2013

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2013

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

The date of this 2013 Half Year U.S. Disclosure Document is May 8, 2013.

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All references in this document to this “U.S. Disclosure Document” should be read as referring to this 2013 Half Year U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal half year ended March 31, 2013 (and includes the Annex attached hereto).

This U.S. Disclosure Document is dated May 8, 2013. All references in this document to “the date of this U.S. Disclosure Document” are to May 8, 2013.

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

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

ANZ is one of the four major banking groups headquartered in Australia. As of March 31, 2013, ANZ ranked fourth among Australian banking groups in terms of total assets and had a strong 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 (“ASX”). As of March 31, 2013, ANZ was ranked among the top five largest companies listed on the ASX in terms of market capitalization.

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ’s business and operations, as well as its financial position, as of March 31, 2013, 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 2013 Half Year Condensed Consolidated Financial Statements (including the independent auditor’s review report thereon and the notes thereto), as prepared and filed by the Company with the ASX in accordance with its rules, are attached to this U.S. Disclosure Document as the Annex.

Forward-looking statements

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

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

- adverse conditions in global debt and equity markets;
- general economic conditions in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we operate;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly those arising from global financial turmoil, including more stringent liquidity and capital requirements;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the Asia Pacific region and other jurisdictions in which we operate;
- the effects of competition in the geographic and business environments in which we operate;
- our ability to adjust to and compete in the Asian geographic markets in which we operate or are seeking to operate;
- the ability to maintain or increase market share and control expenses;
- the timely development and acceptance of new products and services, and the perceived overall value of these products and services by users;
- technological changes;
- operational and environmental factors such as 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 disposals;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses we may experience as a result;
- adverse impact on our customers and counterparties, including the impact on our natural resource customers of a slowdown in natural resource exports to Asia, the impact on our agricultural and tourism customers of continued strengthening of the Australian dollar and the impact on our financial customers of the continuing financial and credit turmoil in Europe and the United States;
- 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 Section 2: Information on the Group - Risk Factors.

Selected financial data

The consolidated balance sheets as of March 31, 2013, September 30, 2012 and March 31, 2012, and income statement data for the fiscal half years ended March 31, 2013, September 30, 2012 and March 31, 2012 have been based on the Group’s “*Condensed Consolidated Financial Statements*” (the “Condensed Consolidated Financial Statements”). The Group’s 2013 Half Year Condensed Consolidated Financial Statements (including the independent auditor’s review report thereon and the notes thereto) are attached to this U.S. Disclosure Document as the Annex.

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

Amounts in this U.S. Disclosure Document are presented in Australian dollars unless otherwise stated. Amounts reported in United States Dollars (“USD”) have been translated at the March 31, 2013 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$1.0409 = AUD$1.00. For further information on the currency of presentation on this U.S. Disclosure Document refer to page 21.

Summary of consolidated statement of income

	Half year			
	Mar 13 USD $M[1]	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Interest income	14,912	14,326	15,098	15,440
Interest expense	(8,458)	(8,126)	(8,972)	(9,456)
Net interest income	6,454	6,200	6,126	5,984
Net funds management and insurance income	724	696	626	577
Share of associates' profit	220	211	229	166
Other operating income	1,897	1,823	1,913	2,090
Operating income	9,295	8,930	8,894	8,817
Operating expenses	(4,199)	(4,034)	(4,386)	(4,133)
Profit before credit impairment and income tax	5,096	4,896	4,508	4,684
Provision for credit impairment[2]	(612)	(588)	(660)	(538)
Profit before income tax	**4,484**	**4,308**	**3,848**	**4,146**
Income tax expense[3]	(1,419)	(1,363)	(1,104)	(1,223)
Profit for the period	3,065	2,945	2,744	2,923
Profit attributable to non-controlling interests	(5)	(5)	(2)	(4)
Profit attributable to shareholders of the Company	**3,060**	**2,940**	**2,742**	**2,919**
Non-interest income as a % of operating income[4]	30.6%	30.6%	31.1%	32.1%
Dividends on ordinary shares	2,202	2,115	1,736	1,955
Earnings per fully paid ordinary share (cents)				
Basic	113	109	103	111
Diluted	110	105	99	106
Ordinary share dividend payout ratio (%)[5]	68.2%	68.2%	78.5%	60.8%
Dividend per ordinary share (cents)	76	73	79	66

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2013 Noon Buying rate applied in this document.*
2. *The provision for credit impairment charge represents the individual and collective provision charge.*
3. *Includes income tax expense attributable to income relating to policyholder income and contributions tax gross up in respect of ANZ Wealth Australia Limited and OnePath New Zealand Limited.*
4. *Non-interest income comprises net funds management and insurance income, share of associates' profit and other operating income.*
5. *The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference share dividends paid. The dividend payout ratio calculation is based on the following dividend payments:*

Proposed 2013 Interim dividend	***Actual Dividend Paid Sep 2012 half***	***Actual Dividend Paid March 2012 half***
$2,003 million (not included in table above)	*$2,150 million*	*$1,769 million*

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

Summary of consolidated balance sheet

	As at			
	Mar 13 USD $M[1]	Mar 13 $M	Sep 12 $M	Mar 12 $M
Shareholders' equity[2]	44,203	42,466	41,171	39,394
Subordinated debt	12,143	11,666	11,914	12,605
Bonds and notes	62,689	60,226	63,098	61,107
Deposits and other borrowings	437,671	420,474	397,123	383,141
Gross loans and advances[3,4]	464,545	446,292	432,361	417,336
Less: Individual provision for credit impairment	(1,606)	(1,543)	(1,773)	(1,714)
Less: Collective provision for credit impairment	(2,882)	(2,769)	(2,765)	(2,994)
Net loans and advances	460,057	441,980	427,823	412,628
Total assets	700,135	672,625	642,127	612,212
Net assets	44,258	42,519	41,220	39,443
Risk weighted assets[5]	335,776	322,582	300,119	284,836
Summary of consolidated ratios				
Net profit after income tax as a percentage of:				
Average total assets	0.9%	0.9%	0.9%	1.0%
Average shareholders' equity[2]	14.4%	14.4%	13.7%	15.6%
Average ordinary shareholders' equity as a percentage of average total assets	12.5%	12.5%	12.4%	12.2%
Ratio of earnings to fixed charges[6]	52.6%	52.6%	42.6%	43.5%
Capital adequacy ratios:[5]				
Common Equity Tier 1	8.2%	8.2%	8.8%	8.9%
Tier 1	9.8%	9.8%	10.8%	11.3%
Tier 2	1.9%	1.9%	1.4%	1.3%
Total	11.7%	11.7%	12.2%	12.6%
Number of ordinary shares on issue (millions)	2,743.7	2,743.7	2,717.4	2,679.5

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2013 Noon Buying rate applied in this document.*
2. *Excludes non-controlling interests.*
3. *Net of unearned income and including capitalized brokerage/mortgage origination fees and customers' liability for acceptances.*
4. *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.*
5. *Risk weighted assets and Capital adequacy ratios are calculated using Basel 3 methodology for March 2013 and Basel 2 methodology for September 2012 and March 2012.*
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 13 USD $M[1]	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**	**Sep 11 $M**	**Mar 11 $M**
Gross impaired assets:						
Impaired assets - subject to provision for credit impairment	3,761	3,613	4,011	4,322	4,376	4,784
Without provision for credit impairment:						
Impaired loans	380	365	353	342	274	419
Restructured items	546	524	525	340	700	704
Non-performing commitments and contingencies	190	183	307	339	231	314
Total gross impaired assets	**4,877**	**4,685**	**5,196**	**5,343**	**5,581**	**6,221**
Provision for credit impairment:						
Individual provision - impaired loans	1,580	1,518	1,729	1,701	1,687	1,700
Individual provision - non-performing commitments and contingencies	26	25	44	13	10	17
Collective provision	2,882	2,769	2,765	2,994	3,176	3,177
Total provision for credit impairment	**4,488**	**4,312**	**4,538**	**4,708**	**4,873**	**4,894**
Total gross loans and advances[2,3]	**464,545**	**446,292**	**432,361**	**417,336**	**402,180**	**384,283**
Gross impaired assets as a percentage of gross loans and advances	1.0%	1.0%	1.2%	1.3%	1.4%	1.6%
Individual provision for credit impairment as a percentage of gross impaired assets	32.9%	32.9%	34.1%	32.1%	30.4%	27.6%
Total provision for credit impairment as a percentage of:						
Gross loans and advances[2,3]	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%
Credit risk weighted assets[4]	1.6%	1.6%	1.8%	1.9%	2.0%	2.1%

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2013 Noon Buying rate applied in this document.*
2. *Net of unearned income and including capitalized brokerage/mortgage origination fees and customers' liability for acceptances.*
3. *Loans and advances are disclosed in the balance sheet net of individual and collective provisions. For ease of presentation gross amounts are shown here.*
4. *Credit risk weighted assets are calculated using Basel 3 methodology for March 2013 and Basel 2 methodology for September 2012 through March 2011. The change from Basel 2 to Basel 3 on January 1, 2013 increased risk weighted assets by $15.2 billion at that date.*

Results by Division

The Group operates on a divisional structure, with Australia, International and Institutional Banking ("IIB"), New Zealand and Global Wealth being the operating divisions.

Effective October 1, 2012, the assets and results of Corporate Banking Australia transferred to the Australia division from IIB, and comparatives have been restated accordingly.

Assets, liabilities, income and profit before tax

	Half year						
Division[1]	**Mar 13 USD $M**[2]	**Mar 13 $M**	**%**	**Sep 12 $M**	**%**	**Mar 12 $M**	**%**
Total assets							
Australia	275,811	264,974	40%	256,805	40%	250,514	41%
International and Institutional Banking	296,512	284,861	42%	266,886	42%	245,861	40%
New Zealand	76,062	73,073	11%	71,913	11%	68,946	11%
Global Wealth	49,154	47,223	7%	45,353	7%	45,175	8%
Other	2,596	2,494	0%	1,170	0%	1,716	0%
	700,135	**672,625**	**100%**	**642,127**	**100%**	**612,212**	**100%**
Total liabilities							
Australia	168,758	162,127	26%	158,289	26%	148,340	26%
International and Institutional Banking	253,584	243,620	39%	228,345	38%	207,041	36%
New Zealand	60,619	58,237	9%	57,938	10%	54,569	10%
Global Wealth	50,597	48,609	8%	46,247	8%	45,940	8%
Other[3]	122,319	117,513	18%	110,088	18%	116,879	20%
	655,877	**630,106**	**100%**	**600,907**	**100%**	**572,769**	**100%**
Income[4]							
Australia	9,269	8,905	52%	9,378	52%	9,640	53%
International and Institutional Banking	5,376	5,165	30%	5,340	30%	5,400	30%
New Zealand	2,407	2,312	14%	2,305	13%	2,296	12%
Global Wealth	874	839	5%	817	5%	826	4%
Other	(172)	(165)	-1%	26	0%	111	1%
	17,754	**17,056**	**100%**	**17,866**	**100%**	**18,273**	**100%**
Profit before tax							
Australia	2,101	2,018	47%	1,895	50%	1,817	44%
International and Institutional Banking	1,708	1,641	38%	1,323	34%	1,584	38%
New Zealand	576	553	13%	440	11%	446	11%
Global Wealth	288	277	6%	219	6%	250	6%
Other	(189)	(181)	-4%	(29)	-1%	49	1%
	4,484	**4,308**	**100%**	**3,848**	**100%**	**4,146**	**100%**

1. *For discussion of the operating results for each division see 'Section 3: Operating and financial review - Results by division'.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2013 Noon Buying rate applied in this document.*
3. *Other external liabilities includes a major proportion of the Group's wholesale funding within Group Treasury.*
4. *Income consists of interest income and non-interest income (comprising net income from wealth management, insurance income and other operating income).*

Overview

ANZ is one of the four major banking groups headquartered in Australia. ANZ 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, 2013, ANZ had a market capitalization of approximately $78.3 billion. As at March 31, 2013, ANZ had total assets of $672.6 billion, and shareholders' equity of $42.5 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 of America.

Principal activities of segments

Refer to the Glossary on pages 62 to 64 for a description of principal activities by segment for 2013 half year reporting purposes. Except for the Corporate Banking Australia transfer (refer page 6), the segments disclosed in this U.S. Disclosure Document for the 2013 half year are unchanged from those reported by ANZ at September 30, 2012 (as described in the 2012 Annual U.S. Disclosure Document dated November 16, 2012) and consistent with how the business was managed and reported to the Chief Operating Decision Maker (ANZ's Chief Executive Officer) during the reporting period.

The Group's strategic priorities

ANZ is executing a focused strategy to build the best connected, most respected bank across the Asia Pacific region.

ANZ is pursuing significant organic growth opportunities in the Asia Pacific region, focused primarily on corporate and financial institutions, and with its strong domestic businesses in Australia and New Zealand, and its distinctive footprint and super regional connectivity, ANZ is uniquely positioned to meet the needs of customers, who are increasingly linked to regional capital, trade and wealth flows.

Management continues to respond to the changing and challenging conditions in different markets. While ANZ's is primarily a growth strategy, in the light of subdued market conditions and an evolving regulatory environment, it is recognized that the focus should be on both growth and productivity. This has led to an emphasis on capital management and increased use of common infrastructure for greater responsiveness, scale and control.

ANZ's aspiration is to have 25 to 30% of ANZ Group profit after tax driven by network revenue, that is revenue sourced from outside of Australia and New Zealand. ANZ has made good progress towards this aspiration, with Asia Pacific, Europe and America ("APEA") network revenue representing 20% of Group revenues for the half year ending March 31, 2013. Ongoing productivity improvements and capital management initiatives remain central to our strategy.

Medium to Long Term Strategic Goals

ANZ 's objective is to deliver above-peer earnings growth with strong capital and expense disciplines, targeting a 200 basis points improvement in the ANZ Group cost to income ratio from the year ended September 30, 2012 to the year ended September 30, 2014 and increasing return on equity from current levels.

To do this the ANZ Group proposes to take the following action:

- Focus the ANZ Group's Asian expansion primarily on corporate and financial institutions, supporting its Australian and New Zealand customers, targeting profitable markets and segments in which the ANZ Group has expertise and which are connected through trade and capital flows while building our niche Retail business for liquidity and efficiency.
- Further strengthen its position in the ANZ Group's core markets of Australia and New Zealand.
- Use common infrastructure and platforms for greater responsiveness, scale and control.
- Maintain strong liquidity and actively manage capital to enhance return on equity.
- Build on ANZ Group's super regional capabilities – utilizing management bench-strength and continuing to deepen the international talent pool.
- Apply strict acquisition criteria when reviewing inorganic opportunities.

