BEING DIFFERENT

ANZ

2007 Annual Report

HAS ITS REWARDS

ANNUAL REPORT

CONTENTS

CHAIRMAN'S REPORT

A MESSAGE FROM CHARLES GOODE

2007 has been a year of achievement and change. ANZ has performed solidly during 2007, delivering value for shareholders, customers and the community. Our level of staff engagement grew and our approach to corporate responsibility gained increasing recognition. Looking ahead, we are conscious of the demands of increasing competition and the turbulence in world markets.

OUR PERFORMANCE

ANZ's performance in 2007 was characterised by strong revenue growth and a prudent approach to risk.

Our profit after tax for the year ended 30 September 2007 of $4,180 million was up by 13%. Cash profit[1] was $3,924 million, up by 9%.

The dividend is 136 cents per share fully franked, a 9% increase on 2006.

These results reflect the efforts of our management and staff, and I thank them for their contribution.

EXPANSION AND GROWTH

The Personal Division delivered another very strong result driven by revenue growth of 12%. In New Zealand we increased market share in a number of key segments and delivered improved financial performance. The Institutional Division had a mixed year but should perform better in 2008.

We continued our expansion in Asia. We acquired an initial 19% of Malaysia's AMMB Holdings Berhad; 20% of China's Shanghai Rural Commercial Bank; 60% of the Vientiane Commercial Bank in Laos; 10% of Vietnam's Saigon Securities Incorporation; and 100% of the Citizens Security Bank in Guam.

In Australia, we completed the successful acquisition of ETRADE Australia Limited. We have committed approximately $1.5 billion to investments during 2007. Given this, we are taking the opportunity to enhance our strategic flexibility by offering a discount of 1.5% under our Dividend Reinvestment Plan, which is underwritten and expected to raise an additional $1 billion in capital.

LEADERSHIP

John McFarlane completed his term as Chief Executive on 30 September having occupied that position for ten years. John made an enduring contribution to ANZ's development, especially in the areas of customer satisfaction, staff engagement, lifting our position in the community and consistently delivering on promises to shareholders. ANZ now has a strong foundation and on behalf of shareholders and the Board, I thank him for his contribution and service.

Michael Smith commenced as Chief Executive on 1 October. Michael is an outstanding all round international banker. He joins us from HSBC where he had responsibility for HSBC's business in Asia.

David Gonski retired from the Board in June 2007. David made a significant contribution and we thank him. Ian Macfarlane, former Governor of the Reserve Bank of Australia, joined the Board in February 2007.

OUTLOOK

Looking ahead, there are some global uncertainties however the economies of Australia, New Zealand and Asia remain supportive of growth. ANZ remains in good shape, with a strong liquidity and funding position. We are well positioned for 2008.

Charles Goode

CHARLES GOODE CHAIRMAN

1 ANZ excludes from cash profit significant items, ANZ National Bank integration costs and volatility associated with fair value movements relating to economic hedges.

OVERVIEW OF OPERATIONS

ANZ recorded a profit after tax of $4,180 million for the year ended 30 September 2007, an increase of 13% over the September 2006 year.

Income Statement ($m)	2007	2006	Movt %
Net interest income	7,302	6,943	5%
Other operating income	4,083	3,209	27%
Operating income	11,385	10,152	12%
Operating expenses	(4,953)	(4,531)	9%
Provision before credit impairment and income tax	6,432	5,621	14%
Provision for credit impairment	(567)	(407)	39%
Profit before income tax	5,865	5,214	12%
Income tax expense	(1,678)	(1,522)	10%
Minority interest	(7)	(4)	75%
Profit attributable to shareholders of the Company	4,180	3,688	13%

ANZ recorded a $492 million (13%) increase in profit attributable to shareholders of the Company, from $3,688 million for the year ended 30 September 2006 to $4,180 million for the year ending 30 September 2007. Key factors influencing this increase were:

- Net interest income increased $359 million (5%) from $6,943 million for the year ended 30 September 2006 to $7,302 million for the year ended 30 September 2007. Net interest income was driven by average lending growth of 11% and average deposit growth of 8%, partially offset by a decline in net interest margin of 12 basis points.
- Other operating income increased $874 million (27%) from $3,209 million for the year ended 30 September 2006 to $4,083 million for the year ended 30 September 2007. The increase included a $195 million gain on sale from Fleet Partners Pty Limited and Truck Leasing Limited, and an increase over 2006 of $74 million arising on volatility from the use of derivatives in economic hedges and use of the fair value option.
- Operating expenses increased $422 million (9%) from $4,531 million for the year ended 30 September 2006 to $4,953 million for the year ended 30 September 2007. The increase was impacted by a $113 million cost recovery during 2006 following the settlement of a claim against a number of reinsurers in relation to the National Housing Bank (NHB) matter, partly offset by ANZ National Bank integration costs of $39 million incurred in 2006.
- Provision for credit impairment increased $160 million (39%) from $407 million for the year ended 30 September 2006 to $567 million for the year ended 30 September 2007.
- Income tax expense increased $156 million (10%) from $1,522 million for the year ended 30 September 2006 to $1,678 million for the year ended 30 September 2007. The effective tax rate was 28.6%, a reduction from 29.2% at 30 September 2006. The decrease includes the usage of capital losses which offset the capital gains made on the sale of Fleet Partners Pty Limited and other assets, and the non-assessable gain on the sale of Truck Leasing Limited, partially offset by the restatement of deferred tax balances for the announced New Zealand tax rate change which takes effect on 1 October 2008.

Analysis in greater detail of business performance in major income and expense categories follows.

NET INTEREST INCOME

Net interest income increased $359 million (5%) to $7,302 million for the year ended 30 September 2007. Net interest income was driven by an increase in average interest earning assets of 11% and average deposit and other borrowings growth of 8%, partially offset by a decline in net interest margin of 12 basis points.

The growth in average interest earning assets included an increase in Personal of 11% in lending assets, primarily in Mortgages, and from growth in retail loans and one-off borrowings following superannuation legislation changes. Institutional grew 9% as a result of continuing strong customer demand for debt products, especially in Relationship Lending in the latter part of the year and Business Banking. New Zealand Businesses grew 13% with robust growth across all businesses. Trading securities and available-for-sale assets grew by 16% reflecting Institutional's Debt Capital Markets' strategy to expand their on-balance sheet trading portfolio and liquid assets.

Average deposits and other borrowings increased 8% with customer deposits growing by 15%. Personal grew 13% as a result of ongoing marketing campaigns, in-branch promotions and simplification of account opening procedures. Institutional grew 25%, mainly in Trade & Transaction Services resulting from customer acquisition and the impact of new superannuation laws. New Zealand grew 11% with growth in both Institutional and the Retail brands. Other deposits and borrowings decreased by 12%, primarily in the United States due to the wind up of the Group's Delaware commercial paper program in February 2007.

