2011

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2011

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

U. S. Disclosure Document
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Introduction

All references in this document to "this U.S. Disclosure Document" should be read as referring to this 2011 Half Year U.S. Disclosure Document of ANZ for the fiscal half year ended March 31, 2011 (and includes the Annexes attached hereto).

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, 2011, ANZ ranked fourth among Australian banking groups in terms of total assets and had a leading position in all market segments of the New Zealand banking market. ANZ's principal ordinary share listing and quotation is on the Australian Securities Exchange and as of March 31, 2011 ANZ was ranked among the top ten largest companies listed on the Australian Stock Exchange ("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, 2011, 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 2011 Half Year Condensed Consolidated Financial Statements, as prepared and filed by the Company with the ASX in accordance with its rules, are attached to this U.S. Disclosure Document as Annex A.

Section 1: Key information

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 Documents will be affected by:

- adverse conditions in global debt and equity markets;
- general economic conditions in Australia, New Zealand and other jurisdictions in which we operate;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rate, exchange rate, market 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 financial crisis, including increased liquidity and capital requirements;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand and other jurisdictions in which we operate;
- the effects of competition in the geographic and business areas in which we operate;
- our ability to adjust to and compete in the Asian geographic markets into which we are seeking to expand;
- 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;
- operational and environmental factors, including natural disasters, including earthquakes, floods, volcanic eruptions, bush fires and tsunamis;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we operate;
- our ability to complete, integrate, and process acquisitions and dispositions;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses we may experience as a result;
- 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, 2010, September 30, 2010 and March 31, 2011 and income statement data for the fiscal half years ended March 31,2010, September 30, 2010 and March 31, 2011 have been derived from the Group's "*Condensed Consolidated Financial Statements*" for those half year periods (the "Condensed Consolidated Financial Statements"). The Group's 2011 Half Year Condensed Consolidated Financial Statements are attached to this U.S. Disclosure Document as Annex A.

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 Interpretation) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2011. The reports comply with International Financial Reporting Standards ("IFRS") and Interpretations adopted by the International Accounting Standards Board ("IASB"). The Group's application of IFRS and related interpretations ensures that the 2009, 2010 and 2011 Financial Reports comply with IFRS.

Amounts in this U.S. Disclosure Document are presented in Australian dollars unless otherwise stated. Amounts reported in United States dollars ("USD") have been translated at the March 31, 2011 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$1.0358 = AUD$1.00.

Summary of consolidated statement of income

	Half year Mar 11 USD$M	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M
Interest income	15,480	14,945	14,252	12,356
Interest expense	(9,632)	(9,299)	(8,619)	(7,120)
Net interest income	5,848	5,646	5,633	5,236
Net funds management and insurance income	769	742	806	293
Other operating income	2,296	2,217	2,036	1,688
Operating income	8,913	8,605	8,475	7,217
Operating expenses	(4,170)	(4,026)	(3,922)	(3,382)
Profit before credit impairment and income tax	4,743	4,579	4,553	3,835
Provision for credit impairment [1]	(699)	(675)	(705)	(1,082)
Profit before income tax	**4,044**	**3,904**	**3,848**	**2,753**
Income tax expense[2]	(1,279)	(1,235)	(1,270)	(826)
Profit for the period	2,765	2,669	2,578	1,927
Profit attributable to non-controlling interests	(5)	(5)	(2)	(2)
Profit attributable to shareholders of the Company	**2,760**	**2,664**	**2,576**	**1,925**
Non-interest income as a % of operating income [3]	34.4%	34.4%	33.5%	27.4%
Dividends on ordinary shares	1,963	1,895	1,318	1,403
Earnings per fully paid ordinary shares				
Basic (cents)	107.9	104.2	102.1	76.8
Diluted (cents)	104.8	101.2	99.0	75.4
Ordinary share dividend payout ratio (%)[4]	62.5%	62.5%	73.7%	68.7%
Dividend per ordinary share (cents)[5]	66.3	64.0	74.0	52.0

1. The provision for credit impairment charge represents the individual and collective provision charge.
2. March 2011 and September 2010 include Income tax expense attributable to income relating to policyholder income and contributions tax gross up in OnePath (formerly ING Australia Limited and ING New Zealand Limited).
3. Non-interest income comprises net income from wealth management and other operating income.
4. Dividend payout ratio was calculated using proposed 2011 interim dividend of $1,662 million (not included in the above table). The proposed 2011 interim dividend of $1,662 million is based on the forecast number of ordinary shares on issue at the dividend record date. Dividend payout ratios for the September 2010 half year and March 2010 half year were calculated using the actual dividend paid of $1,895 million and $1,318 million, respectively. The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference shares dividends paid.
5. Amounts are based on weighted average number of ordinary shares outstanding as at March 31, 2011 of 2,550.1 million (September 30, 2010: 2,518.7 million; March 31, 2010: 2,499.8 million). Profit after income tax excludes preference share dividends for March 31, 2011 of $6 million (September 30, 2010: $5 million; March 31, 2010: $6 million).

Summary of consolidated balance sheet

	As at Mar 11 USD$M	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M
Shareholders' equity	36,315	35,060	34,091	32,517
Loan capital	12,083	11,665	12,316	13,513
Bonds and notes	60,621	58,526	59,714	58,390
Deposits and other borrowings	345,323	333,388	311,472	301,757
Gross loans, advances and acceptances [1,2]	394,409	380,777	365,844	352,492
Less: Individual provision for credit impairment	(1,778)	(1,717)	(1,875)	(1,593)
Collective provision for credit impairment	(3,291)	(3,177)	(3,153)	(3,037)
Net loans, advances and acceptances	389,340	375,883	360,816	347,862
Total assets	556,720	537,478	531,739	506,708
Net assets	36,387	35,129	34,155	32,583
Risk weighted assets [3]	273,696	264,236	264,242	248,961

Summary of consolidated ratios

	As at Mar 11 USD$M	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M
Net profit after income tax as a percentage of:				
Average total assets	0.96%	0.96%	0.94%	0.76%
Average shareholders' equity [4]	15.8%	15.8%	15.5%	12.2%
Dividends to ordinary shareholders as a percentage of operating profit after income tax[5]	62.5%	62.5%	73.7%	68.7%
Average ordinary shareholders' equity as a percentage of average total assets	6.1%	6.1%	6.1%	6.2%
Ratio of earnings to fixed charges [6]	41.7%	41.7%	44.3%	38.4%
Capital adequacy ratios:				
Tier 1	10.5%	10.5%	10.1%	10.7%
Tier 2	1.6%	1.6%	1.8%	2.3%
Total	12.1%	12.1%	11.9%	13.0%
Number of shares on issue (millions)	2,596.4	2,596.4	2,559.7	2,533.5

1. Net of unearned income and including capitalized brokerage/mortgage origination fees.
2. 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.
3. Risk weighted assets are calculated using Basel II methodology.
4. Excludes non-controlling interests.
5. Dividend payout ratio was calculated using proposed 2011 interim dividend of $1,662 million (not included in the above table). The proposed 2011 interim dividend of $1,662 million is based on the forecast number of ordinary shares on issue at the dividend record date. The dividend payout ratios for the September 2010 half year and March 2010 half year were calculated using the actual dividend paid of $1,895 million and $1,318 million, respectively. The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference shares dividends paid.
6. Ratio of earnings to fixed charges is derived from profit before income tax divided by the sum of interest expenses and one third of rental expense.

Summary of credit quality data

	As at Mar 11 USD $M	As at Mar 11 $ M	As at Sep 10 $ M	As at Mar 10 $ M	As at Sep 09 $ M	As at Mar 09 $ M
Gross impaired assets:						
Subject to provision for credit impairment	5,173	4,994	5,892	5,142	4,178	3,351
Without provision for credit impairment	216	209	183	188	214	340
Restructured items	729	704	141	560	673	17
Non-performing commitments and contingencies	325	314	345	671	530	450
Total gross impaired assets	**6,443**	**6,221**	**6,561**	**6,561**	**5,595**	**4,158**
Provision for credit impairment:						
Individual provision (loans)	1,778	1,717	1,875	1,593	1,526	1,341
Collective provision	3,291	3,177	3,153	3,037	3,000	2,742
Total provision for credit impairment	**5,069**	**4,894**	**5,028**	**4,630**	**4,526**	**4,083**
Gross loans, advances and acceptances:[1]						
Gross loans and advances [1, 2]	393,811	380,200	354,349	339,982	336,533	345,866
Acceptances[3]	598	577	11,495	12,510	13,762	15,017
Total gross loans, advances and acceptances	**394,409**	**380,777**	**365,844**	**352,492**	**350,295**	**360,883**
Gross impaired assets as a percentage of gross loans and advances	1.6%	1.6%	1.9%	1.9%	1.7%	1.2%
Gross impaired assets as a percentage of gross loans, advances and acceptances	1.6%	1.6%	1.8%	1.9%	1.6%	1.2%
Individual provision for credit impairment as a percentage of gross impaired assets:	27.6%	27.6%	28.6%	24.3%	27.3%	32.3%
Total provision for credit impairment as a percentage of:						
Gross loans and advances [1,2]	1.3%	1.3%	1.4%	1.4%	1.3%	1.2%
Gross loans, advances and acceptances [1]	1.3%	1.3%	1.4%	1.3%	1.3%	1.1%
Risk weighted assets [4]	1.9%	1.9%	1.9%	1.9%	1.8%	1.5%

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:

   March 2011 – Trading securities: $nil; Net loans and advances $17,371 million; Customers' liability for acceptances $nil; Liability for acceptances $nil.

   September 2010 - Trading securities: $6,035 million; Net loans and advances $nil; Customers' liability for acceptances $11,150 million; Liability for acceptances $11,150 million.

   March 2010 - Trading securities: $4,735 million; Net loans and advances $nil; Customers' liability for acceptances $12,282 million; Liability for acceptances $12,282 million.
4. Excludes notional goodwill in equity accounted entities.

Assets, liabilities, income and profit before tax

	Mar 11		Sep 10		Mar 10	
	$M	%	$M	%	$M	%
Region[1]						
External Assets						
Australia	386,321	71%	381,195	72%	361,496	71%
Asia Pacific, Europe & America	62,010	12%	57,239	11%	51,196	10%
New Zealand	89,147	17%	93,305	17%	93,876	19%
	537,478	100%	531,739	100%	506,568	100%
External Liabilities						
Australia	359,245	72%	357,551	72%	345,529	73%
Asia Pacific, Europe & America	70,925	14%	64,886	13%	53,522	11%
New Zealand	72,179	14%	75,147	15%	75,074	16%
	502,349	100%	497,584	100%	474,125	100%
Income[2]						
Australia	13,654	76%	12,969	76%	10,680	75%
Asia Pacific, Europe & America	1,646	9%	1,463	9%	1,149	8%
New Zealand	2,604	15%	2,662	15%	2,508	17%
	17,904	100%	17,094	100%	14,337	100%
Profit before tax						
Australia	2,903	74%	2,967	77%	2,079	76%
Asia Pacific, Europe & America	495	13%	306	8%	282	10%
New Zealand	506	13%	575	15%	392	14%
	3,904	100%	3,848	100%	2,753	100%

1. For discussion of operating results by region, see 'Section 3: Operating and financial review and prospects - Results by geographic region'.
2. Income consists of interest income and non-interest income (comprising net income from wealth management and other operating income).

Section 2: Information on the Group

Overview

ANZ is one of the four major banking groups headquartered in Australia, which began its Australian operations in 1835 and its New Zealand operations in 1840. 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, 2011, ANZ had a market capitalization of approximately A$61.8 billion. As at March 31, 2011, ANZ had total assets of A$537.5 billion, and shareholders' equity of A$35.1 billion. ANZ's principal ordinary share listing and quotation is on the 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, our aim includes increasing Asia Pacific, Europe & America profit 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

The Group is managed along the geographic regions of (i) Australia, (ii) Asia Pacific, Europe & America, and (iii) New Zealand, as well as globally through our global institutional client business, which is viewed as a separate division but also impacts each geographic region. The results of the Institutional division are separately tracked and reported, but are also allocated to the geographic regions to which the Institutional division results relate for Group segment reporting purposes. See page 49 of this U.S. Disclosure Document.

Our current management structure has been in place since October 1, 2008. Until September 30, 2008, the Group operated four divisions (Personal, Institutional, New Zealand, Asia Pacific), a separate structure for the INGA Joint Venture Wealth Management business, Private Banking, and a Group center for centralized group functions.

The principal activities of the Group's regions, as well as the Institutional division, are outlined below. As the Group continuously reviews its business structure, this description is subject to change from time to time.

Australia

The Australia region consists of (i) Retail, (ii) Commercial, (iii) Institutional, (iv) Wealth, and (v) Group Center.

(i) Retail

Retail consists of two business units: (i) Retail Distribution and (ii) Retail Products.

- Retail Distribution operates the Australian branch network, Australian call center, specialist businesses (including ATMs, retail foreign exchange centers, specialist mortgage sales staff, mortgage brokerage and franchisees and direct channels), online banking and distribution services including the ANZ Affluent proposition.
- Retail Products is responsible for delivering a range of products including:
  - Mortgages, providing housing finance to consumers in Australia for both owner occupied and investment purposes;
  - Cards and Unsecured Lending, providing consumer credit cards, ePayment products, personal loans and ATM facilities in Australia; and
  - Deposits provides transaction banking and savings products, including term deposits and cash management accounts.

(ii) Commercial

Commercial consists of four business units: (i) Esanda, (ii) Regional Commercial Banking, (iii) Business Banking and (iv) Small Business Banking.

- Esanda provides motor vehicle and equipment finance, and investment products.

- Regional Commercial Banking provides a full range of banking services to retail customers, and small business and agribusiness customers in rural and regional Australia and includes the recent acquisition of loans and deposits from Landmark Financial Services.
- Business Banking provides a full range of banking services, including risk management, to metropolitan based small to medium sized business clients with a turnover of up to A$50 million.
- Small Business Banking Products provides a full range of banking services for metropolitan-based small businesses in Australia with lending up to $550,000.

(iii) Institutional

Institutional provides a full range of financial services to Corporate, Institutional and Financial Institutions customers as well as providing selected products to Commercial customers within Australia, and managing the Transaction Banking, Trade, Markets and Global Loan products. It also manages ANZ’s interest risk position.

(iv) Wealth

Wealth consists of two business units: (i) ANZ Private, and (ii) OnePath (formerly ING Australia Limited).

- ANZ Private specializes in assisting high net worth individuals and families to manage, grow and preserve their family assets. The businesses within ANZ Private include Private Bank, Trustees, E*Trade, Investment Lending and Super Concepts.
- OnePath Australia was formerly the INGA JV entity between ANZ and the ING Group and is now a wholly owned subsidiary of ANZ. OnePath Australia operates as part of ANZ’s specialist wealth management and protection business. It provides a comprehensive range of wealth and insurance products available through financial advisers or direct to customers and includes ANZ Financial Planners.

(v) Group center

Group Center includes the Australian portion of (i) Global Services and Operations, (ii) Technology, (iii) Financial Management, (iv) Risk, (v) Strategy, M&A, Marketing and Innovation, (vi) Human Resources, (vii) Corporate Communications, and (viii) Corporate Affairs.

