Transaction Reports Act 1988 and subject to certain exemptions, 'cash dealers' (including Australian authorized deposit taking institutions such as ANZ) must report 'cash transactions' of A$10,000 (or the foreign equivalent) and above to the Australian Transaction Reports and Analysis Center. Cash transactions are those which involve the physical transfer of currency from one person to another.

Limitations Affecting Security Holders

The following Australian laws impose limitations on the right of non-residents or non-citizens of Australia to hold, own or vote on shares in our company.

1. Foreign Acquisitions and Takeovers Act 1975

   The acquisition of shares in Australian companies by foreign interests is regulated by the Foreign Takeovers Act. The Foreign 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 Treasurer may prohibit the acquisition if it would be contrary to the Australian national interest.

2. Financial Sector (Shareholdings) Act 1998

The Financial Sector (Shareholdings) Act 1998 prohibits a person (together with its 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 its associates, holding a stake in the company of more than 15%. However, the 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.

3. Corporations Act 2001

Any person acquiring voting shares in a company is subject to the control of the acquisition of shares provisions contained in Chapter 6 of the Corporations Act. 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 transaction, 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 three percentage points 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 the 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.

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 upon which it is substantially dependent, other than in the ordinary course of its business.

AAS - Australian Accounting Standards.

AASB - Australian Accounting Standards Board.

Asset margin measures the difference between the income earned and cost incurred from lending activities as a percentage of total interest earning assets. Calculation includes the impact of changing mix of lending products, change in lending product margins excluding the change in the cost of wholesale funds and the change in the amount of fees recognized as effective Net Interest Income.

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 assets are those financial assets where doubt exists as to whether the full contractual amount will be received in a timely manner, or where concessional terms have been provided because of the financial difficulties of the customer. Financial Assets are impaired if there is objective evidence of impairment as a result of a loss event that occurred prior to the reporting date, and that loss event has had an impact, which can be reliably estimated, on the expected future cash flows of the individual asset or portfolio of assets.

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

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

Individual provision charge 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 flow over the lives of those financial instruments.

Liquid assets are cash and cash equivalent assets. Cash equivalent assets are highly liquid investments with short periods to maturity, are readily convertible to cash at ANZ's option and are subject to an insignificant risk of changes in value.

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

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 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 and other operating income.

Annex: Condensed Consolidated Financial Statements for the half year ended March 31, 2012