Net interest margin was down 12 basis points to 2.19% from September 2006 with the key drivers being:

Competition (-9 basis points). Competitive pressures reduced margins, particularly in Australian and New Zealand Mortgages. In addition, net interest margin declined due to lower lending related fees and migration to high yielding deposits and low rate credit cards.

Wholesale rates (+3 basis points). Earnings from the investment of capital and rate insensitive deposits increased, partially offset by an increase in basis risk on variable rate mortgages and credit cards.

Other items (-6 basis points). NZD revenue hedging was included in interest income in prior periods, and in 2007 is included in foreign exchange earnings. Higher funding costs associated with unrealised trading gains (-3 basis points) were directly offset by an equivalent increase in trading income.

OTHER OPERATING INCOME

Other operating income increased $874 million (27%) to $4,083 million for the year ended 30 September 2007. Excluding the gain on sale from Fleet Partners Pty Limited and Truck Leasing Limited of $195 million, the increase of $74 million arising from volatility from the use of derivatives in economic hedges and the use of the fair value option and the $14 million received on settlement of ANZ National Bank claims during 2006, other operating income increased $619 million (20%). Fee income increased $235 million, largely in non-lending fee income following volume growth and revenue initiatives particularly within Consumer Finance, Investment and Insurance Products and Banking Products within Personal, and Corporate Finance and Working Capital within Institutional.

Foreign exchange earnings and profit on trading securities increased $160 million reflecting growth in derivative positions in Markets, the funding of which is included in net interest income.

Other income increased $184 million, including an increase in brokerage income of $39 million following the consolidation of ETRADE Australia Limited for the first time as full ownership was achieved. The acquisition of Stadium Australia during the first half of 2007 also contributed additional other income of $38 million. In addition, equity accounting income was higher in Partnerships and Private Bank due to increased earnings from INGA, a full year result from Bank of Tianjin and new investment in AMMB Holdings Berhad.

OPERATING EXPENSES

Operating expenses increased $422 million (9%) to $4,953 million for the year ended 30 September 2007. Excluding the impact of the $113 million cost recovery during 2006 in relation to NHB, and the ANZ National Bank integration costs of $39 million incurred in 2006, operating expenses increased $348 million (8%).

Personnel costs were up $236 million (9%) as a result of annual salary increases and a 7% increase in staff numbers from acquisitions and additional staff to support new initiatives and business growth. Premises costs increased $51 million (12%), driven mainly by higher rental expense reflecting additional space requirements, opening of new branches, additional ATMs and market rental growth. Computer costs increased $43 million (8%) from increased software purchases due mainly to internet banking licence fees and increased information system usage. Other expenses increased $18 million (2%) largely following an increase in Corporate Finance following the consolidation of Stadium Australia (mainly event costs).

PROVISION FOR CREDIT IMPAIRMENT

Provision for credit impairment increased $160 million (39%) to $567 million for the year ended 30 September 2007. The individual provision charge increased $146 million. Personal increased due to prior years' growth in low rate cards, higher bankruptcies and increased servicing pressure from higher interest rates, housing costs and fuel prices. Esanda experienced lower realisable values on defaulted large motor vehicles due to the impact of higher fuel prices. New Zealand Businesses returned to more normal provisioning levels following higher than usual writebacks last financial year. Institutional provisions have been influenced by two customers, offset by a substantial recovery in the first half ($47 million).

The collective provision charge increased $14 million. The charge for the year was driven by asset growth and changes in portfolio risk. This was partially offset by the continued release of the scenario impact provision taken in 2005 to reflect the risk change due to materially higher and sustained oil prices. The increase in 2007 was primarily due to growth in New Zealand, which was partially offset by a lower charge in Personal from continued prudent management of unsecured lending, particularly in Consumer Finance (due to tightened credit standards, reduced business in certain segments and improved collections) and lower risk movement, particularly in Esanda.

INCOME TAX EXPENSE

Income tax expense increased $156 million (10%) to $1,678 million for the year ended 30 September 2007. Excluding the impact of the usage of capital losses which offset the capital gains made on the sale of Fleet Partners Pty Limited and other assets, the non-assessable gain on the sale of Truck Leasing Limited partially offset by the restatement of deferred tax balances for the announced New Zealand tax rate change which takes effect on 1 October 2008, the effective tax rate was 29.1%, a reduction from 29.3% at 30 September 2006. The decrease was due primarily to increased profits from associates (net of Australian top-up tax) and Offshore Banking Unit (OBU) benefits, partially offset by the run-off of structured finance transactions.

OVERVIEW OF BUSINESS DIVISIONS

PERSONAL DIVISION

Income Statement ($m)	2007	2006	Movt %
Net interest income	3,282	3,017	9%
Other operating income	1,411	1,166	21%
Operating income	4,693	4,183	12%
Operating expenses	(2,240)	(2,081)	8%
Provision before credit impairment and income tax	2,453	2,102	17%
Provision for credit impairment	(393)	(336)	17%
Profit before income tax	2,060	1,766	17%
Income tax expense and minority interest	(618)	(527)	17%
Profit after tax	1,442	1,239	16%
Cost to income	47.7%	49.7%	
Employee numbers	14,096	12,913	9%

Profit after tax increased $203 million (16%) to $1,442 million for the year ended 30 September 2007. This increase was driven by strong lending and customer deposit growth and the benefits from ongoing investment in the business. Expansion of the footprint continued with 39 extra branches in 2007, a further 400 ATMs and 1,183 additional staff, mainly in customer-facing and transformation roles. Five months of ETRADE Australia results were consolidated as full ownership was achieved (an increase of $37 million operating income and $28 million in operating expenses).

Operating income was up 12% driven by volume growth, partly offset by margin decline of 5 basis points. Consumer Finance grew 12% due to increasing volumes and the impact of growth initiatives. Banking Products increased 15% mainly from new customer accounts. Mortgages grew 6% with lending growth of 12% offset by higher funding costs and continued competitive pressure on margins. Operating expenses increased 8% due to additional branches, ATMs and frontline staff as part of the investment in building "Australia's Most Convenient Bank". Credit costs increased 17% mainly reflecting volume growth, a strategic risk mix shift to low rate business, and higher delinquencies and bankruptcies in Consumer Finance.

INSTITUTIONAL DIVISION

Income Statement ($m)	2007	2006	Movt %
Net interest income	1,975	2,015	(2%)
Other operating income	1,527	1,241	23%
Operating income	3,502	3,256	8%
Operating expenses	(1,378)	(1,256)	10%
Provision before credit impairment and income tax	2,124	2,000	6%
Provision for credit impairment	(69)	(58)	19%
Profit before income tax	2,055	1,942	6%
Income tax expense and minority interest	(607)	(579)	5%
Profit after tax	1,448	1,363	6%
Cost to income	39.3%	38.6%	
Employee numbers	5,225	4,915	6%

Profit after tax increased $85 million (6%) to $1,448 million for the year ended 30 September 2007. The Markets business continued to benefit from diversity of product and geographic cover, with sales revenue particularly strong. Corporate Finance continued to grow with Alternative Assets increasing Funds Under Management and strong returns from earlier investments in the Private Equity business, although revenue growth was slowed by the substantial decline in capital market activity in the last two months of the year. Trade & Transaction Services maintained steady growth and solid volume growth in Business Banking was impacted in the first half by competitive pressures on margins on the secured lending book. Stadium Australia became a wholly owned subsidiary during the year as part of the Alternative Assets business (an increase of $35 million in operating income and $29 million in operating expenses).