- Global Services and Operations (“GSO”), which is the Group’s core support division comprising Operations, Global Shared Services is responsible for the overall design and delivery of scalable processes and professional services to the Group globally, and Property.
- Technology is responsible for the Group’s information and technology solutions, and infrastructure, including the development, maintenance and support of technology solutions for staff and customers globally.
- Financial Management comprises Group Finance, Finance Professional Services, Group Legal and Company Secretary's Office, Internal Audit, Group Taxation, Group Treasury, and Investor Relations.
- Risk has global responsibility for the effectiveness of the Group’s risk management framework and risk strategies, policies and processes. Divisional Risk teams (Risk Australia, Risk New Zealand, Risk Asia Pacific, Europe & America, Risk Institutional, and Risk Global Services and Operations) provide an active business partnership to embed and manage the Group Risk Framework within the regions. Central Risk teams (Governance, Risk Infrastructure, Credit & Market Risk and Risk Chief of Staff) provide common governance and capabilities intended to enable effective enterprise-wide risk management.
- Strategy, M&A Marketing and Innovation is responsible for the Group's global business strategy, including the expansion and re-shaping of the Group's businesses, mergers, acquisitions and divestments. It is also responsible for the Group's global brand positioning and marketing strategy, and for overseeing the Group's strategic productivity.
- Human Resources delivers global human resources capabilities, including developing and managing strategies, policies, processes and initiatives relating to the employment and development of staff.
- Corporate Communications is responsible for all external communication between the Group, the media and other constituents, as well as internal communication across the Group and geographies.
- Corporate Affairs manages key external relationships within Community, Corporate Responsibility, Government and Regulatory Affairs. This includes leadership and governance of the Group's Corporate Responsibility agenda.

Asia Pacific, Europe & America

The Asia Pacific, Europe & America region includes (i) Retail, (ii) Asia Partnerships, (iii) Institutional Asia Pacific, Europe & America, (iv) Operations & Support and (v) Global Services & Operations.

- Retail provides retail and small business banking services to customers in the Asia Pacific region and also includes investment and insurance products and services for Asia Pacific customers.

- Asia Partnerships is a portfolio of strategic retail partnerships in the Asia Pacific Region. This includes partnerships or joint venture investments in Indonesia with PT Panin Bank; in the Philippines with Metrobank; in China with Bank of Tianjin and Shanghai Rural Commercial Bank ("SRCB"); in Malaysia with AMMB Holdings Berhad; and in Vietnam with Sacombank and Saigon Securities Incorporated ("SSI").
- Institutional Asia Pacific, Europe & America provides a full range of financial services to institutional customers within Asia Pacific, Europe and the United States of America.
- Operations & Support provides the central support functions for the division.
- Global Services & Operations centers, which are located in Bangalore and Philippines, include operations and technology support services to all geographic regions.

During 2010, ANZ acquired selected Royal Bank of Scotland Group plc businesses in Asia. The acquisitions of the businesses in the Philippines, Vietnam and Hong Kong were completed during the March 2010 half, and the acquisition of the businesses in Taiwan, Singapore and Indonesia were completed during the September 2010 half.

New Zealand

The New Zealand region consists of (i) Retail, (ii) Commercial and Agri, (iii) Institutional, (iv) Wealth, and (v) an operations and support area, which includes Treasury and capital funding.

(i) Retail

Retail is comprised of two business units: (i) National Bank Retail and (ii) ANZ Retail.

- National Bank Retail, operating under the National Bank brand in New Zealand, provides a full range of banking services to personal and business banking customers.
- ANZ Retail, operating under the ANZ brand in New Zealand, provides a full range of banking services to personal and business banking customers.

(ii) Commercial and Agri

Commercial and Agri is comprised of three business units: (i) Corporate and Commercial Banking, (ii) Agri Banking, and (iii) UDC.

- Corporate and Commercial Banking under the ANZ and National Bank brands, provides financial solutions through a relationship management model for medium-sized businesses with a turnover of up to NZ$150 million.
- Agri Banking provides a full range of banking services to rural and agribusiness customers.
- UDC provides motor vehicle and equipment finance, operating leases and investment products.

(iii) Institutional

Institutional provides a full range of financial services to institutional customers within New Zealand along the product lines of Transaction Banking, Markets and Specialized Lending. It also provides balance sheet management, client relationship and infrastructure services.

(iv) Wealth

Wealth is comprised of two business units: Private Banking and OnePath (formerly ING New Zealand Limited).

- Private Banking includes the private banking operations under the ANZ and National Bank brands.
- OnePath New Zealand was a joint venture between ANZ and ING whereby ANZ owned 49% of OnePath NZ and received proportional equity accounted earnings prior to ANZ acquiring the remaining 51% interest to take full ownership. OnePath NZ manufactures and distributes investment and insurance products and advice.

(v) Operations and Support

Operations and support includes the back-office processing, customer account maintenance, and central support areas, including Treasury and capital funding.

Global Institutional

The Global Institutional division, which impacts each regional segment and the results of which are allocated to the appropriate geographic regions for segment reporting purposes, consists of (i) Transaction Banking, (ii) Global Markets, (iii) Global Loans, and (iv) Relationship and Infrastructure.

The Global Institutional division provides a full range of financial services to institutional customers in Australia, New Zealand, Asia Pacific, Europe and the United States.

Multinationals, institutions and corporations with sophisticated needs and multiple relationships are served globally.

Global Institutional has a major presence in Australia and New Zealand, and also has operations in a number of South East Asian and North East Asian countries, the Pacific region, Europe and North America.

- Transaction Banking provides working capital solutions including lending and deposit products, cash transaction banking management, trade finance, international payments, securities lending, clearing and custodian services, principally to institutional and corporate customers.
- Global Markets provides risk management services to corporate and institutional clients in relation to foreign exchange, interest rates, credit, and commodities markets. This includes the business of providing origination, underwriting, structuring and risk management services and advice and sale of both credit and derivative products globally. Global markets also manages the Group's interest rate risk position.
- Global Loans provides term loans, general working capital facilities and specialist loan structuring. In addition to relationship lending, it provides specialist credit analysis, structuring, execution and ongoing monitoring of strategically significant customer transactions, including project and structured finance, debt structuring and acquisition finance, loan product structuring and management, structured asset and export finance. It also includes loan agency services.
- Relationship and Infrastructure includes client relationship teams for global institutional customers and corporate customers, and central support functions.

The Group's strategic priorities

The primary strategic priority for the Group is to become a super regional bank focusing on Australia, New Zealand, and the Asia Pacific region. This includes a rebalancing of profits across the geographies and driving revenues sourced from the Asia Pacific, Europe & America geographic segment to 25% to 30% of Group profit after tax by 2017.

There are three parts to this strategy:

1. Geography – ensuring regional connectivity between our strong domestic businesses in Australia and New Zealand, and our growing presence in Asia.
2. Capabilities – building management and international talent strength, enabling regional technology and operations centers of excellence, supporting innovative product capability, and ensuring sound governance and risk management systems and processes.
3. Customer – supporting our customers, providing unique insight and facilitating trade, migration and investment flows within the Asia Pacific region.

The super regional strategy was launched in December 2007 and comprises three key phases:

- Restore (2007-2009):
  - improve performance in Institutional banking;
  - strengthen governance and risk processes;
  - increase depth of international banking experience; and
  - ensure continued focus on balance sheet and capital management.
- Outperform (2009-2010):
  - move from having a presence in Asia to a real business;
  - maintain strong domestic franchises;
  - increase management bench strength, create a foundation for regional hubs; and
  - improve balance sheet composition and funding diversity.
- Outperform and Transform (2011-2017):
  - realize the full potential of super regional aspiration; and
  - capture value from flows to Asia, within Asia, and from Asia.

Since the strategy was launched, ANZ believes we have achieved the following:

- In-fill acquisitions to strengthen businesses in Australia and New Zealand;
- Invested for growth in Institutional and building a real significant business in Asia;
- Strengthened the balance sheet and established a world-class team;
- Built a sustainable business with the capabilities to achieve its long term goals;
- Reorganized to focus on customer segments; and
- Supported its people with training and development to help them outperform.

On March 18, 2011 ANZ announced new targets to realize the full potential of its super regional strategy, including:

- Asia Pacific, Europe & America sourced revenue to drive 25-30% of Group profit by 2017;
- Focusing on connectivity and growth – to Asia, within Asia and from Asia – to capture opportunities associated with trade, investment, and people-flows across the Asia Pacific region;
- Driving domestic performance, including leveraging our growing regional links to build new business opportunities in Australia and New Zealand;
- Establishing hubs as centers of excellence to drive productivity and move ANZ from a fixed to flexible cost base;
- Investing in technology through an agreed roadmap, which prioritizes the development of customer channels and cross-border systems; and
- Continuing to focus on strengthening ANZ's balance sheet and on building our regional risk management culture and capabilities.

Recent developments

No significant events for ANZ have occurred between March 31, 2011 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 or becomes unable to meet its obligations or suspends payment.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from 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 endorses, the adequacy and operating effectiveness of the ADI's risk management systems to control exposures, and limit risks to prudent levels.

Capital management and adequacy and liquidity within APRA's regulations

For further details of the Group's capital management and adequacy, liquidity and APRA's regulatory environment, refer to pages 52 to 58 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 quantum of bank regulatory capital is set by the Basel Committee and a framework was 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 now uses 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.

While Basel II accreditation has been received, a number of aspects of the measurement of risk weighted assets and regulatory capital remain under review in conjunction with APRA. In 2008, APRA also placed a transitional cap of 10 per cent on any reduction in capital requirements arising from the Basel II changes, which continues to apply as at the date of this U.S. Disclosure Document. APRA has announced an intention to remove the transitional cap, however, it is currently unclear as to when this will occur.

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

- The first scenario is known as the 'going-concern' and refers to the normal behaviour of cash flows in the ordinary course of business, and forms the 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 a going concern scenario, within the ADI's normal funding capacity ('available to fund' limit) over at least the following 30 calendar days.

- The second scenario, known as the 'name crisis', models the behaviour 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 the five following business days.

Proposed changes to the capital and liquidity frameworks

APRA/Basel Committee

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 Requirements"). The Basel III liquidity package aims to strengthen the resilience of banks to liquidity risk, and is centred upon the following two key measures:

- Liquidity Coverage Ratio (LCR): a severe name specific stress scenario, whereby the required survival period is one month. This stress includes 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.

APRA is currently in the process of preparing consultation documents and revisions to their existing liquidity prudential standard (APS210) in line with the Basel III Liquidity Requirements. Both measures are subject to 'observation periods', which in the case of the LCR is until 2015 and for the NSFR is until 2018. During the observation period, ADIs will model and report to APRA their position against both ratios, however, formal compliance with the ratios is not required until 2015 and 2018, respectively.

Further, on March 18, 2010, APRA released a discussion paper in respect of the supervision of conglomerate groups, which would include ANZ as it contains material operations in more than one APRA regulated industry. The aim of APRA in this respect is to ensure that prudential supervision adequately captures the risks to which APRA regulated entities within a conglomerate group are exposed and which, because of the operations or structures of a group, are not adequately captured by existing prudential frameworks. In conjunction with its proposal for conglomerate groups, on May 13, 2010, APRA released proposals to update and align the prudential standards for general insurers and life insurers, which applies to a number of the Group's entities.

For a summary of the regulatory changes which would result from the Basel Committee's Basel III proposals, 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:

- The methodology for calculating the countercyclical buffer;
- Contingent and 'bail-in' capital requirements; and
- Any capital overlays for systematically important banks.

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 equity securities listed on the Australian Securities Exchange and the New Zealand Stock Exchange, and has 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 details of the supervision and regulation 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 Board ("FRB"), 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 those operations.

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, 2011, the four major banking groups in Australia (ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation), held approximately two thirds of the total Australian 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 then 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 flows to the major banks. This was subsequently withdrawn 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.

An ongoing debate around the level of banking sector competition in Australia led the Federal Government, in late 2010, to release a suite of banking reforms aimed at further enhancing levels of competition. These reforms included a banning of exit fees on mortgages, an investigation into the feasibility of bank account number portability, and allowing the issuance of covered bonds as an additional form of funding. The Australian Senate also established an inquiry into banking competition in Australia in late 2010. On May 6, 2011, the Senate Economics Committee publicly released its findings on competition within the Australian banking sector, following the inquiry which began in October 2010. The Senate's final report makes a number of recommendations to the Australian Federal Government. As at the date of this U.S. Disclosure Document, it remains uncertain as to whether some or any of the Senate's recommendations will be adopted by the Government and, therefore, it impossible to determine the possible implications for banking competition in Australia at this time.

More recently competition has also intensified in the residential mortgage market with some of the major banks employing aggressive marketing campaigns and discounted offers to attract greater market share.

Institutional offers a wide range of financial market services to our large corporate and institutional customer base including foreign exchange, derivative and fixed interest activities, project and structured finance, corporate finance (mergers and acquisitions, and other advisory), primary markets origination, and syndication and leasing finance. Competitors gain recognition through the quality of their client base, perceived skill sets, reputation, and brands. In domestic markets, Institutional's competitors 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, league table rankings, and its established client base. Market turmoil created as a result of the global financial crisis saw a moderation in the level of margin decline with 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.

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 6 players capturing over 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 ('funds supermarkets').

Significant changes in market share over the past five years were driven by large acquisitions. Recently AMP, a large superannuation and life insurance specialist, has managed to finalize 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) hold approximately 89% of the New Zealand banking system's assets as at September 30, 2010 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 4.5% 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). Most 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 consolidation 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 today we have operations in 14 Asian markets and 12 countries 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 build out a number of franchise markets in Asia that we see as high growth and where we see competitive space to grow.

Risk factors relating to business/principal risks and uncertainties

Introduction

ANZ'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 ANZ may face. Additional risks and uncertainties that ANZ is unaware of, or that ANZ currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occur, ANZ's business, operations, financial condition, or reputation could be materially adversely affected, with the result that the trading price of ANZ'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 ANZ's business, operations and financial condition

ANZ'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. ANZ'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 ANZ'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 impact of the Global Financial Crisis ("GFC") 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.

The economic effects of the GFC in Australia included weakened retail sales, declines in personal and business credit growth, lower growth in housing credit, and subdued business and consumer confidence. While some of these economic factors have since improved, there is no certainty as to the future sustainability of these improvements.

The New Zealand economy contracted sharply in 2008 and in the first quarter of 2009. Economic conditions in Australia, New Zealand, and some Asia Pacific countries remain difficult especially in the rural, commercial and corporate sectors.

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 and other asset markets, could impact ANZ's customers and the security ANZ 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 ANZ's products and services and/or an increase in loan and other credit defaults and bad debts, which could adversely affect ANZ's business, operations, and financial condition.

ANZ'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 ANZ'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, for example, to reduced Asian demand, 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 conflicts in the Middle East, may also adversely affect global financial markets, general economic and business conditions, and ANZ's ability to continue operating or trading in a country, which in turn may adversely affect ANZ'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 ANZ's ability to continue operating or trading in country or countries directly or indirectly affected, which in turn may adversely affect ANZ's business, operations and financial condition.

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

An appreciation in the Australian or New Zealand dollar relative to other currencies could adversely affect the Australian or New Zealand economies, including agricultural exports, international tourism, manufacturers and import-competing producers, whereas a depreciation would increase debt service obligations in Australia or New Zealand dollar terms of unhedged exposures. The depreciation in the value of the New Zealand dollar against the Australian dollar, as described in Section 3 "Operating and financial review and prospects", has had a negative translation effect, and future depreciation could have a greater negative translation effect on the financial results of our New Zealand businesses, which include ANZ National Bank Limited ("ANZBL"). Similarly, the significant appreciation of the Australian dollar against the United States dollar and other currencies, as described in Section 3 "Operating and financial review and prospects", 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 growing Asian businesses which are largely based on United States dollars and other non-Australian currencies.