Recent developments

On April 3, 2013 ANZ announced the resignation of Alex Thursby, CEO International and Institutional Banking. In line with ANZ's succession planning process the Bank will evaluate internal and external candidates. During that time, Gilles Plante, CEO Asia Pacific and Steve Bellotti, Managing Director, Global Markets and Loans will assume Mr. Thursby's responsibilities and commenced reporting to ANZ Chief Executive Officer, Mike Smith on an interim basis from May 1, 2013.

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 ("RBA"). The RBA has retained overall responsibility for monetary policy, financial system stability and payments system regulation. APRA draws authority from the Australian Prudential Regulation Authority Act 1998.

APRA requires ADIs to meet certain prudential requirements that are covered in a range of APRA Prudential Standards.

APRA discharges its responsibilities in part by requiring ADIs subject to its supervision to regularly provide it with reports which set forth a broad range of information, including financial and statistical data relating to their financial position, and information in respect of prudential and other matters. APRA gives special attention to capital adequacy, liquidity, earnings, credit quality and associated loan loss experience, concentration of risks, the maturity profile of assets and liabilities, operational risks, market risks, interest rate risk in the banking book, exposures to related entities, outsourcing, funds management, securitization activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition. Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), it can take control of the ADI's business, including by appointment of an ADI statutory manager. A counterparty to a contract with an ADI cannot rely solely on the fact that an ADI statutory manager is in control of the ADI's business as a basis for denying any obligations to the ADI or for accelerating any debt under that contract or closing out any transaction relating to that contract.

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

Capital Management and Adequacy and Liquidity within APRA's Regulations

For further details of the ANZ Group's capital management and adequacy, liquidity and APRA's regulatory environment refer to pages 42 to 49 of Section 3: Operating and Financial Review - Capital Management and Liquidity risk of this U.S. Disclosure Document.

Capital

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

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

Effective January 1, 2013, APRA has fully adopted the majority of Basel 3 capital reforms in Australia. These APRA Basel 3 reforms include; a move to full capital deductions from Common Equity Tier 1 ("CET1") capital, an increase in capitalization rates (although prescribed minimum capital buffers will not operate until January 1, 2016), tighter requirements around new Additional Tier 1 and Tier 2 securities, (principally around converting to CET1 capital at point of non-viability upon APRA's direction), and transitional arrangements for existing Additional Tier 1 and Tier 2 securities that do not conform to the new regulations. Other changes include increased capital requirements for counterparty credit risk and asset value correlation with respect to exposures to large and unregulated financial institutions.

Level 3 Conglomerates ("Level 3")

APRA has announced that it will proceed with implementing Level 3 Conglomerates framework on January 1, 2014, with draft Level 3 capital adequacy standards expected to be released in the second quarter of 2013. The standards will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional reporting on risk exposure levels. Based upon APRA's March 2010 Discussion Paper, and draft prudential standards covering group governance and risk exposures released in December 2012, ANZ is not expecting any material impact on its operations.

Liquidity

ANZ's liquidity and funding risks are governed by a detailed policy framework which is approved by the Board of Directors. The management of the liquidity and funding positions and risks is overseen by the Group Asset and Liability Committee ("GALCO"). In addition to the policy framework, ANZ maintains a Liquidity Crisis Contingency Plan, which details the identification, escalation and management procedures in the event of a liquidity crisis.

ANZ manages liquidity and funding risk using various reporting and modeling techniques, including but not limited to the following:

- Name Crisis scenario modeling: ANZ requires that it remains cash flow positive under stressed "name-crisis" scenarios, whereby a proportion of deposits are assumed to be withdrawn by customers and ANZ's access to wholesale capital markets is severely restricted. These stresses capture "name-crisis" scenarios under both normal and stressed financial market conditions.

- Funding Market Stress scenario modeling: ANZ requires that it remains cash flow positive for an extended period of time under stressed funding market scenarios, whereby access to wholesale funding markets is severely restricted. These stresses capture both global and offshore specific funding market disruptions.
- Normal Business Conditions scenario modeling: ANZ monitors its expected liquidity position under normal conditions, based on statistical modeling of balance sheet behavior.
- Liquid Asset Portfolio: ANZ’s liquidity and funding risk is reduced through the holding of a portfolio of highly liquid assets. In a market stress event, these assets are pledgeable securities with the RBA and other central banks for cash.
- Wholesale Funding Maturity Concentration Limits: Maturity Concentration Limits are applied with the aim of preventing ANZ’s wholesale funding requirements from being overly reliant on large issuance over a short period. These limits require funding to be well diversified by tenor.
- Structural Liquidity Metrics: ANZ requires that a high proportion of long term assets are funded with long term and “sticky” forms of funding. These metrics aim to ensure a high level of funding sustainability, thereby reducing the vulnerability of the balance sheet to market and/or name specific stress.

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

Basel 3 liquidity changes include the introduction of two new liquidity ratios to measure liquidity risk (the Liquidity Coverage Ratio (“LCR”) and the Net Stable Funding Ratio (“NSFR”)). A component of the liquidity required under the proposed standards will likely be met via the previously announced Committed Liquidity Facility from the Reserve Bank of Australian (“RBA”), however the size and availability of the facility is not yet agreed with APRA and the RBA. While ANZ has an existing stress scenario framework and structural liquidity risk metrics and limits in place, the requirements proposed are in general more challenging. These changes may impact the future composition and size of ANZ’s liquidity portfolio, the size and composition of the Bank’s funding base and consequently could affect future profitability. The Basel Committee on Banking Supervision released changes to the Liquidity Coverage Ratio (“LCR”) in January 2013 including changes to liquid asset eligibility criteria and assumed cash outflows under a stress event (‘runoff rates’). APRA released further details on its requirements in May 2013 and has largely adopted the revised ‘runoff rates’ announced by Basel. APRA currently proposes to implement the LCR on January 1, 2015 and the NSFR on January 1, 2018 in line with the Basel Committee’s timetable for liquidity risk.

Other Regulators

In addition to APRA's prudential and regulatory supervision, ANZ and its Australian subsidiaries are 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 Centre ("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 ANZ 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 AUSTRAC.

The ANZ Group has ordinary shares listed on the Australian Securities Exchange and the New Zealand Stock Exchange, and has other equity securities and debt securities listed on these and some other overseas securities exchanges. As a result, the ANZ 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 the 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 (the "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, the ANZ Group's super regional strategy, expansion, and growth in the Asia Pacific region gives rise to a requirement to comply with a number of different legal and regulatory regimes across that region. These regulators may impose minimum capitalization requirements on those operations in their home jurisdictions.

United States of America (U.S.)

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

Those regulations impose obligations on financial institutions operating in the U.S. to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies are imposing heightened standards and U.S. law enforcement authorities have been taking a more active role. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputation consequences for the financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

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

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

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

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, over-the-counter (“OTC”) derivatives and other activities.

The so-called "Volcker Rule" provisions of the Dodd-Frank Act impose broad restrictions on proprietary trading and investing in and sponsoring private equity and hedge funds by banking organizations. The outcome of rulemaking implementing Volcker Rule restrictions could affect ANZ's domestic and international business lines accordingly.

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 OTC derivatives, including stricter capital and margin requirements, the central clearing of standardized OTC derivatives, and heightened supervision of all OTC derivatives dealers, and major market participants. In addition, if ANZ is designated as "systematically 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 the 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 imposes significant U.S. withholding taxes on “non-U.S.” financial institutions (such as ANZ and many of its subsidiaries) that fail to provide the U.S. Internal Revenue Service ("IRS") (or possibly the Australian Tax Office which would then forward the information to the IRS) with information on certain non-U.S. accounts held by U.S. persons or, in some cases, held by non-U.S. entities with substantial U.S. owners. ANZ Group is expected to make significant investments in order to comply with FATCA and its potential onerous reporting requirements. However, final regulations under FATCA have not yet been published by the IRS, Australia has not yet decided to enter into an intergovernmental agreement with the U.S. (which may modify some of FATCA's requirements), and unified market practices regarding FATCA have not yet developed. Therefore, it is possible that some or all of ANZ Group may become subject to significant U.S. withholding taxes under FATCA. Further, it is also possible that some or all of ANZ Group may be required to make significant gross-up payments to others in respect of FATCA withholding under existing or future transaction documentation.

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, 2013, the four major banking groups in Australia (ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation), held approximately 80% of the total Australian lending assets of banks that carry on business in Australia. The operations of the smaller regional banks are typically limited to servicing customers in a particular state or region, and generally have an emphasis on retail banking. A number of international banks also provide banking services in Australia, typically focusing on specific segments of the retail or institutional markets while 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 and non-bank financial institutions competing in selected markets with the four major banking groups. Non-bank financial intermediaries, such as building societies and credit unions, compete principally in the areas of accepting deposits and residential mortgage lending. Some large building societies have been granted banking authorizations under the Banking Act 1959. Specialist non-bank residential mortgage lenders and direct (non-branch) banking operations have also become more prominent in recent years.

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

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

Competitors gain recognition through the quality of their client base, perceived skill sets, client insights, reputation, and brands. In domestic markets, Institutional Banking Australia's competitors at the large corporate and institutional customer level are generally the other major Australian banks, as well as some 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 Banking Australia's key competitive strength is its focused geographic and sector experience, extensive product offering and established client base.

From 2008 to 2010 market turmoil created as a result of the global financial crisis saw lower activity by foreign banks, and an increase in net interest margins from reduced competition and appropriate repricing for risk. This followed a decline in margins over the majority of the previous 10 years. Competition intensified once again during 2011 and, in conjunction with increased funding costs and the impact of lower interest rates on earnings from capital employed in the business, has contributed to a contraction in Institutional margins since that time. In response the Institutional Australia business is focused on growing in less balance sheet intensive and more value added products such as global markets and transaction banking and reducing its reliance on traditional balance sheet lending.

The funds management industry is an area of strong competition among the four major Australian banks and Australia's insurance companies. Competition has increased as the Australian Government has encouraged long-term saving through superannuation by means of taxation concessions and the imposition of a mandatory superannuation guarantee levy on employers.

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

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

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

New Zealand

The New Zealand financial services sector in which ANZ New Zealand operate is very concentrated and also highly competitive. ANZ New Zealand's principal competitors are the three other major banks, ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. Together with ANZ New Zealand (including the New Zealand branch of ANZBGL), these banks (including the New Zealand branches of their Australian bank parents) held approximately 87% of the New Zealand banking system's assets as at December 31, 2012 and participate across all customer segments from individuals to large corporates.

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

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

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

Asia Pacific

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

The Asia Pacific region has a very strong appeal for the global and regional banks. Generally rates of economic growth are superior to those of the developed Western markets, and Asian financial systems have proven resilient through the recent financial crisis. The major global banks generally see Asia as a key market that they must succeed in to ensure a leading position in global institutional banking. Smaller regional banks are also looking for an increased share of the wholesale and commercial banking segment in Asia resulting in a further intensification of competition.

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

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

Trade Finance has been a long-standing core competency for ANZ and is an area of focus within ANZ’s Super Regional strategy. The trade finance market has seen fluctuations in the levels of competition principally driven in recent times by the participation level of European banks. As the European sovereign crisis escalated in late 2010 and early 2011 many of the European banks active in trade finance were forced to direct more of their available liquidity away from Asia and towards their home markets. This in turn resulted in a lessening of competition and a widening of margins. In 2012, however, many of these banks returned to the market aided by the additional liquidity provided through initiatives such as the European Central Banks Long Term Refinancing Operations (“LTRO”) program. This has intensified competition and seen a fall in margins.

Risk factors

1. Introduction

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

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

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

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

The global financial crisis saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the creation of many challenges for financial services institutions worldwide that still persist in many regions. Sovereign risk and its potential impact on financial institutions in Europe and globally subsequently emerged as a significant risk to the growth prospects of the various regional economies and the global economy. The impact of the global financial crisis and its aftermath (such as heightened sovereign risk) continue to affect regional and global economic activity, confidence and capital markets.

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

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

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

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

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

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

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

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

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

The previous appreciation in and continuing relatively high level of the Australian and New Zealand dollars relative to other currencies has adversely affected, and could continue to have an adverse effect on, certain portions of the Australian and New Zealand economies, including some agricultural exports, tourism, manufacturing, retailing subject to internet competition, and import-competing producers. Recently, commodity prices have fallen and the Australian and New Zealand dollars have remained high, removing some of the traditional "natural hedge" the currencies have played for commodity producers and the broader economy. A depreciation in the Australian or New Zealand dollars relative to other currencies would increase the debt service obligations in Australia or New Zealand dollar terms of unhedged exposures. Appreciation of the Australian dollar against the New Zealand dollar, the United States dollar and other currencies has a negative earnings translation effect, and future appreciation could have a greater negative impact, on the Group's results from its other non-Australian businesses, particularly its New Zealand and Asian businesses, which are largely based on non-Australian dollar revenues. The Group has put in place hedges to partially mitigate the impact of currency appreciation, but notwithstanding this, there can be no assurance that the Group's hedges will be sufficient or effective, and any further appreciation could have an adverse impact upon the Group's earnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 capital and Tier 2 capital securities) issued by ANZ (and banks globally) could be impacted from time to time by changes in the ratings methodologies used by rating agencies. Ratings agencies may also revise their methodologies in response to legal or regulatory changes or other market developments.

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

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

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

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

Global and domestic regulators have released proposals, including the Basel 3 proposals, to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities, and insurance entities. These proposals, together with any risks arising from any regulatory changes, are described below in the risk factor entitled "Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Most of the Group's daily operations are computer-based and information technology systems are essential to maintaining effective communications with customers. The exposure to systems risks includes the complete or partial failure of information technology systems or data 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, prevent unauthorized access and integrate existing and future acquisitions and alliances.

To manage these risks, the Group has disaster recovery and information technology governance in place. However, any failure of these systems could result in business interruption, customer dissatisfaction and ultimately loss of customers, financial compensation, damage to reputation and/or a weakening of the Group's competitive position, which could adversely impact the Group's business and have a material adverse effect on the Group's financial condition and operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a result of the global financial crisis, regulators have proposed various amendments to financial regulation that will affect the Group. APRA, the Basel Committee and regulators in other jurisdictions where the Group has a presence have released discussion papers and in some instances final regulations in regard 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 United States has passed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act which significantly affects financial institutions and financial activities in the United States.

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

While uncertainty remains around many proposed regulatory changes, certain final regulations promulgated by APRA will require a 100% deduction from Tier 1 Capital for minority equity interests, up from a deduction of 50% currently. ANZ currently holds minority equity interests in banks in multiple Asian jurisdictions, including Malaysia, Indonesia, China and the Philippines. This change will require ANZ, in order to maintain its Tier 1 Capital ratio, to engage in a combination of raising additional Tier 1 Capital, divesting these minority equity interests and acquiring controlling interests in the entities in which it currently holds minority equity interests.