Operating income was up 8% driven by an increase of 7% in average net lending assets and 17% in average deposit and other borrowings volumes partially offset by a decline in net interest margin of 18 basis points. Strong revenue growth was achieved in Markets and Corporate Finance from increased customer activities. Operating expenses increased 10%, reflecting an increase of 310 in employee numbers and continued investments in technology in Markets and Trade and Transaction Services. Provision for credit impairment increased 19% with two large individual provisions offsetting a large recovery in the first half ($47 million).

NEW ZEALAND BUSINESSES

Income Statement ($m)	2007	2006	Movt %
Net interest income	1,666	1,507	11%
Other operating income	507	481	5%
Operating income	2,173	1,988	9%
Operating expenses	(1,034)	(987)	5%
Provision before credit impairment and income tax	1,139	1,001	14%
Provision for credit impairment	(69)	(4)	large
Profit before income tax	1,070	997	7%
Income tax expense and minority interest	(344)	(322)	7%
Profit after tax	726	675	8%
Cost to income	47.6%	49.6%	
Employee numbers	8,923	8,788	2%

Profit after tax increased $51 million (8%) to $726 million for the year ended 30 September 2007. Strong revenue growth, largely from continued momentum in lending growth, supported continued reinvestment in the business and the strengthening of the customer proposition. The result included an increase in credit impairment expense of $65 million from unusually low levels in 2006.

Operating income was up 9% driven by robust balance sheet growth, with lending growth increasing 12% and customer deposits 7%, moderated by a 9 basis point contraction in margins. The disposal of the remaining MasterCard shares generated $9 million for the retail businesses ($4 million in 2006). Operating expenses increased 5% due to annual increases in salaries and investment in frontline staff and other business initiatives, partly offset by control of discretionary expenditure. The 2006 result included costs of $9 million in relation to the New Zealand Commerce Commission's action on disclosure of optional issuer fees. The cost to income ratio reduced 200 basis points to 47.6%. Provision for credit impairment increased $65 million from $4 million in 2006, reflecting high levels of recoveries and writebacks of past provisions in the Corporate and Business Banking portfolios last year.

PARTNERSHIPS & PRIVATE BANK

Income Statement ($m)	2007	2006	Movt %
Net interest income	133	107	24%
Other operating income	289	208	39%
Operating income	422	315	34%
Operating expenses	(123)	(95)	29%
Provision before credit impairment and income tax	299	220	36%
Provision for credit impairment	(34)	(24)	42%
Profit before income tax	265	196	35%
Income tax expense and minority interest	(18)	(12)	50%
Profit after tax	247	184	34%
Cost to income	29.1%	30.2%	
Employee numbers	1,574	1,102	43%

Profit after tax increased $63 million (34%) to $247 million for the year ended 30 September 2007. INGA earnings were up 27% driven by increased funds management activities. ANZ Private Bank profit after tax increased 16% with volume growth and increased sales of advisory and alternative investment products. 2007 also included significant Partnership activity with the completion of investments in AMMB Holdings Berhad in Malaysia, ANZ Vientiane Commercial Bank in Laos and Shanghai Rural Commercial Bank in China.

Operating income was up 34% primarily from volume growth in Indonesia Cards and Personal and Private Bank business in Asia. In addition, INGA equity accounted income was up 27% reflecting strong core operating profit benefiting from superannuation legislation changes, buoyant investment markets and higher capital investment earnings. International Partnerships other operating income increased 73% as a result of stronger Panin earnings, the full year impact of new partnerships and the first time booking of a full quarter of earnings from AMMB Holdings Berhad. ANZ Private Bank other income increased 62% due to higher income from the distribution of alternative investment and advisory products. Operating expenses increased 29% as a result of ongoing investment across all of the businesses. Provision for credit impairment increased 42% due to the impact of regulatory changes and business volume growth in Indonesia Cards.

TEN YEAR SUMMARY

	2007 $m	2006 $m	2005 $m	2004 $m
Financial Performance[1]				
Net interest income	7,302	6,943	6,371	5,252
Other operating income	3,765	3,146	2,935	3,267
Operating expenses	(4,953)	(4,605)	(4,340)	(4,005)
Profit before income tax, credit impairment and non-core items[1]	6,114	5,484	4,966	4,514
Provision for credit impairment	(567)	(407)	(565)	(632)
Income tax expense	(1,616)	(1,486)	(1,247)	(1,147)
Minority interest	(7)	(4)	(3)	(4)
Cash profit[1]	3,924	3,587	3,151	2,731
Non-core items[1]	256	101	24	84
Profit attributable to shareholders of the company	4,180	3,688	3,175	2,815
Financial Position				
Assets[2]	392,613	334,640	300,885	259,345
Net Assets	22,048	19,906	19,538	17,925
Tier 1 capital ratio[3]	6.7%	6.8%	6.9%	6.9%
Return on average ordinary equity[4,5]	19.6%	20.1%	19.0%	17.8%
Return on average assets[4]	1.1%	1.1%	1.1%	1.1%
Cost to income ratio[6]	44.8%	45.6%	46.6%	45.3%
Shareholder value – ordinary shares				
Total return to shareholders (share price movement plus dividends)	15.6%	17.1%	32.6%	17.0%
Market capitalisation	55,382	49,331	43,834	34,586
Dividend	136c	125c	110c	101c
Franked portion –interim	100%	100%	100%	100%
–final	100%	100%	100%	100%
Share price[7] –high	$31.50	$28.66	$24.45	$19.44
–low	$25.75	$22.70	$19.02	$15.94
–30 Sep	$29.70	$26.86	$24.00	$19.02
Share information				
(per fully paid ordinary share)				
Earnings per share[7] –basic	224.1c	200.0c	169.5c	153.1c
Dividend payout ratio[8]	60.9%	62.6%	65.0%	67.5%
Net tangible assets per ordinary share[9]	$9.37	$8.53	$7.77	$7.51
No. of fully paid ordinary shares issued (millions)	1,864.7	1,836.6	1,826.4	1,818.4
Dividend Reinvestment Plan (DRP) issue price				
–interim	$29.29	$26.50	$21.85	$17.84
–final	–	$28.25	$23.85	$19.95
Other information				
Points of representation[10]	1,327	1,265	1,223	1,190
No. of employees (full time equivalents)	34,353	32,256	30,976	28,755
No. of shareholders[11]	327,703	291,262	263,467	252,072

1 ANZ excludes from cash profit significant items, ANZ National Bank integration costs and volatility associated with ineffectiveness arising from designated accounting hedges, volatility arising from the usage of the fair value option and volatility from approved classes of derivatives not designated in accounting hedge relationships but that are considered to be economic hedges. ANZ excludes these items to provide a better indication of the underlying business performance. In addition, the 2005 result has been calculated on an AIFRS basis that is comparable with 2006 with the net effect of these adjustments included in non-core items, allowing readers to see the impact on 2005 results of accounting standards that have only been applied from 1 October 2005.