See "Currency of presentation, exchange rates and certain definitions" below for a description of the significant appreciation of the Australian dollar against the United States dollar, the New Zealand dollar and other currencies in recent years and to date in 2011.

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

The markets in which ANZ 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 regulated 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 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 ANZ'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 ANZ'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 ANZ's profitability.

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

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

The Reserve Bank of Australia ("RBA") and the Reserve Bank of New Zealand ("RBNZ") set official interest rates so as to affect the demand for money and credit in Australia and New Zealand, respectively. Their policies significantly affect ANZ's cost of funds for lending and investing and the return that ANZ will earn on those loans and investments. Both these factors impact ANZ'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 RBA, the RBNZ and any other relevant central monetary authority can also affect ANZ's borrowers, potentially increasing the risk that they may fail to repay loans. Changes in the RBA's and RBNZ's policies are difficult to predict accurately.

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

Sovereign risk or the risk that foreign governments will default on their debt obligations or be unable to refinance their debts as they fall due has emerged as a risk to the recovery prospects of global economies. This risk is particularly relevant to a number of European countries, though it is not limited to Europe. 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 experienced during the GFC. Such an event could destabilize global financial markets adversely affecting all participants, including ANZ.

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 ANZ's access to funding and liquidity

With improvement in international capital market and liquidity conditions, and banks subsequently being able to again successfully raise non-government guaranteed funds in the international wholesale market, many government-sponsored financial stabilization packages are progressively being withdrawn. There is a risk that this may result in unexpected stress on the global financial system or regional financial systems, which could adversely impact ANZ and its customers and counterparties.

Specifically, on February 7, 2010, the Australian Federal Government announced the withdrawal of the Australian Government guarantee scheme for wholesale funding with effect from March 31, 2010. Similarly, on March 10, 2010, the New Zealand Government announced the withdrawal of its wholesale guarantee facility with effect from April 30, 2010.

The withdrawal of the Australian and New Zealand wholesale funding guarantee schemes could adversely affect ANZ's ability to access sources of funding and lead to a decrease in ANZ's liquidity position and increase in funding costs, particularly if global financial conditions again deteriorate or new risks emerge in ways that are not currently foreseeable. Such conditions could adversely affect ANZ's funding and liquidity position, negatively affecting ANZ's business, operations and financial condition.

ANZ 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 ANZ's borrowings and possibly constrain the volume of new lending, which could adversely affect ANZ's profitability. A significant deterioration in investor confidence in ANZ could materially impact ANZ's cost of borrowings, and ANZ's ongoing operations and funding.

ANZ 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 ANZ or in the event that funding outside of Australia is not available or constrained, ANZ's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity risk.

Since the second half of 2007, developments in the U.S. mortgage industry and in the U.S. and European markets more generally, have adversely affected the liquidity in global capital markets which has subsequently resulted in an increase in funding costs. Future deterioration in these market conditions may limit ANZ's ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow its business.

ANZ 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. On February 16, 2011, Moody's Investors Service placed ANZ's deposit and long term senior debt rating on review for a possible downgrade as part of a review of major Australian bank ratings. On January 6, 2011, Standard & Poor's issued a request for comments on their proposed new bank ratings industry wide methodology. While the timing and result of the implementation of this proposed new methodology remains unclear, if implemented there is a potential impact on ANZ's (and other Australian banks') rating with Standard & Poor's. While no action has been taken, 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. In addition, the ratings of individual securities (including, but not limited to, Tier-1 and Tier-2 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.

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

ANZ's capital base is critical to the management of its businesses and access to funding. ANZ 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 ANZ 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 ANZ 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 and funds management, 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 ANZ's business, operations or financial condition".

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

As a financial institution, ANZ is exposed to the risks associated with extending credit to other parties. Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region, or natural disasters, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms. ANZ 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 ANZ'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 ANZ fails to analyze the information correctly, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on ANZ's business, operations and financial condition.

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

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

ANZ 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, ANZ 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 ANZ on a timely basis. ANZ 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 ANZ 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 to ANZ's credit exposures, it could have an adverse effect on ANZ'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 ANZ'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 ANZ. Overall, the property market has been variable and in some locations there have been substantially reduced asset values.

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

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

ANZ is subject to market risk, which is the risk to ANZ'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 ANZ. As ANZ conducts business in several different currencies, its businesses may be affected by a change in currency exchange rates. Additionally, as ANZ's annual and interim reports are prepared and stated in Australian dollars, any appreciation in the Australian dollar against other currencies in which ANZ earns revenues (particularly to the New Zealand dollar and U.S. dollar) may adversely affect the reported earnings.

The profitability of ANZ'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.

ANZ is exposed to the risks associated with credit intermediation and financial guarantors which may adversely affect its results

ANZ entered into a series of structured credit intermediation trades from 2004 to 2007. 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. 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 GFC, 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.

Following the onset of the GFC, 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.

Since mid 2009 credit markets have tightened substantially. Volatility in the market value and hence CVA will continue to persist given the volatility in credit spreads and USD/AUD rates.

ANZ 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. Operational risk includes legal risk and the risk of reputational loss, environmental damage, and health and safety risks, but excludes strategic risk.

Loss from operational risk can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputational loss, loss of life or injury to people, and loss of property and/or information.

All operational risks carry at least a financial consequence. Examples of operational risk that ANZ is exposed to include the losses arising from internal fraud, external fraud, acts that are inconsistent with employment, health or safety laws or agreements, failure to meet professional customer and legal obligations, disruption of business or system failures, failure to execute a transaction correctly, inadequate process management and from failure caused by third parties.

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

Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt business

ANZ is highly dependent on information systems and technology and there is a risk that these, or the services ANZ uses or is dependent upon, might fail.

Most of ANZ'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 centre 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 and integrate existing and future acquisitions and alliances.

To manage these risks, ANZ has disaster recovery and information technology governance 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 ANZ's competitive position, which could adversely impact ANZ's business and have a material adverse effect on ANZ's financial condition and operations.

In addition, ANZ 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 ANZ's customers and integrate the various segments of its business. ANZ 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 ANZ's information security controls, or a decrease in ANZ's ability to service its customers.

ANZ 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, ANZ handles a considerable amount of personal and confidential information about its customers and its own internal operations.

ANZ employs a team of information security subject matter experts who are responsible for the development and implementation of ANZ's Information Security Policy. ANZ is conscious that threats to information security are continuously evolving and as such ANZ 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 of compensation or erosion to our competitive market position, which could adversely affect ANZ's financial position and reputation.

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

Reputation risk may arise as a result of an external event or ANZ's own actions, and adversely affect perceptions about ANZ held by the public (including our customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on ANZ's reputation may exceed any direct cost of the risk event itself and may adversely impact ANZ's earnings, capital adequacy or value. Accordingly, damage to ANZ's reputation may have wide-ranging impacts, including adverse effects on ANZ's profitability, capacity and cost of sourcing funding, and availability of new business opportunities.

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

ANZ's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. At ANZ, there are certain individuals and key executives whose skills and reputation are critical to setting the strategic direction successful management and growth of ANZ, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect its operations and financial condition. In addition, ANZ may in the future have difficulty attracting highly qualified people to fill important roles, which could adversely affect its business, operations and financial condition.

ANZ 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

Scientific observations and climate modeling point to changes in the global climate system that may see extreme weather events increase in both frequency and severity. Among the possible effects of climate change are the risks of severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. Such events, and others like them, pose the risk of inundation and damage to ANZ property, and the houses and commercial assets of ANZ's customers. In some cases, this impact may temporarily interrupt or restrict the provision of some ANZ services, and also adversely affect ANZ's collateral position in relation to credit facilities extended to those customers.

While the future impact of climate change is difficult to predict accurately, it should nevertheless be considered among the risks that may adversely impact ANZ's business, operations and financial condition in the future.

In addition to climatic events, geological events and events related to them, such as volcanic or seismic activity, tsunamis, or other extrinsic events, such as flu pandemic, can also severely disrupt normal business activity and have a negative effect on ANZ's business, operations and financial condition.

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

ANZ 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, ANZ'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 ASIC, have supervisory oversight of ANZ. The New Zealand Government and its agencies, including the RBNZ, have supervisory oversight of ANZ's operations in New Zealand. To the extent that ANZ 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, ANZ'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 ANZ's reputation. To the extent that these regulatory requirements limit ANZ's operations or flexibility, they could adversely impact ANZ'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 ANZ in substantial and unpredictable ways. These may include increasing required levels of bank liquidity and capital adequacy, limiting the types of financial services and products ANZ 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 GFC, regulators have proposed various amendments to financial regulation that will affect ANZ. APRA, the Basel Committee on Banking Supervision and regulators in other jurisdictions where ANZ 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. has recently 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. Moreover, between October 2010 and May 2011, the Australian Senate Economics Committee held an inquiry into competition within the Australian banking sector, releasing its final findings and recommendations publicly on May 6, 2011. The Australian Federal Government will decide whether or not to adopt some or any of the Senate's recommendations. Further, in early December 2010, the Australian federal Government announced a Competition and Sustainable Banking System Package (discussed above under the risk factor entitled "Competition may adversely affect ANZ's business, operations and financial condition, especially in Australia, New Zealand and the Asian markets in which it operates").

While uncertainty remains as to the final form that the proposed regulatory changes will take in Australia, the U.S. and other countries in which ANZ operates, any such changes may adversely affect ANZ's business, operations and financial condition. The changes may lead ANZ to, among other things, 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 ANZ's asset maturity profile.

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

ANZ 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 ANZ from trading in a manner that was previously permitted may adversely impact ANZ's financial results.

ANZ 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 the 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 "ANZ 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". ANZ has exposure to insurance risk in both life insurance and general insurance business, which may adversely affect its business, operations and financial condition.

ANZ 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, ANZ 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';
- derivatives; and
- financial assets backing insurance and investment liabilities.

Generally, in order to establish the fair value of these instruments, ANZ 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 ANZ's earnings.

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

The accounting policies and methods that ANZ 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.

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

In certain circumstances ANZ may be exposed to a reduction in the value of intangible assets. As at March 31, 2011, ANZ carries goodwill principally related to its investments in New Zealand and Australia, intangible assets principally relating to assets recognized on acquisition of subsidiaries, and capitalized software balances.

ANZ is required to assess the recoverability of the goodwill balance on at least an annual basis. For this purpose ANZ 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 balance.

The recoverability of capitalized software and other intangible assets is assessed 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 ANZ's financial condition.

Litigation and contingent liabilities may adversely affect ANZ's financial condition

From time to time, ANZ may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallize, may adversely affect ANZ's results. Details regarding ANZ's material contingent liabilities are contained in Note 15 of the 2011 Half Year Condensed Consolidated Financial Statements and Note 44 of the 2010 ANZ Annual Report. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

ANZ regularly considers acquisitions and divestments, and there is a risk that ANZ may undertake an acquisition or divestment that could result in a material adverse effect on its performance

ANZ regularly examines a range of corporate opportunities, including material acquisitions and disposals, with a view to determining whether those opportunities will enhance ANZ'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 ANZ.

The successful implementation of ANZ'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 ANZ'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, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect ANZ's operations or results. Additionally, there can be no assurance that customers, counterparties and vendors of newly acquired businesses will remain as such post-acquisition, and the loss of customers, counterparties and vendors could adversely affect ANZ's operations or results.

Acquisitions and disposals may also result in business disruptions that cause ANZ to lose customers or cause customers to remove their business from ANZ to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of ANZ's ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect ANZ's ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition or disposal could adversely affect ANZ's ability to conduct its business successfully. ANZ's operating performance, risk profile or capital structure may also be affected by these corporate opportunities and there is a risk that any of ANZ'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 half year 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$1.0358 = A$1.00, the Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate') on March 31, 2011. As at April 29, 2011 the Noon Buying Rate was US$1.0937 = 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 $1.00			
Year ended September 30	**High**	**Low**	**Average**[1]	**Close**
2008	0.9797	0.7831	0.9065	0.7904
2009	0.8824	0.6122	0.7330	0.8824
2010	0.9675	0.8156	0.9013	0.964
Month ended[2]				
October 2010	0.9950	0.9586	0.9812	0.9761
November 2010	1.0153	0.9618	0.9902	0.9618
December 2010	1.0170	0.9571	0.9909	1.0163
January 2011	1.0099	0.9846	0.9941	0.9924
February 2011	1.0186	0.9991	1.0086	1.0163
March 2011	1.0358	0.9794	1.0101	1.0358

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, 2011 30% (September 2010: 29%; March 2010: 30%) of our operating income was derived from New Zealand and Asia Pacific, Europe & America, and was denominated principally in Chinese Yuan, Euro, British Pounds Sterling, Malaysian Ringgit, New Zealand Dollars, and U.S. Dollars. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ's earnings through the re-translation of overseas profits to Australian Dollars. Based on exchange rates applied to convert overseas profits and losses from September 2008 to March 2011, the Australian Dollar moved against these currencies as follows:

Australian Dollar movement against foreign currencies

	1st half 2011	2010	2009	2008
Chinese Yuan (CNY)	8%	22%	-22%	3%
Euro (EUR)	11%	23%	-11%	-1%
British Pound (GBP)	9%	22%	3%	12%
Malaysian Ringgit (MYR)	4%	14%	-13%	5%
New Zealand Dollar (NZD)	4%	3%	3%	3%
U.S. Dollar (USD)	11%	23%	-19%	-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.

Section 3: Operating and financial review and prospects

Operating results

The following discussion of statutory profit is based on the 2011 Half Year Condensed Financial Statements and discusses results after income tax, unless otherwise stated. ANZ's results for the past three half year periods are summarized below and are discussed under the headings of 'Analysis of major income and expense items' and 'Results by region', which follow.

This U.S. Disclosure Document has been derived from our financial statements which were prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. ANZ's application of Australian Accounting Standards ensures that our financial statements comply with IFRS. (Refer to the section headed "Selected financial data' on page 2 above for a discussion of IFRS).

	Half year Mar 11 USD M	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Net interest income	5,848	5,646	5,633	5,236	0%	8%
Net funds management and insurance income	769	742	806	293	-8%	large
Other operating income	2,296	2,217	2,036	1,688	9%	31%
Operating income	8,913	8,605	8,475	7,217	2%	19%
Operating expenses	(4,170)	(4,026)	(3,922)	(3,382)	3%	19%
Profit before credit impairment and income tax	4,743	4,579	4,553	3,835	1%	19%
Provision for credit impairment	(699)	(675)	(705)	(1,082)	-4%	-38%
Profit before income tax	4,044	3,904	3,848	2,753	1%	42%
Income tax expense	(1,279)	(1,235)	(1,270)	(826)	-3%	50%
Non-controlling interests	(5)	(5)	(2)	(2)	large	large
Profit attributable to shareholders of the Company	2,760	2,664	2,576	1,925	3%	38%

Profit and loss

- **Comparison with September 2010 half**

ANZ's profit after tax increased by $88 million (3%) in comparison to the half year ended September 30, 2010.