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

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

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

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

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

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

Under Australian Accounting Standards, the Group recognizes at fair value:

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

Generally, in order to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other accepted valuation techniques. In certain circumstances, the data for individual financial instruments or classes of financial instruments used by such estimates or techniques may not be available or may become unavailable due to changes in market conditions. In these circumstances, the fair value is determined using data derived and extrapolated from market data, and tested against historic transactions and observed market trends.

The valuation models incorporate the impact of factors that would influence the fair value determined by a market participant. Principal inputs used in the determination of the fair value of financial instruments based on valuation techniques include data inputs such as statistical data on delinquency rates, foreclosure rates, actual losses, counterparty credit spreads, recovery rates, implied default probabilities, credit index tranche prices and correlation curves. These assumptions, judgments and estimates need to be updated to reflect changing trends and market conditions. The resulting change in the fair values of the financial instruments could have a material adverse effect on the Group's earnings.

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

The accounting policies and methods that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of financial position and results of operations.

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

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

In certain circumstances the Group may be exposed to a reduction in the value of intangible assets. As at March 31, 2013, the Group carried goodwill principally related to its investments in New Zealand and Australia, intangible assets principally relating to assets recognized on acquisition of subsidiaries, and capitalized software balances.

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

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

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

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallize, may adversely affect the Group's results. The Group's material contingent liabilities are described in Note 14 of the 2013 Condensed Consolidated Financial Statements. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

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

The Group regularly examines a range of corporate opportunities, including material acquisitions and disposals, with a view to determining whether those opportunities will enhance the Group's financial performance and position. Any corporate opportunity that is pursued could, for a variety of reasons, turn out to have a material adverse effect on the Group.

The successful implementation of the Group's corporate strategy, including its strategy to expand in the Asia Pacific region, will depend on a range of factors including potential funding strategies, and challenges associated with integrating and adding value to acquired businesses, as well as new regulatory, market and other risks associated with increasing operations outside of Australia and New Zealand.

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

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

Currency of presentation, exchange rates and certain definitions

Currency of presentation

ANZ publishes consolidated financial statements in Australian Dollars. In this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, references to 'US$', 'USD' and 'U.S. dollars' are to U.S. Dollars and references to '$', 'AUD' and 'A$' are to Australian Dollars. For the convenience of the reader, this U.S. Disclosure Document contains translations of certain Australian Dollar amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Australian Dollar amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated. Unless otherwise stated, the translations of Australian Dollars into U.S. Dollars have been made at the rate of US$1.0409 = 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, 2013. As at May 3, 2013 the Noon Buying Rate was US$1.0313 = A$1.00.

Exchange rates

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

Noon buying rates for Australian Dollars

	USD per AUD1.00			
Year ended September 30	**High**	**Low**	**Average[1]**	**Close**
2010	0.9675	0.8156	0.9013	0.9640
2011	1.1055	0.9571	1.0322	0.9744
2012	1.0806	0.9453	1.0371	1.0388
Month ended[2]				
October 2012	1.0397	1.0188	1.0298	1.0370
November 2012	1.0470	1.0315	1.0405	1.0429
December 2012	1.0555	1.0350	1.0465	1.0393
January 2013	1.0579	1.0401	1.0500	1.0433
February 2013	1.0422	1.0202	1.0310	1.0241
March 2013	1.0484	1.0164	1.0345	1.0409

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, 2013, 32% (September 2012: 32%; March 2012: 31%) of ANZ's operating income was derived from New Zealand and Asia Pacific, Europe & America, and was denominated principally in Chinese Yuan, Euro, British Pounds Sterling, Malaysian Ringgit, New Zealand Dollars, and U.S. Dollars. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ's earnings through the re-translation of overseas profits to Australian Dollars. Based on exchange rates applied to convert overseas profits and losses from September 2010 to March 2013, the Australian Dollar moved against these currencies as follows:

Australian Dollar movement against foreign currencies

	1st Half	Full Year		
	2013	**2012**	**2011**	**2010**
Chinese Yuan (CNY)	0%	6%	-22%	3%
Euro (EUR)	-2%	12%	-1%	-1%
British Pound (GBP)	2%	3%	3%	12%
Malaysian Ringgit (MYR)	0%	3%	-13%	5%
New Zealand Dollar (NZD)	-2%	-2%	3%	5%
U.S. Dollar (USD)	2%	8%	-19%	12%

ANZ monitors its exposure to revenues, expenses and invested capital denominated in currencies other than Australian Dollars. These currency exposures are hedged in accordance with established hedging policies.

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

Certain definitions

Our financial year ends on September 30. As used throughout this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, the fiscal year ended September 30, 2012 is referred to as "2012", and other fiscal years are referred to in a corresponding manner. Our 2012 and 2011 audited financial results are contained in our 2012 Annual Report.

Operating Results

The following discussion of statutory profit is based on the 2013 Half Year Condensed Consolidated Financial Report prepared under IFRS (Refer to the section headed “Selected financial data” on page 2 for a discussion of IFRS).

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

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

	Half year			
Summary of ANZ’s results over the past three half year periods	**Mar 13 USD $M**	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Net interest income	6,454	6,200	6,126	5,984
Net funds management and insurance income	724	696	626	577
Other operating income	2,117	2,034	2,142	2,256
Operating income	9,295	8,930	8,894	8,817
Operating expenses	(4,199)	(4,034)	(4,386)	(4,133)
Profit before credit impairment and income tax	5,096	4,896	4,508	4,684
Provision for credit impairment	(612)	(588)	(660)	(538)
Profit before income tax	4,484	4,308	3,848	4,146
Income tax expense	(1,419)	(1,363)	(1,104)	(1,223)
Non-controlling interests	(5)	(5)	(2)	(4)
Profit attributable to shareholders of the Company	**3,060**	**2,940**	**2,742**	**2,919**

Profit and loss

Comparison with September 2012 half

ANZ recorded a profit after tax of $2,940 million for the half year ended March 31, 2013, an increase of $198 million (7%) from $2,742 million for the half year ended September 30, 2012. Significant influences on profit after tax were:

- Net interest income increased $74 million (1%) mainly due to a:
  - 3% increase in average interest earning assets to $555.1 billion; and
  - 3% increase in average deposits and other borrowings to $404.8 billion; offset by
  - Reduction in net interest margin of 4 basis point to 2.24%.
- Net funds management and insurance income increased by $70 million (11%) mainly due to increased investment income.
- Other operating income decreased $108 million (-5%) mainly due to:
  - The disposal of ANZ’s equity interest in Visa International in the September 2012 half. The gain on sale of these Visa shares was $291 million, partially offset by;
  - Profit on trading instruments increased by $236 million due to an increase in Global Markets, reflecting improved trading conditions.
- Operating expenses decreased $352 million (-8%), mainly driven by:
  - Decreased computer expenses of $207 million due to software impairment of $273 million in the September 2012 half, partially offset by increased depreciation and amortization; and
  - Decreased restructuring costs of $79 million relating to higher NZ Simplification expense in the September 2012 half.
- Total credit impairment charge decreased $72 million (-11%) mainly due to:
  - Individual provisions decreased by $303 million primarily due to decreased provisions in IIB, associated with large legacy loan provisions in the September 2012 half; partially offset by
  - An associated increase of $231 million of collective provisions held against exposures that triggered a release from the concentration risk provisions in the September 2012 half.
- The Group's income tax expense increased by $259 million (23%). The Group’s effective tax rate was 31.6%, up 2.9%, which was primarily due to an increase in OnePath Australia policyholder and contributions tax and a reduction in tax provisions in the September 2012 half.

Comparison with March 2012 half

- ANZ recorded a profit after tax of $2,940 million for the half year ended March 31, 2013, an increase of $21 million (1%) from $2,919 million for the half year ended March 31, 2012. Significant influences on profit after tax were:
- Net interest income increased $216 million (4%) mainly due to:
  - An 9% increase in average interest earning assets to $555.1 billion; and
  - An 8% increase in average deposits to $404.8 billion; offset by
  - A reduction in net interest margin of 11 basis points to 2.24%.
- Net funds management and insurance income increased by $119 million (21%) mainly due to investment income.

- Other operating income decreased $222 million (-10%) mainly due to:
  - Lower net foreign exchange earnings of $103 million primarily due to lower gains on revenue and net investment hedges;
  - A $199 million decrease from economic hedging; partially offset by
  - An increase in share of associates' profit of $45 million; and
  - An increase in profit on trading instruments of $41 million, mainly due to an increase in Global Markets.
- Operating expenses decreased $99 million (-2%), mainly driven by:
  - Decreased restructuring costs of $81 million mainly due to higher NZ Simplification expense in March 2012 half;
  - Decreased personnel expenses of $83 million driven by lower FTE and lower temporary staff costs; and
  - Increased computer expenses of $60 million due to higher computer contractor costs and increased depreciation and amortization from increased investment in technology.
- Total credit impairment charge increased $50 million (9%) mainly due to:
  - Individual provisions decreased by $106 million primarily due to decreased provisions in IIB, associated with large individual provisions on a few legacy Global Institutional loans in the March 2012 half, more than offset by;
  - Collective provisions increased by $156 million mainly due to movement in IIB due to crystallization of individual provisions and the associated collective provision release.
- The Group's income tax expense increased by $140 million (11%). The Group's effective tax rate was 31.6%, up 2.1%, which was primarily due to an increase in OnePath Australia policyholder income and contributions tax and a reduction in tax provisions in the March 2012 half.

Analysis of major income and expense items

Net interest income

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

	Half year		
	Mar 13	Sep 12	Mar 12
Net interest income ($M)	6,200	6,126	5,984
Net interest margin (%)	2.24	2.28	2.35

	Half year		
Net interest margin	Mar 13 %	Sep 12 %	Mar 12 %
Australia[1]	2.53	2.50	2.45
International and Institutional Banking[1]	1.65	1.75	1.95
New Zealand[1]	2.49	2.59	2.67

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

	Half year		
Average interest earning assets	Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	259,726	253,964	243,836
International and Institutional Banking	215,414	206,795	190,223
New Zealand	71,499	68,668	66,757
Other	8,502	8,734	7,946
Group	**555,141**	**538,161**	**508,762**

	Half year		
Average deposits and other borrowings	Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	144,293	137,000	129,555
International and Institutional Banking	154,309	146,769	139,881
New Zealand	45,023	42,216	39,160
Other	61,175	67,035	67,319
Group	**404,800**	**393,020**	**375,915**

Comparison with September 2012 half

The increase in net interest income of $74 million (1%) was driven by an increase in average interest earning assets partially offset by a decline in the net interest margin.

Margin

Net interest margin (-4 bps):

- Funding and asset mix (+2 bps): reflecting increased proportion of customer deposits and lower reliance on wholesale funding.
- Funding costs (-6 bps): lower returns on capital and rate-insensitive deposits as a result of the lower interest rate environment, while wholesale funding costs were broadly flat.
- Deposits (-5 bps): due to continued competition for deposits across all businesses.
- Assets (+4 bps): benefits of re-pricing mortgages in Australia, partially offset by competition-driven margin compression in New Zealand mortgages and Trade Finance loans in the APEA region.
- Other (+1 bp).

Volume

Group Average interest earning assets (+$17.0 billion or 3%):

- Australia (+ $5.8 billion or 2%): Mortgages up $3.3 billion driven by increase in variable rate lending and Commercial up $2.4 billion, driven by growth in Fixed Loans and tailored commercial facilities.

- IIB (+$8.6 billion or 4%): Global Markets up $6.7 billion reflecting growth in trading securities, inter-bank lending and liquid assets, Transaction Banking up $2.1 billion with an increase in trade finance loans in the APEA region, offset by decline in Global Loans by $1.0 billion with reduced inter-bank lending.
- New Zealand (+$2.8 billion or 4%): Increase in retail lending, particularly mortgages.

Group Average deposits and other borrowings (+$11.8 billion or 3%):

- Australia (+ $7.3 billion or 5%): reflecting increased customer deposits in Retail from higher volumes on Progress Saver and Mortgage offset product, along with growth in deposits in Commercial.
- IIB (+$7.5 billion or 5%): increase mainly in term deposits in Global Markets business in APEA region.
- New Zealand (+$2.8 billion or 7%): uplift in customer deposits in Business Banking and Private Banking.
- Other (-$5.9 billion or 9%): reduced short term whole sale funding borrowing mainly via Certificate of Deposits and Commercial Paper.

Comparison with March 2012 half

The increase in net interest income of $216 million (4%) was driven by an increase in average interest earning assets and average deposits and other borrowings, offset by a decline in the net interest margin.

Margin

Net interest margin (-11 basis points):

- Funding and asset mix (flat): improved funding mix from increased proportion of customer deposits offset by some adverse asset mix from higher proportionate growth in lower margin Trade loans business and slower growth in higher margin Cards business.
- Funding costs (-9 bps) lower returns on capital and rate-insensitive deposits as a result of the lower interest rate environment.
- Deposits (-14 bps): due to intense competition for deposits across all businesses.
- Assets (+12 bps): benefits of re-pricing mortgages in Australia, partially offset by competition-driven margin compression in Trade finance loans in the APEA region.

Volume

Group Average interest earning assets (+$46.0 billion or 9%):

- Australia (+ $15.9 billion or 7%): largely self-funded growth in lending with Mortgages up $11.0 billion and Commercial up $4.9 billion, primarily in Esanda, Business Banking and Small Business Banking.
- IIB (+$25.2 billion or 13%): Global Markets increased $16.1 billion due to growth in liquid assets, and trading securities, combined with a $2.0 billion growth in Global Loans and $5.7 billion uplift in trade finance lending in Transaction Banking.
- New Zealand (+$4.7 billion or 7%): Increase in retail lending, particularly in mortgages.

Group Average deposits and other borrowings (+$28.9 billion or 8%):

- Australia (+ $14.7 billion or 11%): reflecting increased customer deposits in Retail from higher volumes on Progress, Online and Business Premium Saver products and term deposits, along with growth in deposits in Commercial.
- IIB (+$14.4 billion or 10%): mainly due to increased term deposits in Global Markets business within APEA region.
- New Zealand (+$5.9 billion or 15%): uplift in retail deposits focussing on savings and call product.
- Other (-$6.1 billion or 9%): reduced short term wholesale funding borrowing via Commercial Paper.