2 From 1998 to 2001, consolidated assets include the statutory funds of ANZ Life as required by an accounting standard. For the year 2004, consolidated assets include the statutory funds of NBNZ Life Insurance Limited. ANZ Life was sold in May 2002 and NBNZ Life Insurance was sold on 30 September 2005.

3 Calculated in accordance with Australian Prudential Regulation Authority requirements effective at the relevant date.

4 Excludes non-core items and minority interest. The 2005 ratio has been calculated on an AIFRS basis that is comparable with that of 2006.

Previous AGAAP

2003 $m	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
4,311	4,018	3,833	3,801	3,655	3,547
2,808	2,796	2,573	2,583	2,377	2,142
(3,228)	(3,153)	(3,092)	(3,314)	(3,300)	(3,442)
3,891	3,661	3,314	3,070	2,732	2,247
(614)	(610)	(531)	(502)	(510)	(487)
(926)	(880)	(911)	(863)	(736)	(576)
(3)	(3)	(2)	(2)	(6)	(9)
2,348	2,168	1,870	1,703	1,480	1,175
–	154	–	44	–	(69)
2,348	2,322	1,870	1,747	1,480	1,106
195,591	183,105	185,493	172,467	152,801	153,215
13,787	11,465	10,551	9,807	9,429	8,391
7.7%	7.9%	7.5%	7.4%	7.9%	7.2%
20.6%	21.6%	20.2%	19.3%	17.6%	15.9%
1.2%	1.3%	1.1%	1.1%	1.0%	0.7%
45.1%	46.0%	48.0%	51.7%	54.5%	60.9%
6.7%	15.3%	26.2%	36.3%	19.6%	–15.6%
27,314	26,544	23,783	20,002	16,045	13,885
95c	85c	73c	64c	56c	52c
100%	100%	100%	100%	75%	60%
100%	100%	100%	100%	80%	60%
$18.45	$19.70	$16.71	$12.87	$12.11	$11.52
$15.01	$15.23	$12.63	$9.18	$8.12	$7.65
$17.17	$16.88	$15.28	$12.70	$9.80	$8.62
142.4c	141.4c	112.7c	102.5c	86.9c	69.7c
64.2%	57.8%	62.0%	59.1%	62.1%	67.8%
$7.49	$6.58	$5.96	$5.49	$5.21	$4.98
1,521.7	1,503.9	1,488.3	1,506.2	1,565.4	1,539.4
$18.48	$19.24	$15.05	$11.62	$10.95	$10.64
$16.61	$18.32	$18.33	$14.45	$11.50	$10.78
1,019	1,018	1,056	1,087	1,147	1,205
23,137	22,482	22,501	23,134	30,171	32,072
223,545	198,716	181,667	179,829	179,945	151,564

5 For the periods 1998 to 2002, the return on average ordinary equity calculation accrues the dividend over the year. From 2003, dividends may no longer be accrued and are not included in the calculation of return on average ordinary equity.

6 Excludes non-core items. Periods prior to 2005 also exclude goodwill amortisation. The 2005 ratio has been calculated on an AIFRS basis that is comparable with that of 2006.

7 Periods prior to 2004 adjusted for the bonus elements of the November 2003 Rights Issue.

8 From 2003, the dividend payout ratio includes the final dividend proposed but not provided for in terms of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets which was effective from the September 2003 financial year.

9 Equals shareholders' equity less preference share capital, goodwill, software and other intangible assets divided by the number of ordinary shares. For periods prior to 2005, this equals shareholders' equity less preference share capital and unamortised goodwill divided by the number of ordinary shares.

10 Includes branches, offices, representative offices and agencies.

11 From 2000 onwards, the number of shareholders does not include the number of employees whose only shares are held by ANZEST Pty Ltd as the trustee for shares issued under the terms of any ANZ employee incentive plan.

DIRECTORS' REPORT

The directors present their report together with the Financial Report of the consolidated entity (the Group), being Australia and New Zealand Banking Group Limited (the Company) and its controlled entities, for the year ended 30 September 2007 and the Independent Auditor's Report thereon. The information is provided in conformity with the Corporations Act 2001.

PRINCIPAL ACTIVITIES

The Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional clients.

The Group conducts its operations primarily in Australia and New Zealand (93% of total assets at 30 September 2007 are related to these operations). The remainder of the Group's operations are conducted across the Asia Pacific region and in a number of other countries including the United Kingdom and the United States.

At 30 September 2007, the Group had 1,327 branches and other points of representation worldwide excluding Automatic Teller Machines ('ATMs').

RESULT

Consolidated profit after income tax attributable to shareholders of the Company was $4,180 million, an increase of 13% over the prior year.

The increase in profit is due to revenue growth of 12% which includes a one-off gain on the sale of Esanda Fleetpartners of $195 million.

The provision for credit impairment charge increased by 39% to $567 million. The increase is principally due to higher individual provision charges in Personal Division resulting from planned growth and lower recoveries in 2007 as compared to 2006.

One of the key drivers of the Group's performance has been strong overall balance sheet growth over the past 12 months. The major components of the Group's balance sheet and the related movements from prior year are as follows:

- Net loans and advances increased by 13% from $255,922 million to $288,846 million, primarily due to growth in mortgage and institutional lending in Australia.
- Deposits and other borrowings increased by 15% from $204,794 million to $234,873 million, principally to fund business growth.
- Bonds and notes increased by 8% from $50,050 million to $54,075 million, primarily to fund asset growth.

Further details are contained on pages 4 to 7 of this Annual Report.

STATE OF AFFAIRS

In the directors' opinion, there have been no significant changes in the state of affairs of the Group during the financial year, other than:

- In October 2006, ANZ sold the Esanda Fleetpartners business.
- In May 2007, ANZ acquired an initial 19% investment in AMMB Holdings Berhad ("AMMB").
- In June 2007 ANZ finalised its acquisition of ETRADE Australia Limited.
- In July 2007 ANZ acquired 100% of Citizens Security Bank in Guam.
- In August 2007 ANZ acquired 10% of Saigon Securities Incorporation.
- In September 2007 ANZ acquired a 20% investment in Shanghai Rural Commercial Bank.
- In September 2007 ANZ acquired 60% of the ANZ Vientiane Commercial Bank in Laos.

During the year, ANZ applied for deregistration from the US Securities and Exchange Commission (SEC) as a Foreign Private Issuer of Securities in the United States. This became effective in October 2007.

Further review of matters affecting the Group's state of affairs is also contained in the Overview of Operations on pages 4 and 5 of this Annual Report.

DIVIDENDS

The directors propose that a final fully franked dividend of 74 cents per fully paid ordinary share shall be paid on 21 December 2007. The proposed payment amounts to approximately $1,381 million.