Significant influences on profit after tax were:

- Net interest income increased $13 million (0%) mainly due to:
  - A 2% increase in average interest earning assets to $458 billion; and
  - A 7% increase in average deposits to $305.9 billion.
  - This was largely offset by a decrease in average net interest margin of 3 basis points to 2.47%.
- Net funds management and insurance income decreased by $64 million (8%) mainly due to increased claims (up 17%) and commission expenses (up 14%), and reduced insurance premium income (down 8%).
- Other operating income increased $181 million (9%) mainly due to:
  - Increased profit on trading instruments of $312 million as a result of Global Markets' improved income from increased trading opportunities in Australia and South East Asia; and
  - Higher net foreign exchange earnings of $77 million (22%) primarily due to greater market volatility leading to increased trading opportunities.
  - This was partly offset by a reduction in other income of $193 million (57%) primarily as a result of a movement in fair value economic hedging loss of $145 million.
- Operating expenses increased $104 million (3%), mainly driven by:
  - Increased costs of $78 million (3%) in Australia largely related to salary increases and volume related costs; and
  - Increased costs of $43 million (7%) in New Zealand, reflecting higher personnel costs driven by annual rate increases and technology integration costs, partly offset by reduced discretionary spending;
  - This was partly offset by a small reduction of $17 million (2%) in Asia Pacific, Europe & America, reflecting lower RBS integration costs and the strengthening AUD versus the USD during the March 2011 half.
- Total credit impairment charge relating to lending assets, commitments and debt securities classified as available-for-sale assets decreased $30 million (4%), mainly due to:

- The individual provision charge decreasing $135 million to $610 million (18%) as a result of reductions in Australia and New Zealand. The decrease in Australia reflected improved Institutional portfolio quality and reduced provisions for large single name provisions. The decrease in New Zealand reflected a slowly improving economy, however the impacts of the February 2011 Christchurch earthquake may change this trend; and
- An increase of $105 million in the collective provision charge principally due to an increase in Australia ($110 million) driven by an economic cycle adjustment due to natural disasters ($79 million), coupled with an increase in delinquencies in the Retail portfolio.

- The Group's income tax expense decreased by $35 million (3%). The Group's effective tax rate (excluding that attributable to policyholder income and contributions tax) was 28.6%, down 0.4%, which was primarily due to a favorable overseas tax rate differential in the March 2011 half.

Comparison with March 2010 half

ANZ's profit after tax increased by $739 million (38%) in comparison to the half year ended March 31, 2010.

Significant influences on profit after tax were:

- Net interest income increased $410 million (8%) mainly due to:
  - A 7% increase in average interest earning assets to $458 billion;
  - A 13% increase in average deposits to $305.9 billion; and
  - An increase in average net interest margin of 2 basis points to 2.47%.
- Net funds management and insurance income increased by $449 million mainly due to improved market conditions and contributions from OnePath in Australia and New Zealand following the change from 49% ownership to full ownership on November 30, 2009.
- Other operating income increased $529 million (31%) mainly due to:
  - Increased profit on trading instruments of $262 million primarily due to Global Markets' improved income from increased trading opportunities;
  - A fair value impairment adjustment of $213 million for OnePath Australia and OnePath New Zealand recognized in the March 2010 half as a result of the step acquisition accounting requirements for ANZ's 49% share on obtaining control of the entities (March 2011: $nil).
- Operating expenses increased $644 million (19%), mainly driven by:
  - Increased costs of $303 million (13%) in Australia largely related to salary increases and additional costs from the acquisition of OnePath Australia in 2010;
  - Increased costs of $244 million (49%) in Asia Pacific, Europe & America with substantial investment in expanding branch networks across the region and the acquisition of RBS businesses in 2010; and
  - Increased costs of $97 million (16%) in New Zealand, reflecting higher personnel costs driven by annual rate increases and technology integration costs.
- Total credit impairment charges relating to lending assets, commitments and debt securities classified as available-for-sale assets decreased $407 million (38%), mainly due to:
  - The individual provision charge decreasing by $436 million to $610 million (42%), as a result of reductions in Australia and New Zealand. The decrease in Australia reflects improved Institutional portfolio quality and reduced provisions for large single name provisions. The decrease in New Zealand reflects a slowly improving economy, however the impacts of the February 2011 Christchurch earthquake may change this trend; and
  - An increase of $29 million (81%) in the collective provision charge with decreases in New Zealand ($100 million) and Asia Pacific, Europe & America ($12 million) more than offset by an increase in Australia ($141 million).
- The Group's income tax expense increased by $409 million (50%) primarily due to the increase in profit before tax. The Group's effective tax rate (excluding that attributable to policyholder income and contributions tax) decreased by 1.4%. The decrease was primarily due to the non-deductible fair value impairment of our interest in OnePath Australia and OnePath New Zealand, partly offset by the release of excess New Zealand conduit tax provision included in the March 2010 half.

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, New Zealand, and Asia Pacific, Europe & America. Interest income figures included as part of spread and margin calculations are presented on a tax-equivalent basis.

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Net interest income	5,646	5,633	5,236	0%	8%
Average interest earning assets	458,029	449,861	428,636	2%	7%
Net interest margin (%)	2.47	2.50	2.45	-1%	1%

Interest spreads and net interest average margin	Half Year Mar 11 %	Half Year Sep 10 %	Half Year Mar 10 %
Australia			
Net interest spread [1]	2.17	2.23	2.25
Interest attributable to net non-interest bearing items	0.42	0.40	0.35
Average net Interest margin - Australia[2]	2.59	2.63	2.60
Asia Pacific, Europe & America			
Net interest spread [1]	1.64	1.63	1.48
Interest attributable to net non-interest bearing items	(0.04)	(0.02)	(0.03)
Average net interest margin - Asia Pacific, Europe & America[2]	1.60	1.61	1.45
New Zealand			
Net interest spread [1]	2.06	2.09	1.96
Interest attributable to net non-interest bearing items	0.29	0.25	0.24
Average net interest margin - New Zealand[2]	2.35	2.34	2.20
Group			
Net interest spread [1]	2.20	2.23	2.20
Interest attributable to net non-interest bearing items	0.27	0.27	0.25
Average net interest margin – Group[2]	2.47	2.50	2.45

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 2010 half**

Net interest income increased $13 million (0%) primarily due to:

Volume

Average interest earning assets increased $8.2 billion (2%):

- Loan, advances and acceptances increased by $14.2 billion (4%) from $364.5 billion in the September 2010 half to $378.7 billion in the March 2011 half, mainly due to:
  - Australia increasing by $15.1 billion (6%) from $262.1 billion in the September 2010 half to $277.2 billion in the March 2011 half, primarily in Mortgages ($8.5 billion) as a result of continuing customer demand for housing loans and increasing market share; and in Markets Australia ($5.2 billion) due to a reclassification of non traded acceptances from Trading Securities;
  - Asia Pacific, Europe & America increasing by $2.4 billion (9%) from $25.5 billion in the September 2010 half to $27.9 billion in the March 2011 half, primarily due to organic growth and acquisitions in Asia; and
  - New Zealand decreasing by $3.2 billion (4%) from $76.8 billion in the September 2010 half to $73.6 billion in the March 2011 half, primarily due to the devaluation of the NZD against the AUD.
- Other interest earning assets decreased by $6.1 billion (7%) mainly due to lower trading and available-for-sale assets (-$5.0 billion) mainly driven by balance sheet reclassification of acceptances in Markets Australia, which were partly offset by an increase in due from other financial institutions in the Asian region ($0.6 billion).
- Average deposits and other borrowings increased $15.6 billion (5%) from $314.2 billion in the September 2010 half to $329.8 billion in the March 2011 half, mainly due to a $17.4 billion (17%) increase in term deposits certificates of deposit in Australia resulting from:
  - Growth of $18.7 billion (9%) from $199.2 billion in the September 2010 half to $217.9 billion in the March 2011 half in Australia as a result of an uplift in term deposits driven by competitive pricing and customer acquisition;

- Growth of $1.0 billion (2%) from $57.7 billion in the September 2010 half to $58.7 billion in the March 2011 half in Asia Pacific, Europe & America, primarily in Asia, as a result of deposit raising strategies and business expansion; and
- A decline of $4.1 billion (7%) from $57.3 billion in the September 2010 half to $53.2 billion in the March 2011 half in New Zealand mainly as a result of lower commercial paper borrowings and foreign currency movement impacts.

- Average Loan capital, and Bonds and Notes were flat.

Margin

Net interest margin decreased by 3 basis points to 2.47%. Excluding the impact of the Global Markets business, the Group margin increased by 3 basis points.

Significant influences on net interest margin (excluding Global Markets) were:

- Improved asset margin (+7 basis points) from recovery of higher funding and deposit costs particularly in Australia and New Zealand retail businesses, and improved fee returns in Institutional that were mainly due to higher commitment and line of credit fees.
- Funding and asset mix changes (+1 basis point) mainly due to:
  - Reduced reliance on wholesale funding due to higher customer deposits (+1 basis point);
  - Increased benefits from higher free funds (+1 basis point); and
  - Negative asset mix impact mainly from an increase in lower margin Housing Loans (- 1 basis point).

These growth drivers were partly offset by:

- Higher deposit costs (-4 basis points) mainly due to the effects of strong competition to attract customer deposits.
- Other items were lower (-1 basis point) mainly due to the impact of higher brokerage costs.

Global Markets had a -6 basis point impact on the Group net interest margin. This was primarily due to:

- Lower earnings from managing balance sheet risk (-4 basis points).
- Higher funding costs associated with unrealized gains on derivatives (-1 basis point).
- Lower earnings from lending and investment activities (-1 basis point).

▪ Comparison with March 2010 half

Net interest income increased $410 million (8%) primarily due to:

Volume

Average interest earning assets increased $29.4 billion (7%):

- Loan, advances and acceptances increased by $30.2 billion (9%) from $348.5 billion in the March 2010 half to $378.7 billion in the March 2011 half, mainly due to:
  - Australia increasing by $24.7 billion (10%) from $252.5 billion in the March 2010 half to $277.2 billion in the March 2011 half, primarily in Mortgages ($17.8 billion) as a result of continuing customer demand for retail housing; Markets Australia ($4.0 billion) due to balance sheet reclassification of bill acceptances; and Rural & Commercial Banking ($2.2 billion) following purchase of the Landmark loan book;
  - Asia Pacific, Europe & America increasing by $8.7 billion (45%) from $19.2 billion in the March 2010 half to $27.9 billion in the March 2011 half, primarily due to organic growth and acquisitions in Asia; and
  - New Zealand decreasing by $3.2 billion (4%) from $76.8 billion in the March 2010 half to $73.6 billion in the March 2011 half due to foreign currency movement impacts.
- Other interest earning assets decreased by $0.8 billion (1%) mainly due to lower other assets (-$1.3 billion) and trading and available-for-sale assets (-$0.3 billion), which was partly offset by an increase in due from other financial institutions ($0.9 billion) in the Asian region.
- Average deposits and other borrowings increased $29.6 billion (10%) from $300.2 billion in the March 2010 half to $329.8 billion in the March 2011 half, mainly due to term deposits and certificates of deposits in Australia that grew by $25.2 billion (26%) from $96.1 billion in the March 2010 half to $121.3 billion in the March 2011 half, including:
  - Growth of $21.9 billion (11%) from $196.0 billion in the March 2010 half to $217.9 billion in the March 2011 half in Australia as a result of an uplift in term deposits and certificates of deposit driven by competitive pricing, and customer acquisition;
  - Growth of $11.6 billion (25%) from $47.1 billion in the March 2010 half to $58.7 billion in the March 2011 half in Asia Pacific, Europe & America, primarily in Asia, as a result of deposit raising strategies and business expansion; and

  - A decline of $4.0 billion (7%) from $57.2 billion in the March 2010 half to $53.2 billion in the March 2011 half in New Zealand mainly as a result of lower commercial paper borrowings and foreign currency movement impacts.

- An increase of $4.8 billion (6%) from $80.0 billion in the March 2010 half to $84.8 billion in the March 2011 half in Loan capital, and Bonds and Notes, mainly due to additional issuances of Bonds and Notes.

Margin

Net interest margin decreased by 2 basis points to 2.47%. Excluding the impact of the Global Markets business, the Group margin increased by 12 basis points.

Significant influences on net interest margin (excluding Global Markets) were:

- Improved asset margin (+23 basis points) primarily due to recovery of higher funding and deposit costs, and rate adjustments particularly in Australia and New Zealand retail businesses, and improved fee returns in Institutional mainly due to higher commitment and line of credit fees.
- Other items were higher (+2 basis points) mainly due to the favorable mix impact from the acquisition of higher margin assets (RBS and Landmark).

These growth drivers were partly offset by:

- Higher deposit costs (-10 basis points) mainly due to the effects of strong competition to attract customer deposits and continued customer migration to lower margin deposits.
- Higher funding costs (-3 basis points) due to an increase in wholesale funding costs and lower returns on capital.

Global Markets had a -10 basis point impact on the Group net interest margin. This was primarily due to:

- Lower earnings from managing balance sheet risk (-7 basis points).
- Higher funding costs associated with unrealized gains on derivatives (-1 basis point).
- Lower earnings from lending and investment activities (-2 basis points).

Net funds management and insurance income

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Funds management income	442	432	298	2%	48%
Investment income	1,305	(44)	1,209	large	8%
Insurance premium income	532	581	266	-8%	100%
Commission income (expense)	(237)	(208)	(150)	14%	58%
Claims	(263)	(224)	(190)	17%	38%
Changes in policyholder liabilities[1]	(1,021)	247	(1,083)	large	-6%
Elimination of treasury share gain/(loss)[2]	(16)	22	(57)	large	-72%
Total net funds management and insurance income	742	806	293	-8%	large

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.
2. ANZ shares held by ANZ in the consolidated managed funds and life business. Realized and unrealized gains and losses from these shares are reversed as these are not permitted to be recognized in income.

▪ Comparison with September 2010 half

Net funds management and insurance income decreased $64 million (8%). Significant influences on profit after tax were:

- Funds management income increased by $10 million (2%) mainly due to improved global equity markets and modest volume growth resulting from investor sentiment towards platform investments and appetite for risk improving only marginally. Average funds under management rose 1% over the September 2010 half.
- The $1,349 million increase in investment income is due to general improvement in investment market conditions, primarily driven by strong returns from the Australian equities market.
- The insurance premium income decreased by $49 million (8%) primarily due to the timing of the written premium receipts causing a decline in the insurance premium income comparatively half on half.
- Commission expense increased in line with growth in sales volume by $29 million (14%).
- Increase in the claims experience by $39 million (17%) was primarily due to adverse claims experience in the general insurance portfolio as a result of catastrophic weather events in Australia as well as higher life insurance claims payments.
- Changes in policyholder liabilities decreased by $1,268 million in line with the investment income recorded in the respective halves offset by a small reduction driven by the higher life insurance claims payments.

▪ Comparison with March 2010 half

Net funds management and insurance income increased $449 million. Major movements include the contribution from OnePath Australia and OnePath New Zealand following the change from 49% ownership to full ownership on November 30, 2009. Significant influences on profit after tax were:

- The change in funds management income is attributed to the inclusion of only four months' contribution from the OnePath Australia and New Zealand businesses following their acquisition on November 30, 2009. On a normalized basis the funds management income is consistent half on half.
- While the March 2010 half year represents the impact of the four months' results of OnePath upon acquisition, it includes significant improved market returns from the 2009 depressed global financial crisis levels. The March 2011 half year had positive investment returns, however the market performance was comparatively lower than the March 2010 half year. This is in line with investment market performance and relevant indices for the respective periods.
- Insurance premium income increased by $266 million (100%) primarily due to an increase in the volumes of business written from the March 2010 half year levels and the inclusion of only four months' contribution from the OnePath businesses in the March 2010 half year.
- Commission expense increased by $87 million (58%) in line with growth in sales volume from the March 2010 half year levels and the inclusion of only 4 months' expense from the OnePath businesses in the March 2010 half year.
- Claims increased by $73 million (38%) primarily due to inclusion of only four months' claims experience from the OnePath businesses in the March 2010 half year and adverse claims experience in the general insurance portfolio as a result of catastrophic weather events in Australia as well as higher life insurance claims payments in the March 2011 half year.