Net funds management and insurance income

	Half year		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Funds management income	418	408	417
Investment income	2,303	818	1,912
Insurance premium income	519	647	590
Commission income/(expense)	(207)	(238)	(200)
Claims	(345)	(289)	(309)
Changes in policy liabilities[1]	(1,935)	(692)	(1,757)
Elimination of treasury share gain/(loss)[2]	(57)	(28)	(76)
Total net funds management and insurance income	**696**	**626**	**577**

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

Comparison with September 2012 half

Net funds management and insurance income increased $70 million (11%). Key factors affecting the result were:

- The $1,485 million improvement in investment income was in line with the general improvement in investment market conditions. More than half of investment assets are invested into growth assets. Australian and international equities returned 15% and 10%, respectively, for the half year ended March 31, 2013 compared to 3% and 1%, respectively, for the half year ended September 30, 2012.
- Changes in policy liabilities reduced by $1,243 million which reflects the inverse relationship with the investment income during the period partially offset by higher net outflows. The net outflows reflects that there have been more withdrawals than deposits, and this results in a reduction in the members' balances and associated policy liabilities.
- Insurance premium income was lower by $128 million (-20%) as a result of higher premiums during the half year to September 30, 2012 driven by seasonality of premiums received from Employer and Industry Superannuation Funds ANZ Wealth manages as the annual premiums written predominantly are booked in the second half of the year. This was partially offset by an increase in premiums from retail insurance products.
- Claims increased by $56 million (19%) primarily attributable to higher levels of in-force premiums for individual business and an increase in Group Life claims.

Comparison with March 2012 half

Net funds management and insurance income increased $119 million (21%). Key factors affecting the result were:

- The $391 million (20%) improvement in investment income was in line with the general improvement in investment market conditions.
- Changes in policy liabilities reduced by $178 million (-10%) which reflects the inverse relationship with the investment income during the period offset by higher net outflows.
- Insurance premium income was lower by $71 million (-12%) mainly as a result of a large superannuation fund managed by ANZ Wealth moving to a competitor in January 2012.
- Claims increased by $36 million (12%) primarily attributable to higher levels of in-force premiums for individual business and an increase in Group Life claims.

Other operating income

	Half year		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Net fee and commission income	1,231	1,194	1,218
Net foreign exchange earnings	467	511	570
Share of associates' profit[1]	211	229	166
Profit on trading instruments	315	79	274
Other	(190)	129	28
Total other operating income	**2,034**	**2,142**	**2,256**

1. *For further information of Share of associates' profit refer to Note 18 of the 2013 Half Year Condensed Consolidated Financial Statements.*

Comparison with September 2012 half

Other operating income for the half year ended March 31, 2013 was $2,034 million, a decrease of $108 million (-5%) from $2,142 million for the half year ended September 30, 2012:

- Net fee and commission income increased $37 million (3%) mainly due to:
  - Global Markets increased $28 million (49%) due to a strong contribution from the syndication business; and
  - Transaction Banking increased $20 million (8%) driven by higher trade finance loan volumes and repricing of existing facilities.
- Net foreign exchange earnings decreased $44 million (-9%) mainly due to:
  - IIB (excluding Global Markets) reduced $15 million driven by decreased international payment volumes in Transaction Banking; and
  - Cards & Payments decreased $8 million (33%) driven by lower volumes as a result of seasonality.
- Share of associates' profit decreased $18 million (-8%) largely due to:
  - P.T. Bank Pan Indonesia ("Panin Bank") decreased $19 million mainly driven by seasonal factors impacting underlying business earnings as well as an $8 million adjustment from aligning accounting policies in the half year ended September 30, 2012;
  - AMMB Holdings Berhad ("AMMB") decreased $11 million mainly driven by seasonal factors impacting non-annuity earnings;
  - Bank of Tianjin ("BoT") increased $9 million due to an increase in underlying earnings driven by strong lending growth; and
  - Shanghai Rural Commercial Bank ("SRCB") decreased $1 million mainly attributable to an impairment of an investment offset by lower credit provisions and growth in interest income.
- Profit on trading instruments increased $236 million mainly due to an increase in Global Markets, reflecting improved trading conditions.
- Other income decreased $319 million mainly due to:
  - A $291 million gain on sale of Visa shares in the half year ended September 30, 2012; and
  - Global Loans decreased $30 million due mainly to a gain on restructuring a transaction in the half year ended September 30, 2012 and loan sell downs in the half year ended March 31, 2013.

Comparison with March 2012 half

Other operating income for the half year ended March 31, 2013 was $2,034 million, a decrease of $222 million (-10%) from $2,256 million for the half year ended March 31, 2012:

- Net fee and commission income increased $13 million (1%) mainly due to:
  - Global Markets increased $23 million (38%) due to a strong contribution from the syndication business;
  - Transaction Banking increased $15 million (6%) driven by trade finance loan volume growth and pricing initiatives;
  - Global Relationship Banking decreased $16 million (-67%) due to a reduction in Mergers & Acquisitions activity; and
  - Global Loans decreased $12 million (-19%) as a result of reduced deal activity.
- Net foreign exchange earnings decreased $103 million (18%) mainly due to:
  - Gains on revenue and net investment hedges decreased $113 million.
- Share of associates' profit increased $45 million (27%) largely due to:
  - SRCB increased $17 million mainly attributable to growth in interest income driven by loan repricing and reduced low margin lending as well as lower credit provision charges;
  - BoT increased $7 million due to an increase in underlying earnings mainly attributable to lending growth;
  - Panin Bank increased $8 million mainly due to adjustments from aligning accounting policies in the half year ended March 31, 2012; and
  - AMMB increased by $1 million due to underlying earnings growth.
- Profit on trading instruments increased $41 million (15%) mainly due to an increase in Global Markets reflecting improved trading conditions.

- Other income decreased by $218 million mainly due to:
  - A $199 million decrease from economic hedging;
  - A $28 million reduction in earnings from discontinued business (private equity and infrastructure);
  - Global Loans decreased $15 million from loan sell downs in the half year ended March 31, 2012; and
  - Asia Partnerships increased $21 million due to the $31 million write-down of the investment in Saigon Securities Inc ("SSI") offset by the $10 million gain on sale of Sacombank both occurring in the half year ended March 31, 2012.

Operating expenses

	Half year		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Personnel expenses	2,344	2,338	2,427
Premises expenses	356	363	353
Computer expenses	618	825	558
Restructuring costs	57	136	138
Other expenses	659	724	657
Total operating expenses	**4,034**	**4,386**	**4,133**
Total full time equivalent staff (FTE)	**47,419**	**48,239**	**49,509**

Comparison with September 2012 half

Operating expenses decreased $352 million (-8%):

- Personnel expenses increased $6 million (0%) as a result of annual salary increases being offset by reductions in staff numbers, increased utilization of our hub resources[1], which, as of March 31, 2013, accounted for 6,900 FTE employees, and lower temporary staff costs.
- Premises expenses decreased $7 million (-2%) due to lower utilities and maintenance costs.
- Computer expenses decreased $207 million (-25%) due to the $273 million impairment of software assets in the September 2012 half, partially offset by increased depreciation and amortization and higher computer contractor costs.
- Restructuring expenses decreased $79 million (-58%) mainly due to higher NZ Simplification expense in the September 2012 half.
- Other expenses decreased $65 million (-9%) due to lower discretionary expenses resulting from an ongoing focus on productivity and expense management.

Comparison with March 2012 half

Operating expenses decreased $99 million (-2%):

- Personnel expenses decreased $83 million (-3%) as a result of lower temporary staff costs and reduced staff numbers across all divisions, partially offset by the cost of annual salary increases.
- Premises expenses increased $3 million (1%) due to rent increases and higher depreciation and amortization costs.
- Computer expenses increased $60 million (11%) due to higher computer contractor costs and increased depreciation and amortization from increased investment in technology.
- Restructuring expenses decreased $81 million (-59%) mainly due to higher NZ Simplification expense in the March 2012 half.
- Other expenses increased $2 million (0%), with ongoing focus on productivity and expense management limiting expense growth.

[1] Hub resources represent staff located in offshore delivery centres

Provision for credit impairment charge

	Half year		
Division	Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	386	375	267
International and Institutional Banking	184	234	217
New Zealand	28	70	78
Global Wealth	1	2	2
Other[1]	(11)	(21)	(26)
Total provision for credit impairment charge	**588**	**660**	**538**

1. Other includes non continuing businesses.

	Half year					
	Mar 13 $M		Sep 12 $M		Mar 12 $M	
Division	Individual provision	Collective provision	Individual provision	Collective provision	Individual provision	Collective provision
Australia	370	16	402	(27)	289	(22)
International and Institutional Banking	167	17	419	(185)	321	(104)
New Zealand	58	(30)	89	(19)	104	(26)
Global Wealth	-	1	2	-	3	(1)
Other	(11)	-	(25)	4	(27)	1
Total	**584**	**4**	**887**	**(227)**	**690**	**(152)**

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

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

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

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

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

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

Comparison with September 2012 half

- The individual provision for credit impairment charge decreased $303 million (-34%), mainly due to:
  - Large legacy loan provisions being raised in IIB during the September 2012 half; and
  - Both Australia and New Zealand divisions' first half provisions were lower compared to the September 2012 half.
- The collective provision for credit impairment charge increased by $231 million over the September 2012 half year primarily driven by:
  - The $202 million increase in IIB due to crystallizing individual provisions on a few legacy exposures that triggered a release from the concentration risk provisions in the September 2012 half; and
  - The $43 million increase in Australia division due to releases from the economic cycle balance.

Comparison with March 2012 half

- The individual provision for credit impairment charge decreased $106 million (-15%), due mainly to:
  - The decrease in IIB of $154 million associated with large individual provisions on a few legacy Global Institutional loans in March 2012;
  - The decrease in New Zealand of $46 million reflects an improvement in credit quality; and
  - Australia saw an $81 million increase largely driven by higher provisions in the Commercial portfolio.

- The collective provision for credit impairment charge increased by $156 million over the March 2012 half due mainly to:
  - The $121 million increase in the IIB division charge due to crystallization of individual provisions and the associated collective provision release in the March 2012 half; and
  - The $38 million increase in the Australia division primarily was driven by releases from the economic cycle balance. The economic cycle balance is held for one-off known events or factors which impact the collective provision (for example, the Australian floods) that are not yet captured in the modelled balance due to timing (that is, the impact on customer credit ratings is lagged). In the March 31, 2012 half year, the economic cycle balance was released from the collective provision as the Australian flood impacts started to flow to the modelled balance or to individual provisions. In addition, a review of impacted exposures indicated that eventual losses would be lower than expected triggering further releases.

Credit risk on derivatives

	Half year		
Credit risk on derivatives	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Credit intermediation trade related (gain)	(48)	(21)	(52)
Credit risk on impaired derivatives loss	11	28	32
Credit risk on derivatives (gain)/loss	**(37)**	**7**	**(20)**

The credit risk on derivatives gain of $37 million during the half year ended March 31, 2013 (September 2012: a loss of $7 million; March 2012: a gain of $20 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 on page 16 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. During the half ANZ terminated all bought CDSs with one financial guarantor along with the corresponding sold CDSs for a net profit of $7 million (including termination costs and release of credit valuation adjustment ("CVA")). The notional amount on the outstanding sold trades at March 31, 2013 was US$4.7 billion (September 2012: US$8.0 billion; March 2012: US$8.1 billion).

	As at		
	Mar 13 $M	**Sep 12 $M**	**Mar 12 $M**
Financial impacts of credit intermediation trades			
Mark-to-market credit exposure to financial guarantors	257	359	447
Cumulative costs relating to financial guarantors[1]			
CVA for outstanding transactions	54	116	139
Realized close out and hedge costs	336	322	320
Cumulative life to date charges	**390**	**438**	**459**

1. *The cumulative costs in managing the positions 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.

Income tax expense

	Half year		
	Mar 13 $M	**Sep 12 $M**	**Mar 12 $M**
Income tax expense charged to the income statement	1,363	1,104	1,223
Effective tax rate	31.6%	28.7%	29.5%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison with September 2012 half

The Group's income tax expense increased by $259 million (23%) from $1,104 million for the half year ended September 30, 2012 to $1,363 million for the half year ended March 31, 2013.

The effective tax rate increased 2.9% from 28.7% to 31.6% for the half year ended March 31, 2013. These increases were due primarily to an increase in OnePath Australia policyholder income and contributions tax, a reduction in tax provisions in the September 30, 2012 half and as a result of higher relative profit growth in Australia, compared to New Zealand and overseas jurisdictions.

Comparison with March 2012 half

The Group's income tax expense increased by $140 million (11%) from $1,223 million for the half year ended March 31, 2012 to $1,363 million for the half year ended March 31, 2013.

The effective tax rate increased 2.1% from 29.5% to 31.6% for the half year ended March 31, 2013. These increases were due primarily to an increase in OnePath Australia policyholder income and contributions tax and a reduction in tax provisions in the half year ended March 31, 2012.

Results by Division

The Group operates on a divisional structure, with Australia, International and Institutional Banking ("IIB"), New Zealand and Global Wealth being the operating divisions.

Effective October 1, 2012, the assets and results of Corporate Banking Australia transferred to the Australia division from IIB, and comparatives have been restated accordingly.

There have been no other major structure changes, however there have been a number of minor restatements as a result of changes to customer segmentation, changes to net interbusiness unit expense methodologies and the realignment of support functions. Prior period comparatives are adjusted for such changes.

	Half year		
Division	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Profit before income tax			
Australia	2,018	1,895	1,817
International and Institutional Banking	1,641	1,323	1,584
New Zealand	553	440	446
Global Wealth	277	219	250
Other	(181)	(29)	49
	4,308	3,848	4,146
Income tax expense			
Australia	(603)	(568)	(546)
International and Institutional Banking	(437)	(369)	(421)
New Zealand	(156)	(121)	(123)
Global Wealth	(74)	(50)	(73)
Other	(93)	4	(60)
	(1,363)	(1,104)	(1,223)
Non-controlling interests			
Australia	-	-	-
International and Institutional Banking	(5)	(2)	(4)
New Zealand	-	-	-
Global Wealth	-	-	-
Other	-	-	-
	(5)	(2)	(4)
Profit after income tax and non-controlling interests			
Australia	1,415	1,327	1,271
International and Institutional Banking	1,199	952	1,159
New Zealand	397	319	323
Global Wealth	203	169	177
Other	(274)	(25)	(11)
	2,940	2,742	2,919

Australia Division

Australia division comprises Retail and Corporate and Commercial Banking businesses. Retail includes Mortgages, Deposits, Cards and Payments along with the Retail Distribution Network. Corporate and Commercial Banking includes our core banking offerings to Corporate Banking, Business Banking, Regional Business Banking and Small Business Banking customers and Esanda.