During the financial year, the following fully franked dividends were paid on fully paid ordinary shares:

Type	Cents per share	Amount before bonus option plan adjustment $m	Date of payment
Final 2006	69	1,267	15 December 2006
Interim 2007	62	1,144	2 July 2007

The proposed final dividend of 74 cents together with the interim dividend of 62 cents brings total dividends in relation to the year ended 30 September 2007 to 136 cents fully franked.

REVIEW OF OPERATIONS

Over the past decade ANZ has improved financial performance, productivity and returns to shareholders. We have continued to focus on our customers, our people and our communities.

The Group has produced a solid result based on solid business performance for the year ended 30 September 2007. Divisional performance showed good growth primarily in Personal and New Zealand Businesses, with more subdued growth in Institutional.

Further review of the Group during the financial year and the results of those operations, including an assessment of the financial position and business strategies of the Group, is contained in the Chairman's Report, the Overview of Operations and the Overview of Business Divisions on pages 3 to 7 of this Annual Report.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

There were no significant events from 30 September 2007 to the date of this report.

FUTURE DEVELOPMENTS

Details of likely developments in the operations of the Group and its prospects in future financial years are contained in this Annual Report under the Chairman's Report. In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

ANZ recognises our obligation to our stakeholders – customers, shareholders, staff and the community – to operate in a way that advances sustainability and mitigates our environmental impact. Our commitment to improve our environmental performance is integral to our "making a sustainable contribution to society".

We acknowledge that we have an impact on the environment:

- directly through the conduct of our business operations; and
- indirectly through the products and services we provide to our customers.

As such, ANZ has established an Environment charter, strategy and internal responsibilities for reducing the impact of our operations and business activities on the environment.

The operations of the Group are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory. However, the operations of the Group may become subject to environmental regulation when enforcing securities over land. ANZ has developed policies to manage such environmental risks. Having made due enquiry, to the best of our knowledge no member of the Group has incurred any material environmental liability during the year.

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

At 1 October 2006, the Board comprised 7 independent non-executive directors and 1 executive director, the Chief Executive Officer. Mr David Gonski retired on 30 June 2007 and Mr John McFarlane's term as Chief Executive Officer and Managing Director ended on 30 September 2007. Mr Ian Macfarlane was appointed to the Board as an independent non-executive director on 16 February 2007 and Mr Michael Smith was appointed as Chief Executive Officer and Managing Director on 1 October 2007.

At the date of this report, the Board comprises 7 non-executive directors who have a diversity of business and community experience and 1 executive director, the Chief Executive Officer, who has extensive banking experience. The names of directors and details of their skills, qualifications, experience and when they were appointed to the Board are contained on pages 37 to 39 of this Annual Report.

Details of the number of Board and Board Committee meetings held during the year, directors' attendance at those meetings, and details of directors' special responsibilities are shown on pages 43 to 45 of this Annual Report.

Details of directorships of other listed companies held by each current director in the 3 years prior to the end of the 2007 financial year are listed on pages 37 to 39.

COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

Currently there are three people appointed as Company Secretaries of the Company. Details of their roles are contained on page 42. Their qualifications are as follows:

- Bob Santamaria, BCom, LLB (Hons), Group General Counsel and Company Secretary.

Mr Santamaria joined ANZ on 27 August 2007. He had previously been a Partner at the law firm Allens Arthur Robinson since 1987. He was Executive Partner Corporate, responsible for client liaison with some of Allens Arthur Robinson's largest corporate clients. Mr Santamaria brings to ANZ a strong background in leadership of a major law firm, together with significant experience in securities, mergers and acquisitions. He holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Melbourne. He is also an Affiliate of Chartered Secretaries Australia.

- Peter Marriott, BEc (Hons), Chief Financial Officer and Company Secretary.

Mr Marriott has been involved in the finance industry for more than 25 years. Mr Marriott joined ANZ in 1993. Prior to his career at ANZ, Mr Marriott was a Partner in the Melbourne office of the then KPMG Peat Marwick. He is a Fellow of a number of professional organisations including the Institute of Chartered Accountants in Australia and the Australian Institute of Banking and Finance. He is also a Member of the Australian Institute of Company Directors.

- John Priestley, BEc, LLB, FCIS, Company Secretary.

Mr Priestley, a qualified lawyer, joined ANZ in 2004. Prior to ANZ, he had a long career with Mayne Group and held positions which included responsibility for the legal, company secretarial, compliance and insurance functions. He is a Fellow of Chartered Secretaries Australia and also a member of Chartered Secretaries Australia's National Legislation Review Committee.

NON-AUDIT SERVICES

The Company's Relationship with External Auditor Policy (which incorporates requirements of the Corporations Act 2001) states that the external auditor may not provide services that are perceived to be in conflict with the role of the auditor. These include consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

Specifically the policy:

- limits the non-audit services that may be provided
- requires that audit and permitted non-audit services must be pre-approved by the Audit Committee, or pre-approved by the Chairman of the Audit Committee and notified to the Audit Committee
- requires the external auditor to not commence an audit engagement (or permitted non-audit service) for the Group, until the Group has confirmed that the engagement has been pre-approved.

The Audit Committee has reviewed a summary of non-audit services provided by the external auditor for 2007, and has confirmed that the provision of non-audit services for 2007 is consistent with the Company's Relationship with External Auditor Policy and compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. This has been formally advised to the Board of Directors.

The external auditor has confirmed to the Audit Committee that they have complied with the Company's Relationship with External Auditor Policy on the provision of non-audit services by the external auditor for 2007.

The non-audit services supplied to the Group by the Group's external auditor, KPMG, and the amount paid or payable by the Group by type of non-audit service during the year ended 30 September 2007 are as follows:

	Amount paid/ payable $'000s	
Non-audit service	2007	2006
Sustainability review	–	203
Compliance testing for securitisation transaction	66	—
Training courses	44	44
Total	110	247

For the reasons set out above, the directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 September 2007 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration given under section 307C of the Corporations Act 2001 is set out on page 35 and forms part of this Directors' Report for the year ended 30 September 2007.

DIRECTORS AND OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITOR

The following persons were during the financial year and are currently directors or officers of the Group and were partners of KPMG at a time when KPMG was the auditor of Australia and New Zealand Banking Group Limited:

- Ms Margaret Jackson, Non-executive director (left KPMG in June 1992)
- Mr Peter Marriott, Chief Financial Officer (left KPMG in January 1993).

CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER DECLARATION

The Chief Executive Officer and the Chief Financial Officer have given the declarations to the Board concerning the Group's financial statements required under section 295A(2) of the Corporations Act 2001 and recommendations 4.1 and 7.2 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

DIRECTORS' AND OFFICERS' INDEMNITY

The Company's Constitution (Rule 11.1) permits the Company to indemnify each officer or employee of the Company against liabilities (so far as may be permitted under applicable law) incurred in the execution and discharge of the officer's or employee's duties. It is the Company's policy that its employees should not incur any liability for acting in the course of their employment legally, within the policies of the Company and provided they act in good faith.