- Changes in policyholder liabilities increased by $62 million (6%) in line with the investment income recorded in the respective periods.

Other operating income

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Net fee and commission income	1,177	1,192	1,132	-1%	4%
Net foreign exchange earnings	431	354	393	22%	10%
Profit on trading instruments	464	152	202	large	large
Other	145	338	(39)	-57%	large
Total other operating income	2,217	2,036	1,688	9%	31%

▪ Comparison with September 2010 half

Other operating income increased $181 million (9%):

Net fee and commission income, which comprises lending fees, non-lending fees and commissions, and fee and commission expenses, decreased by $15 million (1%).

- Lending fee income decreased $24 million (7%) from $330 million in the September 2010 half to $306 million in the March 2011 half, mainly due to:
  - Australia decreasing $20 million (8%) due to reductions in Institutional, including a $6 million reduction in guarantee fees and a $5 million reduction in Global Loans (formerly Relationship Lending and Specialized Lending) due to lower volumes.
- Non-lending fees increased $9 million (1%) from $862 million in the September 2010 half to $871 million in the March 2011 half, mainly due to:
  - Australia decreasing $10 million (2%) primarily due to lower merchant fees ($19 million decrease) as a result of merchant pricing competition and interchange rates, offset by seasonally higher fees in unsecured lending ($15 million); and
  - Asia Pacific, Europe & America increasing $18 million (13%) mainly in Asia ($17 million increase) due to higher volume in Singapore; and in America ($6 million increase) driven by higher underwriting fees.
- Net foreign exchange earnings increased $77 million (22%) mainly due to:
  - Revenue and net investment hedges increasing by $42 million; and
  - New Zealand Institutional increasing by $25 million (57%) due to increased foreign currency trading opportunities.
- Profit on trading instruments increased $312 million mainly due to a significant increase in Global Markets revenue with an increase in the proportion of revenue coming from our commodities business.
- Other income decreased by $193 million (57%) mainly due to:
  - A fair value economic hedging loss of $155 million recognized in the March 2011 half (September 2010 half: a loss of $10 million); and
  - A write down of ANZ’s investment in Sacombank of $35 million in the March 2011 half (September 2010: $nil) principally due to a decline in the Vietnamese currency.

▪ Comparison with March 2010 half

Other operating income increased $529 million (31%):

Net fee and commission income, which comprises lending fees, non-lending fees and commissions, and fee and commission expenses, increased by $45 million (4%).

- Lending fee income increased $2 million (1%) from $304 million in the September 2010 half to $306 million in the March 2011 half, mainly due to:
  - Australia decreasing $5 million (2%) due to a $12 million reduction in exception fees, partly offset by a $7 million increase in Transaction Banking due to higher volumes;
  - Asia Pacific, Europe & America increasing $11 million (22%) as a result of a $5 million increase in Asia with increases in Hong Kong and Korea; and in Europe ($4 million increase); and
  - New Zealand decreasing $4 million (22%) due to a reduction in exception fees.

- Non-lending fees increased $43 million (5%) from $828 million in the March 2010 half to $871 million in the March 2011 half, mainly due to:
  - Australia decreasing $14 million (2%) as a result of a reduction in exception fees of $14 million. Other Retail Products decreased $14 million due to lower merchant service fees as a result of merchant pricing competition and interchange rates. Unsecured Lending increased $16 million as a result of higher interchange revenue from increased spend; and
  - Asia Pacific, Europe & America increasing $64 million (65%) mainly due to a $56 million increase in Asia driven by growth in Taiwan and Singapore and the acquisition of RBS businesses in 2010.
- Net foreign exchange earnings increased $38 million (10%) mainly due to higher Global Markets and Transaction Banking income driven by:
  - Australia increasing by $23 million mainly due to a $15 million increase in Transaction Banking as a result of increased volumes and pricing initiatives; and
  - New Zealand increasing by $12 million driven by higher Institutional foreign exchange trading gains.
- Profit on trading instruments increased $262 million mainly due to a significant increase in the Global Markets division's revenue driven by:
  - The Markets Division in Australia increasing $83 million (50%);
  - Our Asian businesses increasing by $79 million.
- Other income increased by $184 million mainly due to:
  - A fair value impairment adjustment of $213 million for OnePath Australia and OnePath New Zealand recognized in the March 2010 half as a result of the step acquisition accounting requirements for ANZ's 49% share on obtaining control of the entities (March 2011: $nil);
  - An increase in ANZ's share of joint venture and associates' profit of $42 million (21%) from $201 million in the March 2010 half to $243 million in the March 2011 half; and
  - A write-down of ANZ's investment in Sacombank of $35 million in the March 2011 half (March 2010: $nil), principally due to a decline in the Vietnamese currency versus the Australian dollar, and a $25 million gain in the March 2010 half reversing an earlier write-down of our investment in SSI.

Operating expenses

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Personnel expenses	2,364	2,296	1,948	3%	21%
Premises expenses	344	335	301	3%	14%
Computer expenses	506	455	411	11%	23%
Other expenses	812	836	722	-3%	12%
Total operating expenses	4,026	3,922	3,382	3%	19%

▪ Comparison with September 2010 half

Operating expenses increased $104 million (3%):

- Personnel expenses increased $68 million (3%) as a result of salary increases and a 3% increase in staff numbers. Growth in staff numbers was mainly due to our investment in Asia Pacific, Europe & America (5%) and project related activity.
- Premises costs increased $9 million (3%) due to minor increases across the Australia division, offset by a small decrease in New Zealand.
- Computer costs increased $51 million (11%) mainly driven by increased computer contactor costs largely associated with technology projects.
- Other expenses decreased $24 million (3%) with lower marketing expenses and a lower project related consulting spend.
- Global Institutional costs growth was $45 million (5%), reflecting the continued investment in the Super Regional strategy, including investment in the diversification of Global Markets revenues and the phased roll out of our new cash management platform.

Significant factors affecting operating expenses geographically were as follows:

- Australia costs increased by $78 million (3%), mainly due to salary increases, higher staff numbers, and volume related costs.
- Asia Pacific, Europe & America costs decreased by $17 million (2%) mainly due to reduced RBS integration costs and favorable foreign currency exchange movements, partly offset by our investment in expanding branch networks and support hubs across the region and increased resources to drive the growth agenda.
- New Zealand costs increased by $43 million (7%), mainly due to higher personnel costs driven by annual rate increases and technology integration costs. This was partly offset by reduced discretionary costs.

▪ Comparison with March 2010 half

Operating expenses increased $644 million (19%):

- Personnel expenses increased $416 million (21%) mainly due to a 15% increase in staff numbers.
- Premises costs increased $43 million (14%) driven by minor increases in Australia and Asia Pacific, Europe & America.
- Computer costs increased $95 million (23%) mainly due to an increase in project spend, depreciation and amortization costs, computer contractors and software purchased.
- Other expenses increased $90 million (12%) mainly driven by New Zealand technology integration costs of $108 million in the first half of 2011.
- Global Institutional costs growth was $172 million (21%), mainly due to investment in technology, system enhancements and people.

Significant factors affecting operating expenses geographically were as follows:

- Australia costs increased by $303 million (13%), mainly due to salary increases, higher staff numbers, and volume related costs.
- Asia Pacific, Europe & America costs increased by $244 million (49%) mainly due to substantial investment in expanding branch networks and support hubs across the region and increased resources to drive the growth agenda.
- New Zealand costs increased by $97 million (16%), mainly due to higher personnel costs driven by annual rate increases and technology integration costs.

Provision for credit impairment charge

	Provision for credit impairment	Individual provision for credit impairment	Provision for credit impairment	Individual provision for credit impairment	Provision for credit impairment	Individual provision for credit impairment
	Mar 11	Mar 11	Sep 10	Sep 10	Mar 10	Mar 10
	$M	$M	$M	$M	$M	$M
Australia	567	444	548	535	723	741
Asia Pacific, Europe & America	44	52	53	56	101	97
New Zealand	64	114	104	154	258	208
Total	675	610	705	745	1,082	1,046

▪ **Comparison with September 2010 half**

Total provision for credit impairment charge relating to lending assets, commitments, and debt securities classified as available-for-sale assets decreased $30 million (4%), as the global economy recovered from higher levels of bankruptcies, business liquidations and commercial losses, and a reduction in the number of our large single name impaired assets.

- The individual provision for credit impairment charge decreased $135 million (18%), mainly due to reductions in Australia and New Zealand:
  - The decrease in Australia of $91 million (17%) reflected improved Institutional portfolio quality and reduced provisions for large single name provisions;
  - The decrease in Asia Pacific, Europe & America of $4 million (7%) was mainly due to improved economic conditions and higher recoveries achieved by the Retail division in Asia during the March 2011 half year; and
  - The decrease in New Zealand of $40 million (26%) reflects a slowly improving economy; however the impacts of the February 2011 Christchurch earthquake may change this trend.
- The collective provision for credit impairment charge increased by $105 million, with a decrease of $5 million in Asia Pacific, Europe & America more than offset by an increase in Australia ($110 million):
  - The increased charge for Australia was mainly due to a net charge of $79 million due to natural disasters, as well as an increase in delinquencies in the retail portfolio; and
  - The decrease in Asia Pacific, Europe & America of $5 million was mainly due to improved credit quality and lower delinquencies, offset partially by growth in Asia.

▪ **Comparison with March 2010 half**

Total provision for credit impairment charge relating to lending assets, commitments, and debt securities classified as available-for-sale assets decreased $407 million (38%).

The individual provision for credit impairment charge decreased $436 million (42%), due to reductions in all geographic regions:

  - The decrease in Australia of $297 million (40%) was primarily due to the reduction in the number of large single name provisions raised within the Australian Institutional portfolio ;
  - The decrease in Asia Pacific, Europe & America of $45 million (46%) was mainly due to lower Institutional charges and higher recoveries achieved by the Retail division in Asia during the March 2011 half year; and
  - The decrease in New Zealand of $94 million (45%) was due to a reduction in new impairment charges and increased recoveries in improving economic conditions.
- The collective provision for credit impairment charge decreased by $29 million primarily due to:
  - An increased charge for Australia ($141 million) due to natural disasters occurring across the Eastern States of Australia and an increase in delinquencies that had an impact on ANZ's retail portfolio; and
  - The New Zealand charge decreased by $100 million as a result of improved credit quality and some releases to previously applied economic cycle adjustments.

Credit risk on derivatives

Credit risk on derivatives	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Credit intermediation trade related	(55)	(5)	(64)	large	-14%
Credit risk on impaired derivatives	(15)	17	17	large	large
Credit risk on derivatives (gain)/loss	(70)	12	(47)	large	49%

1. In 2009 and 2010 ANZ partially hedged the foreign currency exposure relating to structured credit intermediation trades. Included in the March 2010 half year result is a $14 million loss on foreign currency hedges. All hedges were closed out before March 2010.

The credit risk on derivatives gain of $70 million (September 2010: a loss of $12 million, March 2010: a gain of $47 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 23 for a description of ANZ's credit intermediation trades.

ANZ is actively managing this portfolio with a view to reduce 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, 2011 was US$8.4 billion (September 2010: US$8.4 billion; March 2010: US$8.6 billion).

Financial impacts on credit intermediation	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Mark-to-market credit exposure to financial guarantors	443	641	588	-31%	-25%
Cumulative costs (life to date) relating to financial guarantors					
Credit valuation adjustment for outstanding transactions	143	195	196	-27%	-27%
Realized close out and hedge costs	317	320	324	-1%	-2%
Cumulative life to date costs	460	515	520	-11%	-12%

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 exposure has reduced reflecting a relative stabilization in the credit markets and marked lowering of corporate credit defaults. The remaining trades continue to be monitored with a view to termination where appropriate opportunities arise.

Income tax expense

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Income tax expense charged in the income statement	1,235	1,270	826	-3%	50%
Effective tax rate	31.6%	33.0%	30.0%		
Income tax expense attributable to income relating to policyholder income and contributions tax	166	215	-	-23%	n/a
Income tax expense charged in the income statement excluding that attributable to income relating to policyholder income and contributions tax	1,069	1,055	826	1%	29%
Effective tax rate	28.6%	29.0%	30.0%		

- **Comparison with September 2010 half**

The Group's effective tax rate excluding that attributable to policyholder income and contributions tax was 28.6%, down 0.4%. The decrease was due primarily to a favorable overseas tax rate differential in the March 2011 half. In addition, the September 2010 half included an unfavorable impact resulting from changes in New Zealand tax legislation offset by the favorable resolution of an outstanding tax matter in the U.S.

- **Comparison with March 2010 half**

The Group's effective tax rate excluding that attributable to policyholder income and contributions tax decreased by 1.4%. The decrease was due primarily to the non-deductible fair value impairment of our interest in OnePath Australia and OnePath New Zealand offset by the release of excess New Zealand conduit tax provisions included in the March 2010 half. The March 2011 half included higher profit from associates and joint venture entities.

Results by Geographic Region

ANZ consists of three main segments based on the geographic regions in which the Group operates (Australia, New Zealand and the combined Asia Pacific, Europe & America). The Institutional division is managed on a global basis. The results of the Institutional segment are separately tracked and reported but are allocated to the geographic regions to which the Institutional results relate for Group segment reporting purposes.

	Half Year Mar 11	Half Year Sep 10	Half Year Mar 10
	$M	$M	$M
Profit before income tax:			
Australia	2,903	2,967	2,079
Asia Pacific, Europe & America	495	306	282
New Zealand	506	575	392
Total profit before income tax	3,904	3,848	2,753
Income tax expense:			
Australia	(986)	(1,064)	(689)
Asia Pacific, Europe & America	(106)	(13)	(51)
New Zealand	(143)	(193)	(86)
Total income tax expense	(1,235)	(1,270)	(826)
Outside equity interest:			
Asia Pacific, Europe & America	(5)	(2)	(2)
Total non-controlling interest	(5)	(2)	(2)
Profit after income tax and non-controlling interests:			
Australia	1,917	1,903	1,390
Asia Pacific, Europe & America	384	291	229
New Zealand	363	382	306
Total profit attributable to shareholders	2,664	2,576	1,925

Australia

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v.Sep 10 %	Movt Mar 11 v.Mar 10 %
Net interest income	4,130	4,077	3,894	1%	6%
Other operating income	1,934	1,954	1,199	-1%	61%
Operating income	6,064	6,031	5,093	1%	19%
Operating expenses	(2,594)	(2,516)	(2,291)	3%	13%
Profit before credit impairment and income tax	3,470	3,515	2,802	-1%	24%
Provision for credit impairment	(567)	(548)	(723)	3%	-22%
Profit before income tax	2,903	2,967	2,079	-2%	40%
Income tax expense	(986)	(1,064)	(689)	-7%	43%
Profit after income tax	1,917	1,903	1,390	1%	38%

▪ Comparison with September 2010 half

Profit after income tax increased $14 million (1%). Significant influences on profit after tax were:

- Net interest income increased 1% mainly due to:
  - Average net loans, advances and acceptances increasing 6% mainly due to increases in the Mortgages ($8.5 billion), Markets Australia ($5.2 billion) and Relationship Lending ($0.8 billion) portfolios;
  - Average customer deposits increased 10% through term deposits and saving products such as Progress Saver offerings ($19.1 billion); and
  - Institutional net interest margin declined reflecting less repricing in loans and intensifying competitive pressures during the March 2011 half.
- Other operating income decreased 1%, mainly due to:
  - Lower contribution from the Wealth businesses due to lower wealth management income, more than offset by higher insurance net income;
  - Flat growth in the Retail division due to the abolishment of exception fees; and
  - Higher fee income in Global Markets, which included strong growth in commodities.
- Operating expenses increased 3%, mainly due to salary increases, additional staff for frontline sales and projects, and specific business growth initiatives in Australia Institutional.
- Provision for credit impairment increased 3%, with lower individual charges offset by higher collective charges. Most of the decrease in individual provision was due to lower new impaired loans and repayments of impaired accounts within Australia Institutional, whilst the Australia Division was broadly flat. The collective provision increase in March 2011 was due to the Australia Division, and arise from anticipated flood losses and higher observed delinquencies across all segments, partly offset by a general improvement in credit quality and repayments of a small number of high risk accounts within Australia Institutional.
- Income tax expense decreased by $78 million (7%) mainly due to a reduction in OnePath policyholder income and contribution tax of $49 million (23%).