	Half year		
Australia Division	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Net interest income	3,282	3,171	2,992
Other operating income	587	607	586
Operating income	3,869	3,778	3,578
Operating expenses	(1,465)	(1,508)	(1,494)
Profit before credit impairment and income tax	2,404	2,270	2,084
Provision for credit impairment	(386)	(375)	(267)
Profit before income tax	2,018	1,895	1,817
Income tax expense	(603)	(568)	(546)
Non-controlling interests	-	-	-
Profit after income tax	**1,415**	**1,327**	**1,271**

Comparison with September 2012 half

Profit after income tax increased $88 million (7%). Significant influences on profit after tax were:

- Net interest income increased 4% mainly due to:
  - Average net loans and advances increased 2% driven by above system growth in Mortgages and strong growth in Business Banking, Small Business Banking and Esanda.
  - Asset growth was largely self-funded, with average deposit growth of 5%, with the majority of the deposit growth coming from savings products.
  - Net interest margin improved 3 basis points as a result of active management of pricing, discounting, commissions and an increase in proprietary mortgage sales, outweighing deposit pricing pressures.
- Other operating income decreased 3%, due mainly to the inclusion of the Origin mortgage portfolio sale proceeds in the September half.
- Operating expenses decreased 3%, due to an ongoing focus on productivity and expense management, and the impact of software asset impairments in the September 2012 half.
- Provision for credit impairment increased 3% partly due to the impact of surplus flood provision releases in the September 2012 half. Credit quality remains sound and is largely in line with the September half.
- Income tax expense increased by 6% mainly due to a 6% increase in profit before tax.

Comparison with March 2012 half

Profit after income tax increased $144 million (11%). Significant influences on profit after tax were:

- Net interest income increased 10% mainly due to:
  - Average net loans and advances increased 7% mainly due to above system growth in Mortgages of 6%, and strong growth in Corporate and Commercial Banking of 8%.
  - Average deposits increased 11% with the majority coming from savings products.
  - Net interest margin improved 8 basis points as a result of disciplined margin management, partly offset by deposit pricing pressures.
- Operating expenses decreased 2%, as result of a reduction in average FTE and benefits from operational efficiencies, procurement savings and lower discretionary spending.
- Provision for credit impairment increased 45% reflecting higher individual provisions largely due to write-backs in Corporate Banking, combined with an increase in collective provisions after the release of surplus flood provisions in the March 2012 half.
- Income tax expense increased 10% mainly due to an 11% increase in profit before tax.

International and Institutional Banking Division

The International and Institutional Banking ("IIB") division comprises Global Institutional (including Transaction Banking, Global Loans and Global Markets), Retail Asia Pacific and Asia Partnerships, together with Relationship & Infrastructure.

	Half year		
International and Institutional Banking Division	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Net interest income	1,775	1,811	1,856
Other operating income	1,496	1,360	1,400
Operating income	3,271	3,171	3,256
Operating expenses	(1,446)	(1,614)	(1,455)
Profit before credit impairment and income tax	1,825	1,557	1,801
Provision for credit impairment	(184)	(234)	(217)
Profit before income tax	1,641	1,323	1,584
Income tax expense	(437)	(369)	(421)
Non-controlling interests	(5)	(2)	(4)
Profit after income tax	**1,199**	**952**	**1,159**
Consisting of:			
Global Institutional			
Australia	614	474	591
Asia Pacific, Europe & America	290	259	338
New Zealand	133	109	133
Global Institutional total	1,037	842	1,062
Asia Partnerships	186	217	127
Retail Asia Pacific	34	40	24
Relationship & Infrastructure	(58)	(147)	(54)
Profit after income tax	**1,199**	**952**	**1,159**

Comparison with September 2012 half

Profit after income tax increased $247 million (26%). Significant influences on profit after tax were:

- Net interest income was 2% lower mainly due to:
  - Average net loans and advances increased 3% and average customer deposits were 5% higher with growth concentrated in the APEA region, offset by;
  - Net interest margin declined 10 basis points primarily driven by pricing pressure in customer deposits, lower returns on capital and rate insensitive deposits in low interest rate environments and competition in loans.
- Other operating income increased by $136 million (10%), driven by 36% growth in Global Markets with favorable trading conditions and higher customer volume. Asia Partnerships' contribution was lower due to lower earnings and the gain arising from dilution of our Bank of Tianjin stake in the September 2012 half.
- Operating expenses decreased by $168 million (-10%), mainly due to the $162 million write-down of software assets in the September 2012 half. Excluding the impact of the capitalized software impairment, expenses were flat. Cost savings from productivity initiatives and increased utilization of hub resources allowed targeted investment to continue.
- Provision charges for credit impairment were 21% lower due to:
  - Higher individual provision charges in the September 2012 half year on a few legacy Global Institutional loans in Australia. This was partially offset by collective provision releases in the September 2012 half year from associated concentration risk provisions.
- Income tax expense increased 18% mainly due to a 24% increase in profit before tax.

Comparison with March 2012 half

Profit after income tax increased $40 million (3%). Significant influences on profit after tax were:

- Net interest income decreased 4% mainly due to:
  - Solid growth in APEA accounting for most of the overall increases in average customer deposits (10%) and average net loans and advances (9%) offset by;
  - Net interest margin declined 30 basis points primarily reflecting lower returns on retained capital, margin compression from competition and the impact of the change in the funding and asset mix.

- Other operating income increased by $96 million (7%), primarily due to:
  - Strong Global Markets performance;
  - Asia Partnerships' contribution was higher mainly due to the impact of an impairment charge in March 2012 half relating to our investment in Saigon Securities Incorporation ("SSI").
- Operating expenses decreased $9 million (-1%), with cost savings from productivity gains and greater utilization of hub resources largely offset by continued re-investment in the business.
- Provision charges for credit impairment were 15% lower, largely due to individual provision charges in the March 2012 half year on a few legacy Global Institutional loans in Australia. This was partially offset by collective provision releases in the March 2012 half year from associated concentration risk provisions.
- Income tax expense increased by $16 million (4%) mainly due to an increase of 4% in profit before tax.

New Zealand

The New Zealand division comprises Retail and Commercial business units. Retail includes Mortgages, Cards and Unsecured Lending to personal customers. Commercial includes Commercial & Agri and Small Business Banking.

	Half year		
New Zealand Division	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Net interest income	889	890	890
Other operating income	162	161	154
Operating income	1,051	1,051	1,044
Operating expenses	(470)	(541)	(520)
Profit before credit impairment and income tax	581	510	524
Provision for credit impairment	(28)	(70)	(78)
Profit before income tax	553	440	446
Income tax expense	(156)	(121)	(123)
Non-controlling interests	-	-	-
Profit after income tax	**397**	**319**	**323**

Comparison with September 2012 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand has been impacted by the appreciation of the NZD against the AUD over the period. Translation of the 2013 half year results to AUD was at an average exchange rate for the half year ended March 31, 2013 of NZ$1.2533 to A$1.00 compared to an average exchange rate for the half year ended September 2012 of NZ$1.2808 to A$1.00.

Profit after income tax increased $78 million (24%). Significant influences on profit after income tax were:

- Net interest income was flat due to:
  - Average lending volumes increased 4% driven primarily by above system growth in Mortgages and average deposits growth of 7%; offset by
  - Net interest margin decline of 10 basis points, due to stronger competition, unfavorable lending mix and higher funding costs. Higher funding costs were partly driven by lower returns from capital and rate insensitive deposits in a low interest rate environment.
- Other operating income was flat with the September 2012 half benefiting from one-off insurance recoveries. Fee growth remains constrained in a competitive retail environment.
- Operating expenses decreased 13%. This included a reduction in restructuring costs as work on integrating the core banking system wound down.
- Provision for credit impairment was 60% lower. The individual provision charge decreased $31 million, with the biggest improvement in the Commercial book. The release from collective provisions was $11 million higher than for the September 2012 half.
- Income tax expense increased by $35 million (29%) mainly driven by a 26% increase in profit before income tax.

Comparison with March 2012 half

The business in New Zealand is based on a functional currency of NZ dollars. Therefore, the reported result for New Zealand region has been impacted by the appreciation of the NZD against the AUD over the period. Translation of the 2013 half year results to AUD was at an average exchange rate for the half year ended March 31, 2013 of NZ$1.2533 to A$1.00 compared to an average exchange rate for the half year ended March 2012 of NZ$1.2959 to A$1.00.

Profit after income tax increased $74 million (23%). Significant influences on profit after income tax were:

- Net interest income was flat due to:
  - Average net loans and advances growth at 7% was strong in a low credit growth environment, driven primarily by above-system growth in mortgages, offset by;
  - Net interest margin contracted 18 basis points due to stronger competition, unfavorable lending mix and higher funding costs. Higher funding costs were partly driven by lower returns from capital and rate insensitive deposits in a low interest rate environment.
- Other operating income increased 5%, comprising volume-driven increases in insurance, management fees and commissions that reflect improved cross-sell.
- Operating expenses decreased 10%, reflecting productivity gains from simplifying the business.
- The provisioning charge reduced 64% compared with the March 2012 half. This reflected a 16 basis point improvement in the IP loss rate. Strong credit processes have ensured the continuation of the downward trend in delinquencies, and maintained high recovery and rehabilitation rates.
- Income tax expense increased by 27% mainly driven by a 24% increase in profit before income tax.

Global Wealth

The Global Wealth division comprises Private Wealth, Funds Management and Insurance business units which provides investment, superannuation, insurance products and services (including Private Banking) for customers across Australia, New Zealand and Asia.

Global Wealth Division	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Net interest income	58	60	62
Other operating income	80	88	84
Net funds management and insurance income	600	569	577
Operating income	738	717	723
Operating expenses	(460)	(496)	(471)
Profit before credit impairment and income tax	278	221	252
Provision for credit impairment	(1)	(2)	(2)
Profit before income tax	277	219	250
Income tax expense	(74)	(50)	(73)
Non-controlling interests	-	-	-
Profit after income tax	**203**	**169**	**177**

Comparison with September 2012 half

Profit after income tax increased $34 million (20%). Significant influences on profit after income tax were:

- Net funds management and insurance income increased by 5% mainly due to growth in Funds Under Management ("FUM") of 6% to $54.8 billion following strong gains in the investment market, partially offset by the impact of margin compression and losses from the annuity portfolio. Improved lapse experience and an increase in inforce premiums by 4% to $1.9 billion, also contributed to a 1% increase in operating income.
- Operating expenses were down 7% due to benefits from operational efficiencies and the inclusion of software asset impairments in the September 2012 half.
- Income tax expense increased by $24 million (48%) mainly driven by a 26% increase in profit before tax.

Comparison with March 2012 half

Profit after tax increased by $26 million (15%). Significant influences on profit after income tax were:

- Net funds management and insurance income increased by 4% mainly due to an 8% growth in FUM to $54.8 billion, partially offset by margin compression and adverse annuity experience. Demand for low-risk deposit products remained strong despite signs of improvement in market conditions. Improved claims experience and inforce premiums, partially offset by higher lapse experience also contributed to the increase in operating income.
- Operating expenses decreased $11 million (-2%) reflecting operational efficiencies from simplifying the business, reduction in average FTE and lower discretionary spend.
- Tax expense was mainly flat compared to March 2012 half year.

Balance sheet

	As at		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Assets			
Liquid assets and due from other financial institutions	73,858	53,681	52,058
Trading and available-for-sale assets	62,851	61,164	55,984
Derivative financial instruments	41,700	48,929	39,597
Net loans and advances	441,980	427,823	412,628
Regulatory deposits	1,679	1,478	1,436
Investments backing policy liabilities	31,199	29,895	30,204
All other assets[1]	19,358	19,157	20,305
Total assets	672,625	642,127	612,212
Liabilities			
Due to other financial institutions	43,345	30,538	29,688
Deposits and other borrowings	420,474	397,123	383,141
Derivative financial instruments	45,070	52,639	41,371
Bonds and notes	60,226	63,098	61,107
Policy liabilities and external unitholder liabilities	34,817	33,486	33,531
All other liabilities	26,174	24,023	23,931
Total liabilities	630,106	600,907	572,769
Net assets	42,519	41,220	39,443

1. *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 2012 half**

Liquid assets and due from other financial institutions increased by $20.2 billion (38%) primarily due to:

– An increase of $16.5 billion in liquid assets mainly due to excess liquidity resulting from higher customer deposits placed with the Federal Reserve in the U.S., increase in Central Bank Deposits in UK & Europe and increase in deposits in Hong Kong, as well as an increase in short term securities purchased in Markets Australia.

– An increase of $3.7 billion in due from other financial institutions mainly driven by an increase in collateral paid and gold loans ($1.4 billion) in Markets Australia; as well as growth in lending in Asia ($2.0 billion), which is most evident in Hong Kong, Philippines, Singapore and Taiwan.

- **Comparison with March 2012 half**

Liquid assets and due from other financial institutions increased by $21.8 billion (42%) primarily due to:

– An increase of $17.3 billion in liquid assets mainly due to excess liquidity resulting from higher customer deposits placed with the Federal Reserve in the U.S., increase in Central Bank Deposits in UK & Europe and increase in deposits in Hong Kong, as well as an increase in short term securities purchased in Markets Australia.

– An increase of $4.5 billion in due from other financial institutions mainly driven by increases in collateral paid and gold loans of ($1.5 billion) in Markets Australia, as well as increases in lending of $4.3 billion in UK & Europe, Hong Kong, Singapore, China, Philippines, and Taiwan, offset by a decrease in lending in New Zealand ($0.8 billion).

Trading and available-for-sale assets

- **Comparison with September 2012 half**

Trading and available-for-sale (“AFS”) assets increased $1.7 billion (3%) mainly driven by a $2.7 billion increase in AFS assets due to additional purchases made for the liquidity portfolio during the period. This was partially offset by a $1.0 billion decrease in Trading Securities due to a decrease in New Zealand’s liquidity portfolio.

- **Comparison with March 2012 half**

Trading and available-for-sale assets increased $6.9 billion (12%), predominantly due to an increase in unlisted trading securities held in Markets Australia.

Derivative financial instruments

- **Comparison with September 2012 half**

The derivative asset balance decreased by $7.2 billion (15%), due to reduced volatility in interest rate and foreign exchange markets.

- **Comparison with March 2012 half**

Derivative financial instruments increased by $2.1 billion (5%), due to increased volatility in interest rate and foreign exchange markets.

Net loans and advances

- **Comparison with September 2012 half**

Net loans and advances increased by $14.2 billion (3%) primarily due to:

- Net loans and advances in Australia growing by $8.1 billion (3%), with growth in Mortgages of 3% and above system growth in Business Banking of 6%.
- Net loans and advances in International and Institutional Banking increasing by $4.3 billion (4%) with solid growth in the APEA region.
- Net loans and advances in New Zealand increasing by $1.3 billion (2%) primarily driven by consistent growth in mortgages.

- **Comparison with March 2012 half**

Net loans and advances increased by $29.4 billion (7%) primarily due to:

- Net loans and advances in Australia growing by $14.5 billion (6%), with housing loans in Mortgages increasing by $9.4 billion (5%) and Business Banking increasing $1.7 billion (12%).
- Net loans and advances in International and Institutional Banking increasing by $9.3 billion (10%) as a result of growth in Transaction Banking of $5.8 billion (36%) and Global Loans of $1.9 billion (3%).
- Net loans and advances in New Zealand increasing by $4.2 billion (6%) due primarily to above system growth in Mortgages increasing by $3.4 billion (8%).