Under the policy, the Company will indemnify employees against any liability they incur in carrying out their role. The indemnity protects employees and former employees who incur a liability when acting as an employee, trustee or officer of the Company, or a subsidiary of the Company at the request of the Company.

The indemnity is subject to applicable law and will not apply in respect of any liability arising from:

- a claim by the Company;
- a claim by a related body corporate;
- a lack of good faith;
- illegal or dishonest conduct; or
- non-compliance with the Company's policies or discretions.

The Company has entered into Indemnity Deeds with each of its directors, with certain secretaries of the Company, and with certain employees and other individuals who act as directors or officers of related body corporates or of another company. To the extent permitted by law, the Company indemnifies the individual for all liabilities, including costs, damages and expenses incurred in their capacity as an officer of the company to which they have been appointed.

The Company has indemnified the trustees and former trustees of certain of the Company's superannuation funds and directors, former directors, officers and former officers of trustees of various Company sponsored superannuation schemes in Australia. Under the relevant Deeds of Indemnity, the Company must indemnify each indemnified person if the assets of the relevant fund are insufficient to cover any loss, damage, liability or cost incurred by the indemnified person in connection with the fund, being loss, damage, liability or costs for which the indemnified person would have been entitled to be indemnified out of the assets of the fund in accordance with the trust deed and the Superannuation Industry (Supervision) Act 1993. This indemnity survives the termination of the fund. Some of the indemnified persons are or were directors or executive officers of the Company.

The Company has also indemnified certain employees of the Company, being trustees and administrators of a trust, from and against any loss, damage, liability, tax, penalty, expense or claim of any kind or nature arising out of or in connection with the creation, operation or dissolution of the trust or any act or omission performed or omitted by them in good faith and in a manner that they reasonably believed to be within the scope of the authority conferred by the trust.

Except for the above, neither the Company nor any related body corporate of the Company has indemnified or made an agreement to indemnify any person who is or has been an officer or auditor of the Company or of a related body corporate.

During the financial year, and again since the end of the financial year, the Company has paid a premium for an insurance policy for the benefit of the directors, secretaries, and senior managers of the Company, and directors, secretaries and senior managers of related bodies corporate of the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100 (as amended) pursuant to section 341(1) of the Corporations Act 2001.

As a result, amounts in this Directors' Report and the accompanying financial statements have been rounded to the nearest million dollars except where otherwise indicated.

EXECUTIVE OFFICERS' AND EMPLOYEE SHARE OPTIONS

Details of share options issued over shares granted to the Chief Executive Officer and disclosed executives, and on issue as at the date of this report are detailed in the Remuneration Report.

Details of share options issued over shares granted to employees and on issue as at the date of this report are detailed in note 47 of the 2007 Financial Report.

No person entitled to exercise any option has or had, by virtue of an option, a right to participate in any share issue of any other body corporate. The names of all persons who currently hold options are entered in the register kept by the Company pursuant to section 170 of the Corporations Act 2001. This register may be inspected free of charge.

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REMUNERATION REPORT

Introduction

This Remuneration Report details ANZ's remuneration policies which apply to key management personnel (KMP) and ANZ executives classified as "secretaries or senior managers" as defined in the Corporations Act. The report identifies the link between remuneration and ANZ's performance, and individual outcomes relating to remuneration and equity for ANZ's directors and executives (as required by AASB 124 and the Corporations Act).

This report covers the KMP of the Company and the Group (which includes the directors of the parent) and the five highest paid executives in the Company and the Group. KMP were selected according to the following criteria:

- All directors of the ANZ Board: Based on responsibility for providing direction in relation to the management of ANZ. The Board Charter clearly sets out the Board's purpose, powers, and specific responsibilities.

Section A: Remuneration Tables

TABLE 1: DIRECTOR REMUNERATION
For the year ended 30 September 2007, remuneration details of the KMP identified as directors of the Company, are set out below:

		SHORT-TERM EMPLOYEE BENEFITS			
	Financial Year	Cash salary/fees $	Value of shares acquired in lieu of cash salary/fees[1] $	Associated entity Board fees (cash) $	Committee fees (cash) $
Current Non-Executive Directors					
C Goode (Appointed director July 1991; appointed Chairman August 1995)	**2007**	93,314	689,566	–	–
Independent Non Executive Director, Chairman	2006	78,724	621,118	–	–
G Clark (Appointed February 2004)	**2007**	144,000	47,962		36,400
Independent Non Executive Director	2006	137,250	45,738	–	34,808
J Ellis (Appointed October 1995)	**2007**	157,368	34,624		42,000
Independent Non Executive Director	2006	144,426	38,551	–	65,500
M Jackson (Appointed March 1994)	**2007**	192,000	–		69,000
Independent Non Executive Director	2006	183,000	–	–	65,500
I Macfarlane (Appointed February 2007)	**2007**	89,556	29,852	–	27,062
Independent Non Executive Director					
D Meiklejohn (Appointed October 2004)	**2007**	192,000	–	–	77,400
Independent Non Executive Director	2006	183,000	–	–	66,866
J Morschel (Appointed October 2004)	**2007**	156,797	47,962		69,000
Independent Non Executive Director	2006	149,526	45,738	–	40,000
Former Non-Executive Directors					
D Gonski (Appointed February 2002; retired 30 June 2007)[7]	**2007**	135,581	8,399	–	36,750
Independent Non Executive Director	2006	122,521	60,446	–	46,775
R Deane (Appointed September 1994; retired 30 June 2006)[7]					
Independent Non Executive Director	2006	137,250	–	122,141[10]	21,025
Total of all Non-Executive Directors	**2007**	1,160,616	858,365	–	357,612
	2006	1,135,697	811,591	122,141	340,474
Executive Director					
J McFarlane (Appointed October 1997; retired 30 September 2007)[8,9]	**2007**	528,587	1,553,377	–	–
Chief Executive Officer	2006	50	2,071,192	–	–
Total of all Directors	**2007**	1,689,203	2,411,742	–	357,612
	2006	1,135,747	2,882,783	122,141	340,474

COMMENTARY ON CHANGES BETWEEN 2006 & 2007

Non-Executive Directors

There is a slight decrease in 2007 Total Remuneration for Non-Executive Directors (NEDs) compared with 2006. This can be primarily attributed to the retirement of R Deane in June 2006, whose Total Remuneration was greater than the typical NED due to the associated entity Board Fees. Director fees were increased (effective 1 October 2006) by 5% and the Chairman's fee by 12%. Refer to section B1 for more details.

Executive Director (Chief Executive Officer)

The variation in the CEO's remuneration between 2006 and 2007 is primarily attributed to his contractual and statutory payments (relating to his benefits on retirement), and the payment for the relinquishment of his performance shares. Further details can be found in section D1.

- Executives: Based on direct reports of the CEO with key responsibility for the strategic direction and management of a major revenue-generating division or who control material revenue and expenses.