▪ Comparison with March 2010 half

Profit after income tax increased $527 million (38%). Significant influences on profit after tax were:

- Net interest income increased 6% mainly due to:
  - Average net loans, advances and acceptances increased by 10% across the Mortgages, Consumer Cards and Unsecured Lending portfolios;
  - Average customer deposits growth was 11% due to higher growth in Retail and Commercial businesses in Australia, and in Australia Institutional due to initiatives within the business to attract a greater share of customer deposits; and
  - Institutional net interest margin was flat reflecting less repricing in loans. Australia Division net interest margin declined, reflecting the impact of higher long term wholesale funding costs and the continued competition for deposits on pricing and mix.
- Other operating income increased 61%, mainly due to:
  - Strong growth in the Wealth management businesses;
  - Wealth Management only included four months of OnePath Australia's operating income in the March 2010 half year;

   - An increase in economic hedging fair value gains of $125 million;
   - Australia Institutional increased 18% due predominately to higher Markets operating income and foreign exchange earnings in Transaction Banking, partially offset by lower fee income in Global Loans.

- Operating expenses increased 13%, mainly due to salary increases, volume related expenses, and additional investment in key Technology initiatives and increased costs from the OnePath Australia acquisition.
- Provision for credit impairment decreased 22% mainly driven by Australia Institutional reflecting the improving economic environment. Australia Institutional's reduction of $325 million in individual provision is a reflection of larger customer repayments and credit improvement in the portfolios. Anticipated flood losses, lending growth, higher delinquencies and bankruptcies in Australia Division are driving the increase of $66 million in the collective provision.
- Income tax expense increased by $297 million (43%) mainly due to an increase in profit before tax (up 40%) and an increase in OnePath policyholder income and contribution tax of $166 million.

Asia Pacific, Europe & America

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v.Sep 10 %	Movt Mar 11 v.Mar 10 %
Net interest income	538	532	384	1%	40%
Other operating income	745	588	499	27%	49%
Operating income	1,283	1,120	883	15%	45%
Operating expenses	(744)	(761)	(500)	-2%	49%
Profit before credit impairment and income tax	539	359	383	50%	41%
Provision for credit impairment	(44)	(53)	(101)	-17%	-56%
Profit before income tax	495	306	282	62%	76%
Income tax expense	(106)	(13)	(51)	large	large
Minority interests	(5)	(2)	(2)	large	large
Profit after income tax	384	291	229	32%	68%

▪ Comparison with September 2010 half

Profit after income tax increased $93 million (32%). Significant influences on profit after tax were:

Asia Pacific, Europe & America is a business that is based largely on a functional currency of U.S. dollars. Therefore, the result for Asia Pacific, Europe & America has been impacted by the devaluation of the USD against the AUD over the period. Translation of the March 2011 half results to AUD was at an average exchange rate for the half of US$0.9956 to A$1.00 compared to an average exchange rate for the September 2010 half of US$0.8920 to A$1.00.

- Net interest income was marginally higher mainly due to:
  - Income from the RBS acquisition being included in full in the March 2011 half; and
  - Average loans, advances and acceptances increasing by 9% mainly with the continued growth in Transaction Banking and Global Loans. The growth momentum in customer deposits continued, resulting in an increase of 2%.
  - This was offset by adverse movement in the USD relative to the AUD; and
  - A 1 basis point decrease in net interest margin.
- Other operating income increased by $157 million (27%), primarily due to:
  - Non-lending fees increasing $21 million, mainly due to higher volumes in both Singapore and America;
  - Strong contribution from Global Markets; specifically in trading instruments (increase of $86 million) and net foreign exchange earnings from ANZ's Asia-based businesses (increase of $45 million);
  - Gain on the sale of the Taiwan credit card business; and
  - Increased equity accounted earnings from Asia Partnerships, offset by the Sacombank impairment charge recognized in the March 2011 half.
- Operating expenses decreased 2%, mainly due to the impact of lower integration costs and favorable foreign currency exchange movements during the March 2011 half, partially offset by our continued investments in expanding distribution across the region and increased resources to support the Super Regional strategy.
- Provision charges for credit impairment were 17% lower compared with the prior half year. This was driven by lower individual provision charges due to higher recoveries achieved mainly in the Retail businesses in Asia in the March 2011 half year, offset by higher charges associated with a few large Institutional customers and legacy issues from certain U.S. bonds. Collective provision charges for the March 2011 half year were lower mainly due to the upgrade of a few large Institutional customers.
- Income tax expense increased by $93 million mainly due to increased profit before income tax (up 62%) and the resolution of an outstanding tax matter in the U.S. which resulted in a $31 million write-back in the prior half.

▪ Comparison with March 2010 half

Profit after income tax increased $155 million (68%). Significant influences on profit after tax were:

Asia Pacific, Europe & America is a business that is based largely on a functional currency of U.S. dollars. Therefore, the result for Asia Pacific, Europe & America has been impacted by the devaluation of the USD against the AUD over the period. Translation of the March 2011 half results to AUD was at an average exchange rate for the half of US$0.9956 to A$1.00 compared to an average exchange rate for the March 2010 half of US$0.9060 to A$1.00.

- Net interest income increased by $154 million mainly due to:
  - Income from the RBS acquisition being included in full in the March 2011 half; and

  - Average loans, advances and acceptances increased by 45% mainly with growth in Transaction Banking and Global Loans. Average customer deposits increased by 25%.
- Other operating income increased 49%, mainly due to:
  - RBS acquisition being included in full in the March 2011 half;
  - Growth in Retail Banking from lending and non-lending fees;
  - Growth in profit on trading instruments with our Asian businesses increasing by $72 million;
  - Gain on the sale of the Taiwan credit card business;
  - Increased net foreign exchange earnings with our Asia-based businesses increasing by $26 million; and
  - Increased equity accounted earnings from Asian Partnerships, offset by the Sacombank impairment charge.
- Operating expenses increased 49%, mainly due to our build-up of regional operating and support capabilities and the acquisition of RBS businesses.
- Provision charges for credit impairment decreased 56%. Individual provision charges were lower in the March 2011 half year mainly due to the lower Institutional charges.
- Income tax expense increased by $55 million mainly due to increased profit before income tax (up 76%).

New Zealand

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v.Sep 10 %	Movt Mar 11 v.Mar 10 %
Net interest income	978	1,023	958	-4%	2%
Other operating income	280	301	283	-7%	-1%
Operating income	1,258	1,324	1,241	-5%	1%
Operating expenses	(688)	(645)	(591)	7%	16%
Profit before credit impairment and income tax	570	679	650	-16%	-12%
Provision for credit impairment	(64)	(104)	(258)	-38%	-75%
Profit before income tax	506	575	392	-12%	29%
Income tax expense	(143)	(193)	(86)	-26%	66%
Profit after income tax	363	382	306	-5%	19%

▪ Comparison with September 2010 half

Profit after income tax decreased $19 million (5%). Significant influences on profit after tax were:

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 NZD against the AUD over the period. Translation of the March 2011 half results to AUD was at an average exchange rate for the half of NZ$1.3158 to A$1.00 compared to an average exchange rate for the September 2010 half of NZ$1.2591 to A$1.00.

- Net interest income decreased by $45 million (4%). Net interest margin increased by 1 basis point. This growth reflected the benefit from re-pricing of the fixed rate lending book, and customers continuing to favor variable over fixed rate mortgages. These gains were partly offset by a further intensification in the competition for deposits that has raised the cost of retail funding. Lending volumes marginally declined and customer deposits increased, in each case largely market-driven.
- Other operating income decreased 7%, mainly due to:
  - A reduction in economic hedging fair value gains of $109 million;
  - Flat growth in lending and non-lending income due to exception fees; partially offset by
  - A stronger markets result from trading and favorable revaluations of the liquidity portfolio.
- Operating expenses increased 7%, mainly due to costs associated with adopting a single technology platform across New Zealand, partially offset by control of discretionary spend.
- The individual provision for credit impairment charge decreased by $40 million (38%) with loss rates declining as the economy recovers.
- The collective provision for credit impairment charge was flat.
- Income tax expense decreased by $50 million mainly due to the impact of changes in New Zealand tax legislation ($39 million) as well as decreased profit before income tax (down 12%).

▪ Comparison with March 2010 half

Profit after income tax increased $57 million (19%). Significant influences on profit after tax were:

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 NZD against the AUD over the period. Translation of the March 2011 half results to AUD was at an average exchange rate for the half of NZ$1.3158 to A$1.00 compared to an average exchange rate for the March 2010 half of NZ$1.2615 to A$1.00.

- Net interest income increased by $20 million (2%). Net interest margin increased by 15 basis points. This growth reflected the margin benefit from re-pricing of the fixed rate lending book, and mix benefit from an increased proportion of variable rate lending in the mortgage portfolio. Deposit margins, however, were reduced in the competitive environment. Total net interest income growth was also moderated by a lower contribution from the management of interest rate risks.
- Other operating income decreased 1%, mainly due to:
  - A reduction in fee income of $11 million reflecting a full half's impact from the restructure of Retail fees implemented during the March 2010 half; and
  - A $5 million loss on trading instruments.
- Operating expenses increased 16%, mainly due to salary increases and the costs associated with adopting a single technology platform.

- The individual provision for credit impairment charge decreased by $94 million (45%) mainly driven by the improvement in the economic cycle.
- The collective provision for credit impairment charge decreased by $100 million mainly reflecting credit cycle adjustments booked in the March 2010 half year, and partly released during the March 2011 half.
- Income tax expense increased by $57 million mainly due to increased profit before income tax (up 29%) and the $38 million impact of New Zealand Conduits on March 2010 income tax expense.

Institutional

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 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v.Sep 10 %	Movt Mar 11 v.Mar 10 %
Net interest income	1,529	1,660	1,556	-8%	-2%
Other operating income	1,044	864	855	21%	22%
Operating income	2,573	2,524	2,411	2%	7%
Operating expenses	(982)	(937)	(810)	5%	21%
Profit before credit impairment and income tax	1,591	1,587	1,601	0%	-1%
Provision for credit impairment	(154)	(306)	(435)	-50%	-65%
Profit before income tax	1,437	1,281	1,166	12%	23%
Income tax expense	(408)	(342)	(335)	19%	22%
Minority interests	(1)	(1)	-	0%	n/a
Profit after income tax	1,028	938	831	10%	24%

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M
Australia	670	610	502
Asia Pacific, Europe & America	234	205	174
New Zealand	124	123	155
Total	1,028	938	831

▪ Comparison with September 2010 half

Institutional's profit after tax grew 10% to $1,028 million. Significant influences on profit after tax were:

- Net interest income decreased by $131 million (8%) mainly due to:
  - Net interest margin (excluding Global Markets) decreased by 9 basis points due to the division's geographic mix with growth in the relatively lower margin Asia region and competitive pressures intensifying during the March 2011 half;
  - The $10.6 billion (15%) increase in average loans, advances and acceptances was due to solid loan growth across Australia and Asia; and
  - The $1.7 billion (2%) increase in average customer deposits was due to strong growth in Asia with volumes increasing $2.9 billion partially offset by competitive pressures in Australia impacting deposit volumes.
- Other operating income increased by $180 million (21%) mainly due to significant contributions from profit on trading instruments and net foreign exchange earnings achieved in Australia, Asia and Europe.
- Operating expenses increased $45 million (5%) as the division continued with investment in diversification of Global Markets revenue streams and the phased roll out of our new cash management platform.
- Provision for credit impairment decreased 50%, reflecting the improving economic environment. Individual provisions of $149 million (down $127 million) were largely in Australia, predominately relating to property exposures and a small number of corporate loans. The collective provision charge of $5 million was driven by volume growth being offset by exposure reductions on a small number of high risk accounts and a general improvement in credit quality. Net impaired assets fell by 11% to $2.7 billion.
- Income tax expense increased by $66 million (19%) mainly due to increased profit before income tax (up 12%).

Significant factors affecting the March 2011 half year profit after tax geographically were as follows:

- Australian profit after tax increased 10% to $670 million, mainly due to reduced provision for credit impairment charge; and
- Asia Pacific, Europe & America profit after tax increased 14% to $234 million, mainly due to a strong performance from the Markets division, especially in Europe and Asia.

▪ Comparison with March 2010 half

Institutional's profit after tax grew 24% to $1,028 million. Significant influences on profit after tax were:

- Net interest income decreased by $27 million (2%) mainly due to a 16 basis point decline in net interest margin combined with an $11.8 billion (17%) increase in average loans, advances and acceptances and a $12.4 billion (15%) increase in average customer deposits:
  - Net interest margin (excluding Global Markets) increased 12 basis points due to loan repricing and strong deposit growth, although competitive pressures intensified. Net lending assets increased $7 billion mainly as a result of investment in our Asian franchise while customer deposits increased by 10% led mainly by growth in our Asian business and strong fourth quarter growth in Global Markets and Transaction Banking in Australia.
- Other operating income increased by $189 million (22%) mainly due to significant contributions from profit on trading instruments and net foreign exchange earnings achieved in Australia, Asia and Europe.
- Operating expenses increased $172 million (21%) as the division continued investing in technology, systems enhancements and people.
- Provision for credit impairment decreased 65% reflecting the improving economic environment, with a large decrease in individual provisions partly offset by an increase in the collective provisions.
- Income tax expense increased by $73 million (22%) mainly due to increased profit before income tax (up 23%).

Significant factors affecting the March 2011 half year profit after tax geographically were as follows:

- Australian profit after tax increased 33% to $670 million, mainly due to reduced provision for credit impairment charge;
- Asia Pacific, Europe & America profit after tax increased 34% to $234 million, mainly due to a strong performance from the Markets division, especially in Europe and Asia; and
- New Zealand profit after tax decreased by 20% to $124 million mainly due to a significant reduction in market volatility, resulting in reduced client activity and lower trading revenues, compared to the first half of 2010.

Balance sheet

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M
Assets			
Liquid assets & due from other financial institutions	30,282	27,002	29,520
Trading securities and investment securities[1]	47,289	54,257	51,051
Derivative financial assets	29,646	37,821	27,630
Net loans and advances including acceptances [1]	375,883	360,816	347,862
Investments relating to insurance business	32,958	32,171	32,054
All other assets [2]	21,420	19,672	18,591
Total assets	537,478	531,739	506,708
Liabilities			
Due to other financial institutions	20,415	20,521	16,068
Deposits and other borrowings[1]	333,388	311,472	301,757
Derivative financial liabilities	29,796	37,217	27,289
Liability for acceptances[1]	577	11,495	12,510
Bonds and notes	58,526	59,714	58,390
Insurance policy liabilities	35,219	34,429	33,942
All other liabilities	24,428	22,736	24,169
Total liabilities	502,349	497,584	474,125
Net assets	35,129	34,155	32,583

1. 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:

   March 2011 – Trading securities: $nil; Net loans and advances $17,371 million; Customers' liability for acceptances $nil; Liability for acceptances $nil.