Investments backing policy liabilities

Investments relating to ANZ Wealth Australia (previously OnePath Australia) and OnePath New Zealand were valued at $31.2 billion at half year ended March 31, 2013 (September 2012: $29.9 billion; March 2012: $30.2 billion).

Liabilities

Due to other financial institutions

- **Comparison with September 2012 half**

Due to other financial institutions increased $12.8 billion (42%) primarily due to increased inter-bank borrowings in the US ($4.2 billion), UK and Europe ($3.0 billion), Group Treasury ($2.7 billion), Markets Australia ($1.9 billion) and Transaction Banking Australia ($1.9 billion).

- **Comparison with March 2012 half**

Due to other financial institutions increased $13.7 billion (46%) primarily due to increased borrowings in the US ($4.8 billion), by Transaction Banking Australia ($3.5 billion), Group Treasury ($2.8 billion), and UK and Europe ($2.5 billion).

Deposits and Other Borrowings

- **Comparison with September 2012 half**

Deposits and other borrowings increased $23.4 billion (6%) mainly due to:

- An increase in deposits and other borrowings in Australia of $4.7 billion (3%) with the majority of deposit growth coming from savings products in Banking Products and Mortgages.
- Deposits and other borrowings in International and Institutional Banking increased $9.3 billion (6%) with solid growth in the US ($10.7 billion), UK and Europe ($5 billion) partially offset by reductions in Singapore and Markets Australia.
- Deposits and other borrowings in New Zealand grew by $0.9 billion (2%) due mainly to increases in current accounts offset by reductions in term deposits and commercial paper.
- Deposits and other borrowings in Group Treasury increased by $7.7 billion (15%) with strong growth in term deposits ($4.6 billion) and commercial paper ($3.1 billion).

- **Comparison with March 2012 half**

Deposits and other borrowings increased $37.3 billion (10%) mainly due to:

- An increase in deposits and other borrowings in Australia of $12.8 billion (10%) as customers responded to continued attractive rates on offer for term deposits and current accounts bearing interest.
- An increase in deposits and other borrowings in Institutional and International Banking of $19.4 billion (14%) mainly in term deposits the US ($15.3 billion), the UK and Europe ($5.4 billion) which were partially offset by reductions in Markets Australia ($4.8 billion) and Singapore and Hong Kong ($2.4 billion); current accounts bearing interest increased $4.1 billion.
- Deposits and other borrowings in New Zealand increased by $3.6 billion (9%) mainly through deposit growth in savings products.

– Deposits and other borrowings in Group Treasury increased by $1.1 billion (2%) with increases in certificates of deposit ($1.8 billion) being partially offset by reductions in commercial paper ($0.6 billion).

Derivative financial instruments

- **Comparison with September 2012 half**

The derivative liability balance has decreased by $7.6 billion (14%), due to reduced volatility in interest rate and foreign exchange markets over the past 6 months.

- **Comparison with March 2012 half**

Derivative financial liabilities increased $3.7 billion (9%) due to increased volatility in interest rate and foreign exchange markets.

Bonds and notes

- **Comparison with September 2012 half**

Bonds and notes decreased $2.9 billion (5%) mainly due to net retirements in Australia of $4.0 billion offset by net issuances in the US of $1.2 billion.

- **Comparison with March 2012 half**

Bonds and notes decreased $0.9 billion (1%) mainly due to net retirements in Australia of $3.7 billion, partly offset by net issuances in the US of $1.9 billion.

Insurance Policy liabilities and external unitholder liabilities

Policy liabilities and external unitholder liabilities comprise: life investment contract liabilities, insurance contract liabilities and external unitholder liabilities.

The most significant component in the life investment contract liabilities and the key driver's behind movements in these balances are gains and losses in the underlying investments and net fund flows by policyholders.

External unitholder liabilities represent external unitholders' share of consolidated funds. The key drivers behind movements in these balances are change in the level of non-controlling interests in the funds, for example, as the Group's ownership in funds decreases it will consolidate less funds in their entirety reducing the level of external unitholder liabilities.

- **Comparison with September 2012 half**

Insurance policy liabilities were valued at $34.8 billion at March, 2013 up $1.3 billion from $33.5 billion at September 30, 2012 largely as a result of investment gains.

- **Comparison with March 2012 half**

Insurance policy liabilities were valued at $34.8 billion at March 2013 up $1.3 billion from $33.5 billion at March 31, 2012 largely as a result of investment gains.

Capital management

Qualifying Capital	Basel 3 Mar 13 $M	Basel 2 Sep 12 $M	Basel 2 Mar 12 $M
Tier 1			
Shareholders' equity and non-controlling interests	42,519	41,220	39,443
Prudential adjustments to shareholders' equity	(958)	(3,857)	(3,170)
Gross Common Equity Tier 1 capital	41,561	37,363	36,273
Deductions	(15,170)	(10,839)	(10,858)
Common Equity Tier 1 capital	26,391	26,524	25,415
Additional Tier 1 capital instruments	5,962	5,977	6,673
Transitional adjustment	(597)	-	-
Tier 1 capital	31,756	32,501	32,088
Tier 2			
Tier 2 capital components	6,062	6,887	6,930
Deductions	n/a	(2,814)	(3,217)
Tier 2 capital	6,062	4,073	3,713
Total qualifying capital	37,818	36,574	35,801
Capital adequacy ratios			
Common Equity Tier 1	8.2%	8.8%	8.9%
Tier 1	9.8%	10.8%	11.3%
Tier 2	1.9%	1.4%	1.3%
Total	11.7%	12.2%	12.6%
Risk weighted assets	322,582	300,119	284,836

APRA implementation of Basel 3 capital reforms

Effective January 1, 2013, APRA has fully adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios may not be directly comparable with international peers. Significant APRA Basel 3 reform changes that impacted the calculation of the capital ratios, relative to the APRA Basel 2 methodology, include; a move to full capital deductions from Common Equity Tier 1 ("CET1") capital for deductions which were previously deducted 50% from Tier 1 and 50% from Tier 2, the removal of the requirement to deduct the expected future dividend payments on an accrual basis and only deducted dividend payments when declared, implementation of transitional arrangements for existing Tier 1 and Tier 2 securities that do not conform to the new regulations and increased risk weighted assets for the potential credit valuation adjustment for derivative counterparties and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions.

Comparison with September 2012 half

Common Equity Tier 1 Ratio

The APRA Basel 3 Common Equity Tier 1 ratio at March 31, 2013 of 8.2% represents a decrease of 66 basis points from the Basel 2 September 30, 2012 ratio of 8.8%.

The key contributors to the decrease were:

- Statutory profit after preference share dividends of $2.9 billion (+98 basis points).
- Increase in Risk Weighted Assets ("RWA") was $22.5 billion (and excluding the impact of portfolio data review and foreign exchange was $24.7 billion), due to:
  - Portfolio growth and mix (-25 basis points);
  - Risk migration incorporating decline in RWA partially offset by increase in Expected Loss versus Eligible Provision shortfall (0 basis points);
  - Higher non-credit risk RWA (-6 basis points); and
  - Additional RWA and Expected Loss versus Eligible Provision due to Basel 3 methodology (-53 basis points).
- Net increase in capital retention of insurance businesses and associates excluding the impact of exchange rate movements (net -10 basis points).
- Reallocating the tangible component of insurance businesses and associates from 50% common equity deduction to 100% common equity deduction under Basel 3 methodology (-74 basis points).
- Benefit of external refinance of OnePath Australia and other capital initiatives (+13 basis points).

- Additional common equity deductions including insignificant equity holdings deducted under Basel 3 methodology (-15 basis points).
- Other items (net +6 basis points) including movement in capitalized software and expenses (-4 basis points), net increase in deferred tax assets (-2 basis points), partially offset by other share issuance (+3 basis points), RWA portfolio data review (+6 basis points) and other deductions including net of FX (+3 basis points).

Comparison with March 2012 half

Common Equity Tier 1 Ratio

The APRA Basel 3 Common Equity Tier 1 ratio at March 31, 2013 of 8.2% represents a decrease of 74 basis points from the Basel 2 March 31, 2012 ratio of 8.9%.

The key contributors to the decrease were:

- Statutory profit after preference share dividends of $5.7 billion (+199 basis points).
- Payment of final fiscal year 2012 ordinary share dividend net of reinvestment through the DRP and BOP of $1.5 billion (-51 basis points).
- Increase in Risk Weighted Assets (“RWA”) was $37.7 billion (and excluding portfolio data review and exchange rate movements was $39.9 billion), due to:
  - Portfolio growth and mix (-43 basis points);
  - Risk migration incorporating decline in RWA and decrease in Expected Loss versus Eligible Provision shortfall (0 basis points);
  - Higher non-credit risk RWA (-37 basis points), including an increase due to Operational Risk model change (-23 basis points), higher Traded Market Risk RWA and Interest Rate Risk in the Banking Book RWA; and
  - Additional RWA and Expected Losses versus Eligible Provisions due to Basel 3 methodology (-56 basis points).
- Net increase in capital retention of insurance businesses and associates excluding the impact of exchange rate movements (net -13 basis points).
- Reallocating the tangible component of insurance businesses and associates from 50% common equity deduction to 100% common equity deduction under Basel 3 methodology (-86 basis points).
- Benefit of external refinance of OnePath Australia and other capital initiatives (+34 basis points).
- Additional common equity deductions including insignificant equity holdings deducted under Basel 3 methodology (-15 basis points).
- Other items (net -6 basis points) including movement in capitalized software and expenses (-9 basis points), net increase in deferred tax assets (-7 basis points) and other deductions including net of FX (-3 basis points), partially offset by other share issuance (+6 basis points) and RWA portfolio review (+7 basis points).

	Basel 3	Basel 2	
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Table 1: Prudential adjustments to shareholders' equity			
Treasury shares attributable to OnePath policy holders	253	280	337
Reclassification of preference share capital	(871)	(871)	(871)
Accumulated retained profits and reserves of insurance, funds management and securitization entities[1]	(573)	(1,660)	(1,444)
Deferred fee revenue including fees deferred as part of loan yields	362	415	425
Hedging reserve	n/a	(208)	(133)
Available-for-sale reserve attributable to deconsolidated subsidiaries[2]	(105)	(94)	(246)
Dividend not provided for	n/a	(2,149)	(1,769)
Accrual for Dividend Reinvestment Plans	n/a	430	531
Other	(24)	-	-
Total	(958)	(3,857)	(3,170)
Table 2: Deductions from Common Equity Tier 1 capital			
Unamortised goodwill & other intangibles (excluding OnePath Australia and New Zealand)	(3,717)	(3,052)	(3,017)
Intangible component of investments in OnePath Australia and New Zealand[3]	(2,075)	(2,074)	(2,071)
Capitalized software	(1,800)	(1,702)	(1,660)
Capitalized expenses including loan and lease origination fees	(884)	(850)	(761)
Applicable deferred net tax assets[4]	(990)	(301)	(92)
Expected losses in excess of eligible provisions[5]	(526)	(542)	(524)
Investment in ANZ insurance and funds management subsidiaries	(684)	(327)	(327)
Investment in OnePath Australia and New Zealand	(1,042)	(721)	(922)
Investment in banking associates	(2,956)	(1,070)	(1,118)
Other deductions[6]	(496)	(200)	(366)
Total	(15,170)	(10,839)	(10,858)
Table 3: Tier 2 capital			
General reserve for impairment of financial assets	244	234	230
Perpetual subordinated notes	957	951	943
Subordinated debt	4,979	5,702	5,757
Less: Adjustment for third party holdings	(87)	-	-
Holdings of Tier 2 instruments in ANZ and other financial institutions	(31)	-	-
Deductions	-	(2,814)	(3,217)
Total	6,062	4,073	3,713

1. *Prior to 2013, included undistributed equity accounted earnings in associates*
2. *Prior to 2013, the entire balance was excluded from capital*
3. *Calculation based on prudential requirements*
4. *From 2013, includes deferred tax on general reserve for impairment of financial assets*
5. *From 2013, does not include adjustments for tax*
6. *In 2013 includes Cash Flow Hedge Reserve*

	Basel 3	Basel 2	
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Table 4: Risk weighted assets			
On balance sheet	199,121	190,210	186,122
Commitments	45,250	42,807	43,571
Contingents	10,174	9,962	9,546
Derivatives[1]	20,433	11,896	10,926
Total credit risk[2]	274,978	254,875	250,165
Market risk - Traded	6,850	4,664	4,201
Market risk - IRRBB	12,629	12,455	10,465
Operational risk	28,125	28,125	20,005
Total risk weighted assets	322,582	300,119	284,836

	Basel 3	Basel 2	
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Table 5: Credit risk weighted assets by Basel asset class			
Subject to Advanced IRB approach			
Corporate[2]	114,700	111,796	101,280
Sovereign	4,382	4,088	4,669
Bank[2]	15,838	11,077	10,195
Residential mortgage	44,597	42,959	42,684
Qualifying revolving retail (credit cards)	7,234	7,092	7,610
Other retail	23,200	21,277	20,087
Credit risk weighted assets subject to Advanced IRB approach	209,951	198,289	186,525
Credit risk specialized lending exposures subject to slotting criteria	27,842	27,628	27,903
Subject to Standardized approach			
Corporate	17,157	18,168	24,922
Residential mortgage	1,827	1,812	1,445
Qualifying revolving retail (credit cards)	2,068	2,028	1,933
Other retail	1,248	1,165	1,124
Credit risk weighted assets subject to Standardized approach	22,300	23,173	29,424
Credit Valuation Adjustment and Qualifying Central Counterparties	8,949	n/a	n/a
Credit risk weighted assets relating to securitization exposures	2,549	1,170	1,225
Credit risk weighted assets relating to equity exposures	n/a	1,030	1,235
Other assets	3,387	3,585	3,853
Total credit risk weighted assets	274,978	254,875	250,165

1. *From 2013, includes impact of Credit Valuation Adjustment and Qualifying Central Counterparties*
2. *From 2013, includes impact of the increase in asset value correlation with respect to large and unregulated financial institutions*

	Collective Provision		Regulatory Expected Loss	
	As at ($M)		As at ($M)	
Table 6: Collective provision and regulatory expected loss by division	Mar 13	Sep 12	Mar 13	Sep 12
Australia	1,090	1,073	2,377	2,309
International and Institutional Banking	1,239	1,224	1,123	1,270
New Zealand	385	413	792	814
Global Wealth	11	11	23	23
Group Centre	44	44	1	1
Cash collective provision and regulatory expected loss	2,769	2,765	4,316	4,417
Adjustments between statutory and cash	-	-	9	20
Collective provision and regulatory expected loss	2,769	2,765	4,325	4,437