The Board People Committee has responsibility for director and executive remuneration and executive succession, and for making recommendations to the Board on remuneration and succession matters related to the CEO (refer to page 44 of the Corporate Governance Report for more details about the Committee's role, and anz.com › about ANZ › Corporate Governance › ANZ People Committee Charter, which details the terms of reference under which the Committee operates). On a number of occasions throughout the year, both the Board People Committee and management received external advice on matters relating to remuneration. The following advisors were used: Blake Dawson Waldron, Ernst & Young, Hay Group, Greenwoods & Freehills, and PricewaterhouseCoopers.

			POST-EMPLOYMENT	LONG TERM EMPLOYEE BENEFITS	TERMINATION BENEFITS[4]	SHARE-BASED PAYMENTS[5]	
Short term incentive[1,2] $	Other $	Total $	Super contributions[3] $	Long service leave accrued during the year $		Total amortisation value of LTI options $	Total Remuneration[6] $
n/a	–	782,880	12,797	n/a		n/a	795,677
n/a	–	699,842	12,276	n/a		n/a	712,118
n/a		228,362	12,797	n/a		n/a	241,159
n/a	–	217,796	12,276	n/a		n/a	230,072
n/a		233,992	12,797	n/a		n/a	246,789
n/a	–	248,477	12,276	n/a		n/a	260,753
n/a		261,000	12,797	n/a		n/a	273,797
n/a	–	248,500	12,276	n/a		n/a	260,776
n/a	–	146,470	8,854	n/a		n/a	155,324
n/a	–	269,400	12,797	n/a		n/a	282,197
n/a	–	249,866	12,276	n/a		n/a	262,142
n/a		273,759	–	n/a		n/a	273,759
n/a	–	235,264	–	n/a		n/a	235,264
n/a	1,140[11]	181,870	9,515	n/a		n/a	191,385
n/a	–	229,742	12,276	n/a		n/a	242,018
n/a	1,600[11]	282,016	9,104	n/a		n/a	291,120
n/a	1,140	2,377,733	82,354	n/a		n/a	2,460,087
n/a	1,600	2,411,503	82,760	n/a		n/a	2,494,263
2,090,000	1,124,507[11,12,13,14]	5,296,471	417,975	–	915,261	123,411	6,753,118
2,420,005	219,370[12,13]	4,710,617	428,700	59,376	–	756,311	5,955,004[15]
2,090,000	1,125,647	7,674,204	500,329	–	915,261	123,411	9,213,205
2,420,005	220,970	7,122,120	511,460	59,376	–	756,311	8,449,267

1 Shares acquired through participation in Directors' Share Plan. Value reflects the price at which the shares were purchased on-market (amortisation not applicable). For the CEO, this also included his 2006 cash incentive which he elected to receive 100% as restricted shares. Share purchases for NEDs were made on 30 October 2006, 7 May 2007 and 31 August 2007 for the 2007 year and on 31 October 2005 and 1 May 2006 for the 2006 year.

2 100% of the CEO's cash incentive vested during the financial year that performance relates to. The possible range of short-term incentive (STI) payments is between 0% and 150% of Fixed Remuneration. The 2007 STI awarded as a percentage of Fixed Remuneration was 95%.

3 Includes $300,000 additional employer contribution, agreed as part of the CEO's contract extension announced 26 October 2004 (refer to section D2). For J Morschel, superannuation guarantee contributions paid in respect of each other NED, are paid to him as cash in lieu.

4 Comprises $550,000 for the 3 month unexpired portion of his employment contract and a $365,261 pro-rata long service leave entitlement.

5 In accordance with the requirements of AASB 2 Share-based Payment, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed). The fair value is determined at grant date and is allocated on a straight-line basis over the expected vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options become exercisable.

6 Amounts disclosed for remuneration of directors exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including senior managers of the entity and directors, senior managers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

7 The following benefits were paid under the ANZ Directors' Retirement Scheme to the following former directors: R Deane (retired 30 June 2006) – $723,107; D Gonski (retired 30 June 2007) – $340,676 based on sale of shares relating to Retirement Scheme.

8 Amortisation value of options as a percentage of total remuneration (as shown in the Total column above) was 2% in 2007 (13% in 2006).

9 J McFarlane, ANZ's only executive director, elected to use almost all of his cash salary and 100% of his 2006 incentive to purchase on market restricted shares under the Directors' Share Plan. The purchase dates were 30 October 2006, 29 January 2007 and 7 May 2007 for the 2007 year and 31 October 2005, 30 January 2006, 1 May 2006 and 7 August 2006 for the 2006 year.

10 Amounts paid in NZD are converted to AUD at an average rate for the 2006 year of 1.1433.

11 Other for R Deane and D Gonski relates to a non-monetary benefit received on retirement as a gift from the Board. The gift for J McFarlane was $7,000.

12 Includes reimbursement to J McFarlane of $93,461 in 2007 (2006: $202,837) for the additional tax liability on his UK Pension Plan holdings, arising as a result of Australian Foreign Investment Fund rules, and J McFarlane's continuing Australian residency (in accordance with the contractual arrangements detailed in section D1.1).

13 Includes $24,046 professional services rendered in respect of taxation matters in 2007 ($16,533 in 2006).

14 Includes a $1million payment for the relinquishment of the CEO's Performance Shares. Refer to section D.1.3 for further details.

15 Due to ANZ acquiring the CEO's Performance Shares, the CEO's 2006 Total Remuneration is $1,310,649 (i.e. amortised amount) less than what was disclosed in 2006. Refer to section D1.3 for further details.

Section A: Remuneration Tables (continued)

TABLE 2: EXECUTIVE KEY MANAGEMENT PERSONNEL REMUNERATION AND TOP 5 REMUNERATED
For the year ended 30 September 2007, remuneration details of the KMP identified as executives of the Group, (as required under AASB 124), and the five most highly remunerated executives in the Company and the Group (as required under the Corporations Act), other than the Chief Executive Officer, are set out below:

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT
	Financial Year	Cash salary/fees $	Non monetary benefits[1] $	Total cash incentive[2,3] $	**Total** $	Super contributions $
Current Executives						
R Edgar	**2007**	795,275	9,620	1,060,000	1,864,895	49,725
Senior Managing Director	2006	787,068	14,788	850,000	1,651,856	49,725
B Hartzer	**2007**	931,232	61,963	1,315,000	2,308,195	61,425
Group Managing Director, Personal	2006	883,626	59,640	1,300,000	2,243,266	58,500
G Hodges[9]						
Chief Executive, ANZ National Bank	**2007**	900,000	56,600	900,000	1,856,600	–
Limited (New Zealand)	2006	841,866	71,920	895,000	1,808,786	7,459
P Hodgson[10]	**2007**	808,456	9,620	850,000	1,668,076	50,544
Group Managing Director, Institutional	2006	701,393	6,313	825,000	1,532,706	43,875
P Marriott	**2007**	889,425	9,620	1,090,000	1,989,045	55,575
Chief Financial Officer	2006	842,618	6,313	1,080,000	1,928,931	52,650
A Thursby[11]	**2007**	70,000	770	–	70,770	–
Group Managing Director, Asia Pacific						
Former Key Management Personnel						
S Targett[12]						
Former Group Managing	**2007**	983,675	–	550,000	1,533,675	61,425
Director, Institutional	2006	936,600	6,313	1,000,000	1,942,913	58,500
E Funke Kupper						
(resigned effective 1 February 2006)[13]						
Group Managing Director, Asia Pacific	2006	234,483	2,110	–	236,593	14,663
Total of all Executive KMPs	**2007**	5,378,063	148,193	5,765,000	11,291,256	278,694
	2006	4,526,261	161,084	5,125,000	9,812,345	241,497
Total of all Disclosed Executives	**2007**	5,378,063	148,193	5,765,000	11,291,256	278,694
	2006	5,227,654	167,397	5,950,000	11,345,051	285,372