   September 2010 - Trading securities: $6,035 million; Net loans and advances $nil; Customers' liability for acceptances $11,150 million; Liability for acceptances $11,150 million.

   March 2010 - Trading securities: $4,735 million; Net loans and advances $nil; Customers' liability for acceptances $12,282 million; Liability for acceptances $12,282 million.
2. 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 2010 half**

Liquid assets and due from other financial institutions increased by $3.3 billion (12%) primarily due to:

- An increase of $21.9 billion in deposits and other borrowings mainly due to the Group's drive to attract more deposits in Australia and Asia leading to greater liquidity requirements.
- An increase of $2 billion (36%) in due from other financial institutions mainly driven by volatility in foreign exchange rates and derivatives leading to an increase in the value of securities awaiting settlement.

Trading and available-for-sale assets

- **Comparison with September 2010 half**

Trading and available-for-sale assets decreased $7.0 billion (13%) mainly due to the balance sheet reclassification of non-tradable bill acceptances as net loans and advances rather than trading securities and a $2.4 billion (12%) decrease in available for-sale-assets in predominantly Global Markets due to reduced trading opportunities.

- **Comparison with March 2010 half**

Trading and available-for-sale assets decreased $3.8 billion (7%) mainly due to the balance sheet reclassification of non-tradable bill acceptances as net loans and advances rather than trading securities, partially offset by a $0.5 billion (3%) increase in available for-sale-assets predominately in Global Markets in Asia due to increased trading opportunities in the Asia region.

Derivative financial instruments

- **Comparison with September 2010 half**

Derivative financial instruments decreased by $8.2 billion (22%), resulting from reduced volatility in the foreign exchange, interest rate, and credit derivative markets at the end of March 2011 leading to lower trading opportunities.

- **Comparison with March 2010 half**

Derivative financial instruments increased $2 billion (7%), resulting from heightened volatility in the foreign exchange, interest rate, equity and credit derivative markets. Derivative balances have also increased since March 31, 2010 following the strong appreciation of the AUD against other currencies during the second half of the 2010 fiscal year and the first half of the 2011 fiscal year.

Net loans and advances including acceptances

- **Comparison with September 2010 half**

Net loans and advances, including acceptances, increased by $15.1 billion (4%) primarily due to:

- The balance sheet reclassification of non-tradable bill acceptances as net loans and advances rather than trading securities in September 2010 of $6.0 billion.
- Net loans and advances, including acceptances, in Australia growing by $15.0 billion (6%), with housing loans in Mortgages increasing by $6.2 billion (4%).
- Net loans and advances, including acceptances, in Asia Pacific, Europe & America increasing by $2.9 billion (12%) as a result of the acquisition of RBS businesses and growth in Transaction Banking and Specialized and Relationship Lending.
- Net loans and advances, including acceptances, in New Zealand decreasing by $2.9 billion (4%) mainly due to reduced customer demand for loans and advances as a result of the current economic climate.

- **Comparison with March 2010 half**

Net loans and advances, including acceptances, increased by $28.0 billion (8%) primarily due to:

- The balance sheet reclassification of non-tradable bill acceptances as net loans and advances rather than trading securities in March 2010 of $4.7 billion.
- Net loans and advances, including acceptances, in Australia grew by $23.5 billion (9%), with housing loans in Mortgages increasing by $16.2 billion (11%).
- Net loans and advances, including acceptances, in Asia Pacific, Europe & America increased by $8.5 billion (44%) as a result of the acquisition of RBS businesses and growth in Transaction Banking and Specialized and Relationship Lending.
- Net loans and advances, including acceptances, in New Zealand decreased by $4.0 billion (5%) mainly due to reduced customer demand for loans and advances as a result of the current economic climate.

All other assets

- **Comparison with September 2010 half**

All other assets increased by $1.7 billion (9%) mainly due to a significant increase in outstanding settlements for traded securities ($1.8 billion).

- **Comparison with March 2010 half**

All other assets increased by $2.8 billion (15%) mainly due to a significant increase in outstanding settlements for traded securities ($1.4 billion) and a $0.5 billion increase in regulatory deposits held by the Group on March 31,2011.

Liabilities

Due to other financial institutions

- **Comparison with March 2010 half**

Due to other financial institutions increased by $4.3 billion (27%) mainly due to increased interbank borrowings by the Institutional division in Asia Pacific, Europe & America.

Deposits and Other Borrowings

- **Comparison with September 2010 half**

Deposits and other borrowings increased $21.9 billion (7%) mainly due to:

- An increase in deposits and other borrowings in Australia ($20.8 billion or 10%) 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 $4.3 billion (8%) due to a number of initiatives to raise customer deposits levels in order to reduce the Group's reliance on wholesale funding.
- Deposits and other borrowings in New Zealand continued to decline with a decrease of $3.2 billion (6%) due to the current economic environment and the Christchurch earthquake.

▪ **Comparison with March 2010 half**

Deposits and other borrowings increased $31.6 billion (10%) mainly due to:

- An increase in deposits and other borrowings in Australia ($24.2 billion or 12%) as customers responded to continued attractive rates on offer partially offset by 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 $11.8 billion (25%) due to a number of initiatives to raise customer deposits levels in order to reduce the Group's reliance on wholesale funding.
- Deposits and other borrowings in New Zealand continued to decline with a decrease of $4.4 billion (8%) due to the current economic environment and the Christchurch earthquake.

Derivative financial instruments

▪ **Comparison with September 2010 half**

Derivative financial instruments liabilities decreased $7.4 billion (20%). The decrease was mainly driven by the significant appreciation of the AUD against other currencies during the first half of 2011 and volatility in foreign exchange, interest rate and credit derivative markets.

▪ **Comparison with March 2010 half**

Derivative financial instruments liabilities increased $2.5 billion (9%). The increase was mainly driven by significant volatility in foreign exchange, interest rate and credit derivative markets creating trading opportunities for Global Markets across all geographies.

Liability for acceptances

▪ **Comparison with September 2010 half**

Liability for acceptances decreased $10.9 billion (95%) as a result of the balance sheet reclassification of Customers' liability for acceptances in September 2010 of $11.2 billion.

▪ **Comparison with March 2010 half**

Liability for acceptances decreased $11.9 billion (95%) as a result of the balance sheet reclassification of Customers' liability for acceptances in September 2010 of $12.3 billion.

Bonds and notes

▪ **Comparison with September 2010 half**

Bonds and notes decreased $1.2 billion (2%) mainly due to an increase in net issuances, partly offset by favorable currency exchange rate movements caused by the strong appreciation in the Australian dollar in late 2010 and the March 2011 half.

▪ **Comparison with March 2010 half**

Bonds and notes increased $0.1 billion (0%) mainly due to an increase in net issuances, partly offset by favorable currency exchange rate movements caused by the strong appreciation in the Australian dollar in late 2010 and in the March 2011 half.

Capital management

Qualifying Capital	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Tier 1					
Shareholders' equity and non-controlling interests	35,129	34,155	32,583	3%	8%
Prudential adjustments to shareholders' equity	(2,637)	(2,840)	(2,003)	-7%	32%
Fundamental Tier 1 capital	32,492	31,315	30,580	4%	6%
Deductions	(10,070)	(10,057)	(9,433)	0%	7%
Core Tier 1 capital	**22,422**	**21,258**	**21,147**	5%	6%
Non-innovative Tier 1 capital instruments	3,751	3,787	3,791	-1%	-1%
Innovative Tier 1 capital instruments	1,597	1,646	1,690	-3%	-6%
Tier 1 capital	**27,770**	**26,691**	**26,628**	4%	4%
Tier 2					
Upper Tier 2 capital	1,166	1,223	1,057	-5%	10%
Subordinated notes	6,176	6,619	7,405	-7%	-17%
Deductions	(3,055)	(3,026)	(2,830)	1%	8%
Tier 2 capital	4,287	4,816	5,632	-11%	-24%
Total qualifying capital	32,057	31,507	32,260	2%	-1%
Capital adequacy ratios					
Core Tier 1[1]	8.5%	8.0%	8.5%		
Tier 1	10.5%	10.1%	10.7%		
Tier 2	1.6%	1.8%	2.3%		
Total	12.1%	11.9%	13.0%		
Risk weighted assets[2]	264,236	264,242	248,961	0%	6%

1. Core Tier 1 is Tier 1 excluding hybrid Tier 1 capital instruments.
2. 2011 and 2010 risk weighted assets are calculated using Basel II methodology.

▪ Comparison with September 2010 half

Tier 1 Ratio

The Tier 1 ratio at March 31, 2011 of 10.5% represents an increase from the September 2010 half of 41 basis points.

The key contributors to the increase were:

Net Organic +48 basis points

- Statutory profit after preference share dividends of $2.7 billion (+100 basis points).
- Ordinary share dividend commitments net of expected reinvestment through the DRP and BOP (including prior period under-accrual) of $1.0 billion (-37 basis points).
- Increase in Risk Weighted Assets (RWA), excluding the impact of exchange rate movements was $3.7 billion due to:
  - Portfolio growth and mix (-18 basis points);
  - Risk migration incorporating decline in RWA and decrease in Expected Loss versus Eligible Provision shortfall (+8 basis points); and
  - Higher non-credit risk RWA (-1 basis point), due to interest rate risk in the banking book and Operational RWA more than offsetting declining Market RWA.
- Increase in investment/profit retention in funds management businesses, associates and commercial operations excluding the impact of exchange rate movements (-6 basis points).
- Other items (net +2 basis points) including movement in capitalized software expense (-5 basis points), partially offset by movement in net deferred tax assets (+3 basis points) and other deductions (+4 basis points).

Investments -7 basis points

- Further investment in Shanghai Rural Commercial Bank (-5 basis points) and a commitment to further invest in Bank of Tianjin (-2 basis points).

▪ Comparison with March 2010 half

Tier 1 Ratio

The Tier 1 ratio at March 31, 2011 of 10.5% represents a decrease from the March 2010 half of 19 basis points. The key contributors to the decrease were:

Net Organic +21 basis points

- Statutory profit after preference share dividends of $5.2 billion (+210 basis points).
- Ordinary share dividend commitments net of expected reinvestment through the DRP and BOP of $2.2 billion (-87 basis points).
- Increase in Risk Weighted Assets (RWA), excluding the impact of exchange rate movements and acquisitions was $17.1 billion due to:
  - Portfolio growth and mix (-63 basis points);
  - Risk migration incorporating decline in RWA and decrease in Expected Loss versus Eligible Provision shortfall (+4 basis points);
  - Portfolio data review (-2 basis points); and
  - Higher non-credit risk RWA (-10 basis points), due to interest rate risk in the banking book and Operational RWA more than offsetting declining Market RWA.
- Increase in investment/profit retention in funds management businesses, associates and commercial operations excluding the impact of exchange rate movements (-24 basis points).
- Other items (net -7 basis point) including movement in capitalized software expense (-12 basis points), impact of exchange rate movements (-3 basis points) principally on hybrid Tier 1 instruments, offset by movement in net deferred tax assets (+2 basis points), pension deficit (+2 basis points) and other items (+4 basis points).

Acquisitions and Investments -40 basis points

- Acquisition of selected Asian assets from Royal Bank of Scotland (-23 basis points).
- Refinancing of OnePath Australia wealth management and life insurance entity funding by ANZ (-9 basis points).
- Further investment in Shanghai Rural Commercial Bank (-5 basis points) and a commitment to further invest in Bank of Tianjin (-3 basis points).

Hybrid capital and Tier 1 capital

ANZ raises hybrid Tier 1 capital to further strengthen the Group's capital base and supplement its Core 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 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 2011, ANZ's hybrid usage and instrument details were as follows:

Instrument	$M	% of Net Tier 1 capital	Limit	Amount in issue currency	Accounting classification	Interest rate
UK Hybrid	701			£450 million	Debt	Coupon 6.54%
ANZ Convertible Preference Shares	1,081			$1,081 million	Debt	90 day BBSW + 2.50% (gross pay equivalent)
ANZ Convertible Preference Shares II	1,969			$1,969 million	Debt	90 day BBSW + 3.10% (gross pay equivalent)
Non-innovative instruments	**3,751**					
Euro Trust Securities	871			€500 million	Equity	Euribor (3 month) + 0.66%
US Stapled Trust Security	726			USD750 million	Debt	Coupon: 5.36%
Innovative instruments	**1,597**	**5.8%**	**15%**			
Residual Tier 1 capital	**5,348**	**19.3%**	**25%**			

Regulatory change (Basel III)

The Basel Committee on Banking Supervision has released a series of consultation papers (Basel III) containing a number of proposals to strengthen the global capital and liquidity framework to improve the banking sector's ability to absorb shocks arising from financial and economic stress.

The consultation papers aim to increase the quality, quantity, consistency, and transparency of the capital base, whilst strengthening the risk coverage of the capital framework by:

- Increasing the minimum level of capital, with new minimum capital targets for Core Tier 1 (4.5%), Tier 1 (6.0%) and Total Capital (8.0%) to be phased in between 2013 and 2015;

- Increasing the capital buffers that banks are required to hold for stress scenarios and to dampen the impact of pro-cyclical elements of the prudential regulations. A capital conservation buffer of 2.5% and a counter-cyclical buffer of 0.0% to 2.5% will be phased in between 2016 and 2019. Failure to maintain the full capital buffers will result in limitations on the amount of current year earnings that can be paid as discretionary bonuses, and to Tier 1 and Tier 2 investors as coupons and capital returns;
- Increasing Tier 1 deductions, although a number of the proposals are consistent with the current APRA prudential standards;
- Increasing the focus on Fundamental Tier 1 capital and tightening the regulations for Hybrid Tier 1 and Tier 2 capital instruments, including a proposal that at the time of 'non-viability' these instruments will be written off, with any potential compensation for investors limited to an issuance of ordinary shares. Existing Tier 1 and Tier 2 instruments that do not have these requirements will be phased out between 2013 and 2022. These proposals are to be supplemented, by yet to be released details around 'contingent capital' and 'bail in' instruments, which may not initially be prudential capital, but are converted in part or in full into Fundamental Tier 1 capital at predetermined trigger points;
- Supplementing the risk adjusted capital ratio targets with the introduction of a minimum leverage ratio (Tier 1 capital divided by Adjusted Total Assets including off balance sheet exposures) of 3.0% between 2013 and 2018;
- Introducing measures (yet to be released) to address the impact of systematic risk and inter connectedness risk;
- Improving transparency of reporting capital ratio calculations in the financial statements; and
- Increasing the capital requirements for traded market risk, credit risk, and securitization transactions.

With the Basel Committee releasing most of these proposals in final form in December 2010, APRA is expected to engage the Australian banking and insurance industry ahead of the development and publication of draft revised Australian prudential standards in the middle of 2011. Final revised Australian prudential standards are expected in 2012 for implementation in 2013. Until the draft Australian prudential standards are issued, it is not possible to accurately determine the impacts associated with these reforms on ANZ, including revised operating capital targets.