Table 7: Expected loss in excess of eligible provisions	As at ($M) Mar 13 $M	Sep 12 $M	Mar 12 $M
Basel expected loss			
Defaulted	1,976	2,168	2,130
Non-defaulted	2,349	2,269	2,304
	4,325	4,437	4,434
Less: Qualifying collective provision			
Collective provision	(2,769)	(2,765)	(2,994)
Non-qualifying collective provision	341	334	312
Standardized collective provision	245	269	296
Deferred tax asset	n/a	625	708
	(2,183)	(1,537)	(1,678)
Less: Qualifying individual provision			
Individual provision	(1,543)	(1,773)	(1,714)
Standardized individual provision	249	268	300
Collective provision on advanced defaulted	(322)	(312)	(293)
	(1,616)	(1,817)	(1,707)
Gross deduction	526	1,083	1,049
50/50 deduction	n/a	542	524

Table 8: APRA Basel 3 Common Equity Tier 1

	Half Year Mar 13 vs Sep 12
APRA Basel 3 Common Equity Tier 1	
Cash profit after preference share dividends	+101bps($3.2B)
Risk weighted assets (excluding portfolio data review)	
Portfolio growth and mix	-25bps
Risk migration and Expected Losses in excess of Eligible Provisions	0bps
Non-credit risk	-6bps
Capital retention in insurance businesses and associates	-7bps
Capitalized software and intangibles	-5bps
Other items	-6bps
Organic Capital Generation	**+52bps**
ANZ Wealth Refinance	+13bps
Other	+3bps
Capital initiatives and divestments	**+16bps**
Ordinary share dividends	-68bps
Dividends reinvested	+15bps
Ordinary share dividends net of reinvestment	**-53bps**
Other	**+1bps**
Total Common Equity Tier 1 movement	**+16bps**
March 2013 APRA Basel 3 Common Equity Tier 1	**8.2%**

Liquidity risk

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

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

- Scenario 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 short term liquidity scenario modelling stresses cash flow projections against multiple 'survival horizons' over which the Group is required to remain cash flow positive. In addition, longer term scenarios are in place that measure the structural liquidity position of the balance sheet. Scenarios modelled are either prudential requirements or Board mandated scenarios. Under these scenarios, customer and wholesale balance sheet asset/liability flows are stressed.

- Liquidity portfolio

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

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

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

  - central bank deposits with the US Federal Reserve, Bank of England, Bank of Japan and European Central Bank of $26.1 billion;
  - Australian Commonwealth and State Government securities of $7.4 billion and gold and precious metals of $3.3 billion, and
  - cash and other securities to satisfy local country regulatory liquidity requirements which are not included in the liquid assets below.

	As at		
Prime liquidity portfolio (Market Values)[1]	**Mar 13 $B**	**Sep 12 $B**	**Mar 12 $B**
Australia	25.3	24.0	21.2
New Zealand	10.5	11.0	10.5
United States	1.3	1.4	1.4
United Kingdom	4.4	3.3	3.1
Singapore	3.2	4.5	5.0
Hong Kong	0.3	0.6	0.3
Japan	1.4	1.3	1.2
Total excluding internal Residential Mortgage Backed Securities	**46.4**	**46.1**	**42.7**
Internal Residential Mortgage Backed Securities (Australia)	35.3	34.9	24.6
Internal Residential Mortgage Backed Securities (New Zealand)	3.3	3.0	4.0
Total prime portfolio	**85.0**	**84.0**	**71.3**
Other eligible securities including gold and cash on deposit with central banks[2]	36.8	30.6	28.1
Total liquidity portfolio	**121.8**	**114.6**	**99.4**

1. *Market value is post the repo discount applied by the applicable central bank.*
2. *Liquid asset holdings in Australia and New York are netted down against overnight interbank borrowings.*

Wholesale Funding

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

As at March 2013, the composition of the Group's funding profile was:

- Term wholesale funding with a remaining maturity of more than one year of $61.4 billion, representing 11% of total funding ($68.4 billion, 12% of total funding at Sep 2012).
- Term wholesale funding with a remaining maturity of one year or less of $32.0 billion, representing 5% of total funding ($25.4 billion, 5% of total funding at Sep 2012).
- Short-term wholesale funding (including central bank deposits) of $90.7 billion, representing 15% of total funding ($78.9 billion, 14% of total funding at Sep 2012).
- Shareholders' equity and hybrids of $47.6 billion, representing 8% of total funding ($46.3 billion, 8% of total funding at Sep 2012).

$8.6 billion of term wholesale debt (with a remaining term greater than one year as at 31 March, 2013) was issued during the first half of FY13, and in addition $0.4 billion was issued by ANZ Wealth. $3.4 billion of term wholesale funding has been issued since 31 March 2013.

- Access to all major global wholesale funding markets remained available to ANZ during half year 2013.
- All wholesale funding needs were comfortably met.
- The weighted average tenor of new term debt was 4.0 years (4.6 years in 2012).
- The weighted average cost of new term debt issuance decreased in the first half of 2013 as a result of improved market conditions. However, average portfolio costs remain substantially above pre-crisis levels and have only recently stabilised at these elevated levels.

The following tables show the Group's funding composition:

	As at		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Customer deposits and other liabilities[1]			
Australia	145,550	140,810	132,784
International and Institutional Banking	151,847	142,651	132,744
New Zealand	41,423	39,622	37,782
Global Wealth	10,042	9,449	9,659
Other	(4,727)	(4,656)	(4,666)
Total customer deposits	344,135	327,876	308,303
Other[2]	12,373	9,841	9,624
Total customer deposits and other liabilities (funding)	356,508	337,717	317,927
Wholesale funding[3,4]			
Bonds and notes[5]	59,422	62,693	61,107
Loan capital	11,666	11,914	12,605
Certificates of deposit	61,564	56,838	59,603
Commercial paper issued	14,486	12,164	15,084
Due to other financial institutions[6]	38,678	30,538	29,688
Other wholesale borrowings[7]	4,242	4,585	2,665
Total wholesale funding	190,058	178,732	180,752
Shareholders' equity (excl preference shares)	41,648	40,349	38,572
Total funding	588,214	556,798	537,251
Wholesale funding maturity[3,4]			
Short term wholesale funding (excluding Central Banks)	72,351	63,433	64,735
Central Bank deposits	18,360	15,475	14,872
Total short term wholesale funding	90,711	78,908	79,607
Long term wholesale funding[3]			
- Less than 1 year residual maturity	31,977	25,391	22,782
- Greater than 1 year residual maturity	61,392	68,449	71,677
Hybrid capital including preference shares	5,978	5,984	6,686
Total wholesale funding and preference share capital excluding shareholders' equity	190,058	178,732	180,752
Total funding maturity			
Short term wholesale funding (excluding Central Banks)	12%	11%	12%
Central Bank deposits	3%	3%	3%
Total short term wholesale funding	15%	14%	15%
Long term wholesale funding			
- Less than 1 year residual maturity	5%	5%	4%
- Greater than 1 year residual maturity	11%	12%	13%
Total customer liabilities (funding)	61%	61%	59%
Shareholders' equity and hybrid debt	8%	8%	9%
Total funding and shareholders' equity	100%	100%	100%

1. *Includes term deposits, other deposits and an adjustment to eliminate OnePath Australia investments in ANZ deposit products.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in OnePath Australia.*
3. *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.*
4. *Liability for acceptances have been removed as they do not provide net funding.*
5. *Excludes term debt issued externally by ANZ Wealth.*
6. *Liquid asset holdings in Australia and New York are netted down against overnight interbank borrowings.*
7. *Includes net derivative balances, special purpose vehicles, other borrowings and Euro Trust Securities (preference shares).*

Term debt maturity profile

	Years ended September 30				
Year of maturity	2013 $M[1]	2014 $M	2015 $M	2016 $M	>2016 $M
Senior term debt	14,350	11,863	16,180	11,785	14,257
Government guaranteed term debt	-	5,597	77	-	-
Covered bonds	-	-	650	5,958	5,343
Subordinated and perpetual debt	500	1,004	-	-	5,872
Total	**14,850**	**18,464**	**16,907**	**17,743**	**25,472**

1. *This data refers to term debt maturing from April 1, 2013 to September 30, 2013.*

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		
Gross impaired assets	**Mar 13 $M**	**Sep 12 $M**	**Mar 12 $M**
Impaired loans	3,978	4,364	4,664
Restructured items	524	525	340
Non-performing commitments and contingencies	183	307	339
Gross impaired assets	**4,685**	**5,196**	**5,343**
Individual provisions			
Impaired loans	(1,518)	(1,729)	(1,701)
Non-performing commitments and contingencies	(25)	(44)	(13)
Net impaired assets	**3,142**	**3,423**	**3,629**

Comparison with September 2012 half

Gross impaired assets decreased by $511 million (10%) over the September 2012 half, driven by the reduced flow of new impaired assets across all divisions combined with asset realizations and write-offs in IIB and New Zealand.

Net impaired assets decreased by $281 million (8%) from $3,423 million at September 30, 2012 as a result of the reduced flow of new impaired assets, most notably in IIB and New Zealand, and a higher level of write-offs relative to new individual provisions. The Group has an individual provision coverage ratio on impaired assets of 32.9% at March 31, 2013 down from 34.1% as at September 30, 2012.

Comparison with March 2012 half

Gross impaired assets decreased $658 million (12%), driven by the reduced flow of new impaired assets across all divisions combined with asset realizations and write-offs in IIB and New Zealand.

Net impaired assets decreased by $487 million (13%) from $3,629 million at March 31, 2012 driven by the reduced flow of new impaired assets combined with a reduction in individual provision balance of $171 million. Individual provisions in IIB and New Zealand have reduced with Australia partially offsetting the reduction. The Group has an individual provision coverage ratio on impaired assets of 32.9% at March 31, 2013, up from 32.1% as at March 31, 2012.

	As at		
	Mar 13 $M	**Sep 12 $M**	**Mar 12 $M**
Total gross impaired loans	3,978	4,364	4,664
Subject to specific provision for credit impairment	3,613	4,011	4,322
Without specific allowance for loan losses	365	353	342

Gross impaired loans by division	As at Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	1,691	1,729	1,705
International and Institutional Banking	1,401	1,615	1,651
New Zealand	853	984	1,271
Global Wealth	33	36	37
Total gross impaired loans	3,978	4,364	4,664

New impaired assets by division	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	782	862	835
International and Institutional Banking	453	641	1,065
New Zealand	335	340	447
Global Wealth	1	4	9
Total new impaired assets	1,571	1,847	2,356

Comparison with September 2012 half

New impaired assets decreased by 15% over the September 2012 half, with new impaired loans decreasing across all divisions but most notably in IIB and New Zealand. Restructured items and non performing commitments and contingencies were also lower, mainly driven by improvements in IIB.

Comparison with March 2012 half

New impaired assets decreased by 33% over the March 2012 half, with the higher March 2012 number driven by the impairment of a few substantial legacy loans in IIB. New impaired loans in the March 2013 half decreased across all divisions but most notably in IIB and New Zealand. Restructured items and non performing commitments and contingencies were also lower, mainly driven by improvements in IIB.

Impaired loans – five half year summary

	As at Mar 13 $M	Sep 12 $M	Mar 12 $M	Sep 11 $M	Mar 11 $M
Gross impaired loans	3,978	4,364	4,664	4,650	5,203
Subject to specific provision for credit impairment	3,613	4,011	4,322	4,376	4,784
Without specific allowance for loan losses	365	353	342	274	419
Gross impaired loans					
Australia	1,691	1,729	1,678	1,694	1,511
International and Institutional Banking	1,401	1,615	1,651	1,520	2,044
New Zealand	853	984	1,271	1,387	1,557
Global Wealth	33	36	37	33	60
Other	-	-	27	16	31
Total gross impaired loans	**3,978**	**4,364**	**4,664**	**4,650**	**5,203**
Individual provisions for credit impairment	(1,543)	(1,773)	(1,714)	(1,697)	(1,717)
Net impaired loans[1]	2,435	2,591	2,950	2,953	3,486
Ratio of individual provision for credit impairment to gross impaired loans	38.8%	40.6%	36.7%	36.5%	33.0%

1. *Excluding restructured items of $524 million (Sep 2012: $525 million; Mar 2012: $340 million; Sep 2011: $700 million; Mar 2011: $704 million) and off-balance sheet commitments that have been classified as non-performing commitments and contingencies of $183 million (Sep 2012: $307 million; Mar 2012: $339 million; Sep 2011: $231 million; Mar 2011: $314 million) net of a provision of $25 million (Sep 2012: $44 million; Mar 2012: $13 million; Sep 2011: $10 million; Mar 2011: $17 million).*

Restructured items

	As at		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	39	39	42
International and Institutional Banking	336	341	276
New Zealand	151	148	21
Global Wealth	-	-	-
Other	(2)	(3)	1
Total restructured items[1]	524	525	340

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 13 $M	Sep 12 $M	Mar 12 $M
Australia	16	26	28
International and Institutional Banking	157	269	292
New Zealand	9	12	19
Global Wealth	-	-	-
Other	1	-	-
Gross impaired commitments and contingencies	183	307	339

Other potential problem loans

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

Accruing loans – past due 90 days or more

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

	As at		
	Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	1,452	1,447	1,499
International and Institutional Banking	57	83	138
New Zealand	184	180	228
Global Wealth	-	-	5
Other	3	3	6
Total past due loans	1,696	1,713	1,876

Provision for credit impairment

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

For further discussion on provision for credit impairment refer to page 30.