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 11	Sep 10	Mar 10	Mar 11	Sep 10	Mar 10
	$M	$M	$M	$M	$M	$M
Australia	629	606	561	301	313	345
Asia Pacific, Europe & America	-	1	1	57	51	40
New Zealand	32	42	50	40	38	40
Total	661	649	612	398	402	425

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

	Half Year Mar 2011		Half Year Sep 2010	
	Amortization charge	Capitalized costs[1]	Amortization charge	Capitalized costs[1]
	$M	$M	$M	$M
Australia	159	182	147	192
Asia Pacific, Europe & America	1	-	-	-
New Zealand	21	11	18	10
Total	181	193	165	202

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

Software capitalization

At March 31, 2011, the Group's intangibles included $1,349 million in relation to costs incurred in acquiring and developing software. Details are set out in the table below:

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Balance at start of period	1,217	1,034	849	18%	43%
Software capitalized during the period	277	310	282	-11%	-2%
Amortization during the period	(122)	(121)	(86)	1%	42%
Software impaired/written-off	(23)	(6)	(11)	large	large
Total software capitalization	1,349	1,217	1,034	11%	30%

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 Modelling 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 behaviour that offshore and domestic wholesale funding markets can exhibit during market stress events. ANZ's liquidity scenario modelling 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 modelled 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').

  We believe 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 cash and other securities to satisfy local country regulatory liquidity requirements; and
  - Secondary sources of liquidity such as highly liquid instruments in trading portfolios.

  These other assets are not included in the prime liquidity portfolio outlined below:

Prime liquidity portfolio (Market Values)[1]	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M
Australia	24,900	20,974	20,563
New Zealand	8,447	7,547	8,506
United States	1,229	1,275	1,390
United Kingdom	2,207	2,183	2,521
Asia	2,019	4,204	3,564
Internal RMBS (Australia)	24,544	26,657	22,696
Internal RMBS (New Zealand)	3,705	3,812	3,937
Total	67,051	66,652	63,177

Long term counterparty Credit Rating as at March 31, 2011[2]	Market Value (post haircut) $M
AAA	54,725
AA+	5,073
AA	6,234
AA-	732
A+	195
A	92
Total	67,051

1. Market value is post the repo discount applied by the applicable central bank.
2. Where available, based on Standard & Poor's long-term credit ratings.

Funding composition

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.

The Group's funding profile improved during the March 2011 half as customer deposits and other funding liabilities increased by 5% to $280.5 billion and now represents 60% of all funding, an increase of 2% from September 2010.

Term wholesale debt (with a remaining term greater than one year) of $11.7 billion was issued during the March 2011 half. An additional $2.4 billion of term debt was pre-funded during full-year 2010, taking total term debt issued for the 2011 financial year to $14.1 billion which represents approximately 70% of the full year target. As at March 2011, term wholesale funding represented 15% of total funding, a decrease of 1% from September 2010 (partly due to 2011 financial year pre-funding completed during the 2010 financial year).

ANZ maintained access to all major term wholesale funding markets with benchmark term debt issues executed in AUD, USD, JPY, CHF and NZD. The weighted average tenor of new term debt issuance was 4.5 years (from 4.7 years in 2010). Short-term wholesale funding markets continue to function effectively, both locally and offshore.

The weighted average cost of new term debt issuance remained constant relative to 2010. Average portfolio costs remain substantially above pre-crisis levels and continue to increase as maturing term wholesale funding is replaced at higher spreads.

Over the last twelve months continued customer deposit growth and the relative stability of term debt issuance has allowed ANZ to reduce the proportion of total funding sourced from short-term wholesale funding markets: at March 2011, short-term wholesale funding represented 11% of total funding, down from 14% at March 2010.

The following table shows the Group's funding composition at March 31, 2011:

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Customer deposits and other liabilities[1]					
Australia	168,090	164,795	151,438	2%	11%
Asia Pacific, Europe & America	54,389	47,699	40,835	14%	33%
New Zealand	46,226	45,470	45,939	2%	1%
Total customer deposits[2]	268,705	257,964	238,212	4%	13%
Other[2]	11,755	9,113	9,196	29%	28%
Total customer deposits and other liabilities (funding)	280,460	267,077	247,408	5%	13%
Wholesale funding					
Unsubordinated debt	58,526	59,714	58,390	-2%	0%
Loan capital	11,665	12,316	13,513	-5%	-14%
Certificates of deposit	51,513	39,530	44,695	30%	15%
Liability for acceptances	577	11,495	12,510	-95%	-95%
Commercial paper issued	10,769	11,641	16,525	-7%	-35%
Due to other financial institutions	20,415	20,521	16,068	-1%	27%
Other wholesale borrowings[3]	2,735	2,140	2,325	28%	18%
Total wholesale funding	156,200	157,357	164,026	-1%	-5%
Shareholders' equity (excl preference shares)	34,258	33,284	31,712	3%	8%
Total funding	470,918	457,718	443,146	3%	6%
Wholesale funding					
Short term wholesale funding	53,002	52,989	62,799	0%	-16%
Long term wholesale funding[4]					
- Less than 1 year residual maturity	26,736	26,779	23,280	0%	15%
- Greater than 1 year residual maturity	71,052	72,065	72,395	-1%	-2%
Hybrid capital including preference shares	5,410	5,524	5,552	-2%	-3%
Total wholesale funding and preference share capital excluding shareholders' equity	156,200	157,357	164,026	-1%	-5%
Total funding maturity					
Short term wholesale funding	11%	12%	14%		
Long term wholesale funding[4]					
- Less than 1 year residual maturity	6%	6%	5%		
- Greater than 1 year residual maturity	15%	16%	17%		
Total customer liabilities (funding)	60%	58%	56%		
Shareholders' equity and hybrid debt[5]	8%	8%	8%		
Total funding and shareholders' equity[5]	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.
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.
5. Shareholders' equity excludes preference share capital.

Term debt maturity profile

Year of maturity	2011 $M	2012 $M	2013 $M	2014 $M	>2011 $M
Senior term debt	8,558	13,313	18,778	7,259	19,819
Government guaranteed term debt	756	9,197	420	7,962	77
Subordinated and perpetual debt	1,484	2,166	2,171	1,004	1,691
Total	10,798	24,676	21,369	16,225	21,587

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 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Impaired loans	5,203	6,075	5,330	-14%	-2%
Restructured items	704	141	560	large	26%
Non-performing commitments and contingencies	314	345	671	-9%	-53%
Gross impaired assets	6,221	6,561	6,561	-5%	-5%

- **Comparison with September 2010 half**

Gross impaired assets decreased $340 million (5%), mainly due to an overall reduction in the level of new and increased impaired assets. The increase in restructured items of $563 million reflected downgrades to productive loans and upgrades to impaired loans during the March 31, 2011 half year.

Net impaired assets decreased $182 million (4%). The Group has an individual provision coverage ratio of 28%, reflecting a prevalence of well secured exposures within impaired assets.

- **Comparison with March 2010 half**

Gross impaired assets decreased $340 million (5%), mainly due to an overall reduction in the level of new and increased impaired assets. The increase in restructured items of $144 million (26%) reflected downgrades to productive loans and upgrades to impaired loans during the March 31, 2011 half year.

Net impaired assets decreased $464 million (9%). The Group has an individual provision coverage ratio of 28%, reflecting a prevalence of well secured exposures within impaired assets.

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M
Total gross impaired loans	5,203	6,075	5,330
Subject to specific provision for credit impairment	4,994	5,892	5,142
Without specific allowance for loan losses	209	183	188

Gross impaired loans	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Australia	2,993	3,837	3,673	-22%	-19%
Asia Pacific, Europe & America	645	687	317	-6%	large
New Zealand	1,565	1,551	1,340	1%	17%
Total gross impaired loans	5,203	6,075	5,330	-14%	-2%

	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
New and increased non-performing loans[1]					
Australia	1,052	1,578	1,941	-33%	-46%
Asia Pacific, Europe & America	145	100	224	45%	-35%
New Zealand	617	813	876	-24%	-30%
Total new and increased non-performing loans	1,814	2,491	3,041	-27%	-40%

1. Excludes impaired loans acquired from acquisitions.

Impaired loans – five half year summary

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	As at Sep 09 $M	As at Mar 09 $M
Gross impaired loans subject to specific provision					
Australia	2,856	3,717	3,522	3,110	2,763
Asia Pacific, Europe & America	580	630	289	145	99
New Zealand	1,558	1,545	1,330	923	489
Total	4,994	5,892	5,141	4,178	3,351
Individual provisions for credit impairment	(1,717)	(1,875)	(1,593)	(1,526)	(1,341)
Net exposure	3,277	4,017	3,548	2,652	2,010
Gross impaired loans not subject to specific provision					
Australia	137	120	151	123	207
Asia Pacific, Europe & America	65	57	28	41	119
New Zealand	7	6	9	50	14
	209	183	188	214	340
Net impaired loans	3,486	4,200	3,736	2,866	2,350
Gross impaired loans					
Australia	2,993	3,837	3,673	3,232	2,969
Asia Pacific, Europe & America	645	687	317	187	218
New Zealand	1,565	1,551	1,340	973	504
Total	5,203	6,075	5,330	4,392	3,691
Individual provisions for credit impairment	(1,717)	(1,875)	(1,593)	(1,526)	(1,341)
Net impaired loans	3,486	4,200	3,737	2,866	2,350
Ratio of individual provision for credit impairment to gross impaired loans	33.0%	30.9%	29.9%	34.7%	36.3%

Restructured items

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Australia	658	134	243	large	large
Asia Pacific, Europe & America	-	-	311	n/a	-100%
New Zealand	46	7	6	large	large
Total restructured items[1]	704	141	560	large	26%

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 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Australia	276	312	592	-12%	-53%
Asia Pacific, Europe & America	3	9	1	-67%	large
New Zealand	35	24	78	46%	-55%
Gross impaired commitments and contingencies	314	345	671	-9%	-53%

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

	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Australia	1,611	1,234	1,162	31%	39%
Asia Pacific, Europe & America	98	83	75	18%	31%
New Zealand	247	238	286	4%	-14%
Total	1,955	1,555	1,523	26%	28%

Provision for credit impairment

Individual provision balance	As at Mar 11 $M	As at Sep 10 $M	As at Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Australia	938	977	1,009	-4%	-7%
Asia Pacific, Europe & America	373	429	113	-13%	large
New Zealand	406	469	471	-13%	-14%
Total individual provision	1,717	1,875	1,593	-8%	8%

Collective provision	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
Balance at start of period	3,153	3,037	3,000	4%	5%
Charge/(credit) to income statement	65	(40)	36	large	81%
Provisions acquired	-	191	49	-100%	-100%
Adjustment for exchange rate fluctuations	(41)	(35)	(48)	17%	-15%
Total collective provision	3,177	3,153	3,037	1%	5%
Individual provision					
Balance at start of period	1,875	1,593	1,526	18%	23%
Charge to income statement for loans and advances	594	744	1,026	-20%	-42%
Provisions acquired	-	355	39	-100%	-100%
Adjustment for exchange rate fluctuations	(43)	(68)	(32)	-37%	34%
Discount unwind	(103)	(104)	(61)	-1%	69%
Bad debts written-off	(703)	(730)	(963)	-4%	-27%
Recoveries of amounts previously written-off	97	85	58	14%	67%
Total individual provision	1,717	1,875	1,593	-8%	8%
Total provision for credit impairment	4,894	5,028	4,630	-3%	6%

Provision movement analysis	Half year Mar 11 $M	Half year Sep 10 $M	Half year Mar 10 $M	Movt Mar 11 v. Sep 10 %	Movt Mar 11 v. Mar 10 %
New and increased provisions:					
Australia	651	724	896	-10%	-27%
Asia Pacific, Europe & America	91	80	91	14%	0%
New Zealand	222	260	299	-15%	-26%
	964	1,064	1,286	-9%	-25%
Provision releases	(273)	(235)	(202)	16%	35%
	691	829	1,084	-17%	-36%
Recoveries of amounts previously written-off	(97)	(85)	(58)	14%	67%
Individual provision charge for loans and advances	594	744	1,026	-20%	-42%
Impairment on available-for-sale assets	16	1	20	large	-20%
Collective provision charge/(credit) to income statement	65	(40)	36	large	81%
Charge to income statement	675	705	1,082	-4%	-38%

Concentrations of credit risk / loans and advances by industry category

Although ANZ's loan portfolio is spread across many countries, as at March 31, 2011 74% of gross loans and advances were booked in Australia (September 2010: 72%; March 31, 2010: 72%), and 19% were booked in New Zealand (September 2010: 21%; March 31, 2010: 22%). 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 March 31, 2011, ANZ's largest credit exposure in Australia was in the category 'Personal Lending' (63%), which includes consumer lending secured by a mortgage. Over the past half year, growth was recorded in ANZ's Mortgages Australia portfolio (4%) 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, low risk credit portfolios focused on achieving the best 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. Risk management 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. Analysis and reporting of concentration risk is a core focus of Divisional & Group risk functions and where appropriate, the Group applies 'concentration' controls.

Section 4: Directors, senior management/executives and employees

Refer to "Section 4: Directors, senior management/executives and employees" on pages 78 to 102 of ANZ's 2010 Annual U.S. Disclosure Document for a discussion of the Group's directors, senior management and executives, and corporate governance.

During the period from November 15, 2010 (the date of our 2010 Annual U.S. Disclosure Document) to the date of this U.S. Disclosure Document, there were no material changes to these matters.

Section 5: Major shareholders and related party transactions

Major shareholders

ANZ is 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 April 30, 2011, we know of no person who is the beneficial owner of 5% or more of our ordinary shares based upon independent share registry records. 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 sections contained in our 2010 Annual Report (annexed to ANZ's 2010 Annual U.S. Disclosure Document).

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 U.S. 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 21 of the 2011 Half Year Condensed Consolidated Financial Statements (attached as Annex A to this U.S. Disclosure Document).

Section 6: Additional information

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 2011 Half Year Condensed Consolidated Financial Statement (attached as Annex A to this U.S. Disclosure Document) for a discussion of legal proceedings as at March 31, 2011.

Dividend distribution policy

The 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 2011 interim 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 2011 interim 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. Directions given by the Reserve Bank of Australia in accordance with the Banking (Foreign Exchange) Regulations 1959 in respect of foreign currency transactions involving the transfer of property, securities, or funds owned or controlled by, or payments either to (or for the benefit of) or by (or on behalf of) certain persons or entities from time to time, including the following persons and entities:

(a) Specified supporters of the former government of the Federal Republic of Yugoslavia (the Milosevic regime);
(b) Specified ministers and senior officials of the Government of Zimbabwe;
(c) Certain entities or an individual associated with the Democratic People's Republic of Korea (North Korea);
(d) Specified individuals associated with the Burmese regime;
(e) Specified certain Iranian entities and persons; and
(f) Certain key persons associated with the Qadhafi regime in Libya.

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 Acquisitions and Takeovers Act 1975 (the 'Foreign Takeovers Act'). The Foreign Takeovers Act applies (subject to certain monetary thresholds) to, amongst 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 issued 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 ANZ's 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, Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in voting shares in a company if, because of a 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 that person had voting power in the company of at least 19% throughout the 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 if any person already has a substantial holding and there is movement of at least 1% in their holding, 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, other than in the ordinary course of its business, upon which it is substantially dependent.

Glossary

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.

Equity standardization Risk adjusted capital is allocated and charged against business units. Equity standardized profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance.

Exception fees are fees which may be charged when there are insufficient funds to cover a transaction, resulting in a dishonor or an approval to overdraw the account, when a credit card limit is exceeded or when a credit card payment is late.

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

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

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

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

Operating income includes net interest and other operating income.

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

Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of 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 A – Condensed Consolidated Financial Statements for the half year ended March 31, 2011