Individual provision balance	As at Mar 13 $M	Sep 12 $M	Mar 12 $M
Australia	730	716	691
International and Institutional Banking	492	681	594
New Zealand	307	362	399
Global Wealth	14	14	13
Other	-	-	17
Total individual provision	1,543	1,773	1,714

	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Collective provision			
Balance at start of period	2,765	2,994	3,176
Charge/(credit) to income statement	4	(227)	(152)
Provisions acquired	-	(4)	-
Adjustment for exchange rate fluctuations	-	2	(30)
Total collective provision[1]	2,769	2,765	2,994
Individual provision			
Balance at start of period	1,773	1,714	1,697
New and increased provisions	932	1,270	1,023
Write-backs	(240)	(286)	(251)
Adjustment for exchange rate fluctuations	(3)	(5)	(29)
Discount unwind	(55)	(79)	(64)
Bad debts written-off	(864)	(841)	(662)
Total individual provision	1,543	1,773	1,714
Total provision for credit impairment	4,312	4,538	4,708

1. *Collective provision includes amounts for off-balance sheet credit exposures: $531 million at March 31, 2013 (Sep 2012: $529 million; Mar 2012: $545 million). The impact on the income statement for the half year ended March 31, 2013 was a $2 million charge (Sep 2012 half: $14 million release; Mar 2012 half: $22 million release).*

Provision movement analysis	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
New and increased provisions			
Australia	550	545	504
International and Institutional Banking	246	564	383
New Zealand	150	182	190
Global Wealth	-	3	6
Other	(14)	(24)	(60)
	932	1,270	1,023
Write-backs	(240)	(286)	(251)
	692	984	772
Recoveries of amounts previously written-off	(111)	(97)	(117)
Individual provision charge for loans and advances	581	887	655
Impairment on available-for-sale assets	3	-	35
Collective provision charge/(credit) to income statement	4	(227)	(152)
Charge to income statement	588	660	538

Concentrations of credit risk/loans and advances by industry category

Although ANZ's loan portfolio is spread across many countries, at half year ended March 31, 2013, 71% of gross loans and advances were booked in Australia (September 2012: 72%), and 18% were booked in New Zealand (September 2012: 18%). The inherent risk characteristics of ANZ's loan portfolio are therefore very much linked to general economic conditions in Australia and New Zealand, where the portfolio is diversified across different regions, industries, customer types, and products.

As at year ended September 30, 2012, ANZ's largest credit exposure in Australia was in the category 'Personal Lending' (49%), which includes consumer lending secured by a mortgage. Over the past half year, growth was recorded in ANZ's Mortgages Australia portfolio (3%) as a result of continuing customer demand for retail housing and investment loans.

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

Also refer to Note 33 of ANZ's 2012 Annual Report.

Results by Geographic Region

Australia Geographic Region	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Net interest income	4,477	4,393	4,274
Other operating income	1,606	1,668	1,782
Operating income	6,083	6,061	6,056
Operating expenses	(2,601)	(2,936)	(2,686)
Profit before credit impairment and income tax	3,482	3,125	3,370
Provision for credit impairment	(454)	(533)	(410)
Profit before income tax	3,028	2,592	2,960
Income tax expense	(1,070)	(859)	(965)
Non-controlling interests	-	-	-
Profit after income tax	**1,958**	**1,733**	**1,995**

Asia Pacific, Europe & America Geographic Region	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Net interest income	683	680	660
Other operating income	809	747	714
Operating income	1,492	1,427	1,374
Operating expenses	(823)	(771)	(786)
Profit before credit impairment and income tax	669	656	588
Provision for credit impairment	(99)	(49)	(48)
Profit before income tax	570	607	540
Income tax expense	(105)	(103)	(87)
Non-controlling interests	(5)	(2)	(4)
Profit after income tax	**460**	**502**	**449**

New Zealand Geographic Region	Half year Mar 13 $M	Sep 12 $M	Mar 12 $M
Net interest income	1,040	1,053	1,050
Other operating income	315	353	337
Operating income	1,355	1,406	1,387
Operating expenses	(610)	(679)	(661)
Profit before credit impairment and income tax	745	727	726
Provision for credit impairment	(35)	(78)	(80)
Profit before income tax	710	649	646
Income tax expense	(188)	(142)	(171)
Non-controlling interests	-	-	-
Profit after income tax	**522**	**507**	**475**

Exchange rates

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

	Balance sheet			Profit & Loss Average		
	As at			Half Year		
	Mar 13	Sep 12	Mar 12	Mar 13	Sep 12	Mar 12
Chinese Yuan	6.4793	6.5848	6.5530	6.4746	6.4923	6.5376
Euro	0.8152	0.8092	0.7791	0.7938	0.8071	0.7758
Great British Pound	0.6886	0.6437	0.6510	0.6574	0.6475	0.6569
Indian Rupee	56.738	55.171	53.414	56.240	55.756	52.143
Indonesian Rupiah	10,127.4	10,022.6	9,548.1	10,034.1	9,619.9	9,332.8
Malaysian Ringgit	3.2351	3.2077	3.1890	3.1876	3.1927	3.2068
New Zealand Dollar	1.2469	1.2529	1.2697	1.2533	1.2808	1.2959
Papua New Guinea Kina	2.2297	2.1773	2.1579	2.1850	2.1191	2.2124
United States Dollar	1.0424	1.0462	1.0401	1.0387	1.0237	1.0320

Derivative financial instruments

Derivatives

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

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

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

	As at March 31, 2013			As at September 30, 2012		
	Notional Principal amount $M	Total fair value Assets $M	Total fair value Liabilities $M	Notional Principal amount $M	Total fair value Assets $M	Total fair value Liabilities $M
Foreign exchange contracts						
Spot and forward contracts	419,509	5,044	(5,567)	390,756	4,147	(5,336)
Swap agreements	311,885	6,572	(10,503)	280,664	7,863	(11,685)
Futures contracts	676	117	(108)	954	99	(134)
Options purchased	60,166	1,282	-	66,348	1,228	-
Options sold	73,605	-	(1,239)	71,318	-	(1,091)
	865,841	13,015	(17,417)	810,040	13,337	(18,246)
Commodity contracts						
Derivative contracts	23,383	1,096	(770)	34,820	1,600	(1,803)
Interest rate contracts						
Forward rate agreements	182,042	12	(13)	240,576	24	(23)
Swap agreements	1,911,250	25,898	(25,074)	1,583,257	32,284	(30,745)
Futures contracts	189,884	337	(369)	113,974	157	(176)
Options purchased	16,691	918	-	26,040	963	-
Options sold	25,762	-	(1,000)	35,367	-	(1,116)
	2,325,629	27,165	(26,456)	1,999,214	33,428	(32,060)
Credit default swaps						
Structured credit derivatives purchased	4,495	203	-	7,634	243	-
Other credit derivatives purchased[1]	11,877	159	(134)	11,632	277	(62)
Total credit derivatives purchased	16,372	362	(134)	19,266	520	(62)
Structured credit derivatives sold	4,495	-	(246)	7,634	-	(346)
Other credit derivatives sold[1]	10,706	62	(47)	10,870	44	(122)
Total credit derivatives sold	15,201	62	(293)	18,504	44	(468)
	31,573	424	(427)	37,770	564	(530)
Total	3,246,426	41,700	(45,070)	2,881,844	48,929	(52,639)

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

Directors

Refer to “Section 4: Directors, Senior Management/Executives and Employers” on pages 57 to 77 of ANZ’s U.S. Disclosure Document dated November 16, 2012 for a comprehensive discussion of the Group’s Directors, Senior Management and Executives, and Corporate Governance.

During the period since the 2012 Annual U.S. Disclosure Document to the date of this U.S. Disclosure Document, there were no material changes to these matters.

Changes to Senior Management and Executives

On April 3, 2013 ANZ announced the resignation of Alex Thursby, CEO International and Institutional Banking. In line with ANZ’s succession planning process the Bank will evaluate internal and external candidates. During that time, Gilles Plante, CEO Asia Pacific and Steve Bellotti, Managing Director, Global Markets and Loans will assume Mr. Thursby’s responsibilities and commenced reporting to ANZ Chief Executive Officer, Mike Smith on an interim basis from May 1, 2013.

Major Shareholders

We are not directly or indirectly owned or controlled by another corporation, any government or any other natural or legal person(s), separately or jointly. As at the date of this U.S. Disclosure Document, we know of no person who is the beneficial owner of 5% or more of our ordinary shares. For further information regarding major shareholders (including share and option holdings by key management personnel, including directors refer to the Shareholder Information Section and Remuneration Report (Annex to the U.S. Disclosure Document dated November 16, 2012).

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

Change in Control

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

Related Party Transactions

All related party loans were made in the ordinary course of business, 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 19 (“Related party disclosure”) of the 2013 Half Year Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on (613) 8654-8576 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Legal Proceedings

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. In some instances we have not disclosed the estimated financial impact as this may prejudice the interests of the Group. Refer to Note 14 of the 2013 Half Year Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document) for a discussion of material legal proceedings as at March 31, 2013.

Significant events since the end of the financial year

No significant events for ANZ have occurred from March 31, 2013 to the date of this U.S. Disclosure Document.

Dividend Distribution Policy

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

ANZ has a dividend reinvestment plan ("DRP") and a bonus option plan ("BOP"). For the 2013 interim dividend, ANZ will provide ordinary shares under the DRP and BOP through the issue of new ordinary shares. For the purposes of the DRP and BOP terms and conditions in respect of the 2013 interim dividend, no discount will be applied when calculating the "Acquisition Price".

Exchange Controls

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

1. the Autonomous Sanctions Regulations 2011 prohibit dealing with certain "designated persons or entities" by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit. "Designated persons or entities" include:
   - (a) persons who have been indicted for an offense by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia, as well as certain supporters of the former Milosevic regime;
   - (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
   - (c) certain persons or entities associated with the weapons of mass-destruction or missiles program of the Democratic People's Republic of Korea ("North Korea");
   - (d) certain persons associated with the Burmese regime;
   - (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;
   - (f) certain close associates of the former Gaddafi regime, entities under the control of the Gaddafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya;
   - (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and
   - (h) certain individuals associated with Commodore Josaia Voregе Bainimarama, the Republic of Fiji Military Forces, the Fijian interim government or the Fijian judiciary;
2. under Part 4 of the Charter of the United Nations Act 1945 and pursuant to the Charter of the United Nations ('Dealings with Assets') Regulations 2008, sanctions against using or dealing with financial or other assets of persons or entities listed by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette from time to time. Such persons or entities include those in:
   - (a) Liberia (see the Charter of the United Nations (Sanctions – Liberia) Regulations 2008);
   - (b) Côte d'Ivoire (see the Charter of the United Nations (Sanctions – Côte d'Ivoire) Regulations 2008);
   - (c) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008);
   - (d) Democratic People's Republic of Korea (North Korea) (see the Charter of the United Nations (Sanctions – Democratic People's Republic of Korea) Regulations 2008);
   - (e) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008);
   - (f) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulations 2008);
   - (g) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008);
   - (h) Al-Qaida and the Taliban (see the Charter of the United Nations (Sanctions – Al-Qaida and the Taliban) Regulations 2008);
   - (i) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008);
   - (j) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008);
   - (k) Eritrea (see the Charter of the United Nations (Sanctions – Eritrea) Regulations 2010); and
   - (l) Libya (see the Charter of the United Nations (Sanctions – Libyan Arab Jamahiriya) Regulations 2011.

3. Under the Financial Transaction Reports Act 1988 and subject to certain exemptions, 'cash dealers' (including Australian authorized deposit taking institutions such as ANZ) must report 'cash transactions' of A$10,000 (or the foreign equivalent) and above to the Australian Transaction Reports and Analysis Center. Cash transactions are those which involve the physical transfer of currency from one person to another.

Limitations Affecting Security Holders

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

- Foreign Acquisitions and Takeovers Act 1975

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

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

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

- Financial Sector (Shareholdings) Act 1998

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

- Corporations Act 2001

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

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

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

  - throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and
  - as a result of the acquisition neither that person, nor any other person who has had voting power of at least 19% in the preceding six months, would have voting power in the company more than three percentage points higher than they had six months before the acquisition.

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

  In addition, under the Corporations Act, any person who begins to have or ceases to have, a substantial holding in us, or who already has a substantial holding and there is a movement of at least 1% in their holding, or who makes a takeover bid for our securities, is required to give a notice to us and to 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.

AAS - Australian Accounting Standards.

AASB - Australian Accounting Standards Board.

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

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

IFRS – International Financial Reporting Standards.

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

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

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

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

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

Net loans and 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).

Network revenue – APEA network revenue is total revenue derived from outside Australia and New Zealand regardless of booking point.

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

Operating income includes net interest and other operating income.

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

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

Revenue includes net interest income and other operating income.

Segment review description

The Group operates and manages its cash results on a divisional structure comprising Australia, International & Institutional Banking ("IIB"), New Zealand and Global Wealth.

Other comprises functions that service the organization globally.

Australia

The Australia division comprises Retail and Corporate and Commercial Banking and business units. Retail includes Mortgages, Consumer Cards and Unsecured Lending and Deposits. Corporate and Commercial Banking includes Corporate Banking, Esanda, Regional Business Banking and Small Business Banking.

- **Retail**
  - **Retail Distribution** delivers banking solutions to customers via the Australian branch network, ANZ Direct and specialist sales channels.
  - **Retail Products** is responsible for delivering a range of products including mortgages, credit cards, personal loans, transaction banking, savings accounts and deposits, using capabilities in product, analytics, customer research, segmentation, strategy and marketing. It also provides online and electronic payment solutions for businesses.
    - Mortgages provides housing finance to consumers in Australia for both owner occupied and investment purposes.
    - Cards and Payments provides consumer and commercial credit cards, personal loans and merchant services.
    - Deposits provides transaction banking, savings and investment products, such as term deposits and cash management accounts.
- **Corporate and Commercial Banking**
  - **Corporate Banking** provides a full range of banking services offering traditional relationship banking and sophisticated financial solutions, largely to privately owned companies with a turnover greater than A$125 million.
  - **Esanda** provides motor vehicle and equipment finance and investment products.
  - **Regional Business Banking** provides a full range of banking services to non metropolitan business banking customers.
  - **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$125 million.
  - **Small Business Banking** provides a full range of banking services for metropolitan and regional based small businesses in Australia with lending up to A$1 million.

International and Institutional Banking

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

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

Segment review description, cont'd

New Zealand

The New Zealand division comprises Retail and Commercial business units, and Operations and Support which includes the central support functions (including Treasury funding).

- **Retail**
  - Includes Mortgages, Credit Cards and Unsecured Lending to personal customers in New Zealand.
- **Commercial**
  - **Commercial & Agri** provides financial solutions through a relationship management model for medium-sized businesses, including agri-business, with a turnover of up to NZ$150 million. Asset Finance (including motor vehicle and equipment finance), operating leases and investment products are provided under the UDC brand.
  - **Small Business Banking** provides a full range of banking services to small enterprises, typically with turnover of less than NZ$5 million.

Global Wealth

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

- **Private Wealth** specialises in assisting individuals and families to manage, grow and preserve their wealth. The businesses within Private Wealth include Private Bank, ANZ Trustees and Super Concepts.
- **Funds Management** includes Pensions and Investment business of OnePath Group (in Australia and New Zealand), E*Trade and Investment Lending.
- **Insurance** includes the insurance business of OnePath Group (in Australia and New Zealand) and Lender's Mortgage Insurance.

Other

Other comprises Global Services & Operations, Group Technology, Group Human Resources, Group Risk, Group Strategy, Group Corporate Affairs, Group Corporate Communications, Group Treasury, Global Internal Audit, Group Finance, and Group Marketing, Innovation and Digital and Shareholder functions. In addition, Other includes certain items which are removed from the divisional results because they are not considered integral to the ongoing performance of the divisions.