COMMENTARY ON CHANGES BETWEEN 2006 & 2007

Consistent with previous years, a market review of 2006/2007 remuneration was undertaken. Overall, it was found that reward levels were generally market competitive and therefore only Fixed Remuneration was adjusted in line with market movements. From an individual perspective, the 14% increase in Peter Hodgson's Total Remuneration reflects the increased responsibilities associated with the change in his role from Chief Risk Officer to Group Managing Director Institutional.

Other year-on-year variations include:

i) E Funke Kupper only disclosed in 2006 based on the four month period he was classified as a KMP; not included in 2007 totals.

ii) Inclusion of A Thursby in 2007 totals for the 1 month period he was a KMP (i.e. commenced 3 September 2007).

LONG-TERM EMPLOYEE BENEFITS		SHARE-BASED PAYMENTS[5]					
Retirement benefit accrued during year[4] $	Long service leave accrued during the year $	Total amortisation value of STI shares $	Total amortisation value of LTI shares $	Total amortisation value of LTI options $	Total amortisation value of performance rights $	Total amortisation of other equity allocations[6] $	**Total Remuneration[7,8]** $
3,297	13,278	31,928	273,389	79,418	419,586	–	2,735,516
–	37,607	108,692	503,179	181,819	202,340	–	2,735,218
–	21,938	30,613	93,063	91,008	513,944	–	3,120,186
–	40,575	94,597	175,183	174,542	216,792	–	3,003,455
610	29,940	23,569	79,066	77,386	466,213	–	2,533,384
–	48,447	82,179	150,066	149,602	202,340	–	2,448,879
–	52,121	38,553	100,838	17,809	386,289	–	2,314,230
–	11,716	130,541	113,241	30,377	173,434	–	2,035,890
–	25,533	39,638	97,621	95,807	474,537	–	2,777,756
–	34,830	127,015	206,816	206,831	209,566	–	2,766,639
–	–	–	–	–	–	24,763	95,533
–	18,283	–	44,857	43,215	482,864	1,003,152	3,187,471
–	20,020	–	44,857	43,215	216,795	1,166,859	3,493,159
–	–	104,930	146,895	147,119	152,622	–	802,822
3,907	161,093	164,301	688,834	404,643	2,743,433	1,027,915	16,764,076
–	181,479	517,413	1,226,996	903,128	1,200,455	1,166,859	15,250,172
3,907	161,093	164,301	688,834	404,643	2,743,433	1,027,915	16,764,076
–	193,195	647,954	1,340,237	933,505	1,373,889	1,166,859	17,286,062

1 Non-monetary benefits consist of salary packaged items such as car parking, novated lease motor vehicles and G Hodges' non-monetary benefits include housing and airfares.
2 Total cash incentive relates to the full incentive amount for the financial year that the performance relates to. 100% of the cash incentive awarded in both 2006 and 2007 vested to the person in the applicable financial year.
3 The possible range of short-term incentive (STI) payments is between 0% and 150% of Fixed Remuneration. The actual incentive received is dependant on ANZ Group, division and individual performance (refer to C4.1 for more details). The 2007 STI awarded as a percentage of Fixed Remuneration was: B Hartzer 125%; R Edgar 125%; G Hodges 100%; P Hodgson 100%; P Marriott 115%; S Targett 76%.
4 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, R Edgar and G Hodges are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: 3 months of notional salary (which is 65% of Fixed Remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years, less the total accrual value of long service leave (including taken and untaken).
5 In accordance with the requirements of AASB 2, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that the options / performance rights will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed) and that deferred shares will vest after 3 years. The fair value is determined at grant date and is allocated on a straight-line basis over the 3-year vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options / performance rights become exercisable. For deferred shares, the fair value is the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted.
6 Amortisation of other equity allocations for S Targett relates to the grant of deferred shares beginning on 11 May 2004 (four tranches to the value of $700,000 each issued at 6 month intervals in May and November in 2004 and 2005) and hurdled A options (refer to section F10.1 for performance hurdle details) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer.
Amortisation of other equity allocations for A Thursby relates to the allocation of $1m of 3 year deferred shares to compensate for equity foregone from his previous employer.
7 Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including senior managers of the entity and directors, senior managers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.
8 Amortisation value of options and rights as a percentage of total remuneration was: B Hartzer 19% (2006: 13%); R Edgar 18% (2006: 14%); G Hodges 21% (2006: 14%); P Hodgson 17% (2006: 10%); P Marriott 21% (2006: 15%); S Targett 21% (2006: 15%).
9 Prior to November 2005, G Hodges was the Group Managing Director, Corporate. Between 1 November 2005 and 31 December 2005, he was the Chief Executive Designate (New Zealand), with his position changing to Chief Executive, ANZ National Bank Limited, New Zealand effective 1 January 2006.
10 P Hodgson commenced in the position of Group Managing Director, Institutional on 8 June 2007. Prior to this, P Hodgson was the Chief Risk Officer for the period 1 December 2004 to 7 June 2007.
11 A Thursby commenced employment with ANZ in the position of Group Managing Director, Asia Pacific on 3 September 2007. As A Thursby is a holder of a long stay visa, his Fixed Remuneration does not include the 9% Superannuation Guarantee contribution, however he is able to elect voluntary superannuation contributions.
12 S Targett ceased as the Group Managing Director, Institutional 7 June 2007, and his employment with ANZ will terminate on 7 June 2008.
13 E Funke Kupper received a final payment on resignation of $165,554 relating to his accrued annual leave and long service leave. With the inclusion of the final payment his total remuneration for 2006 would be $968,376.

Section B. Non-executive Directors' Remuneration

B1. NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

Non-executive Directors' (NEDs) fees are reviewed annually by the Board People Committee and are determined by the Board of Directors based on advice from external advisors and with reference to fees paid to other NEDs of comparable companies. The total of NEDs' fees (including superannuation contributions) are within the maximum annual aggregate limit agreed to by shareholders at the Annual General Meeting held on 16 December 2005 ($3 million, excluding superannuation benefit payouts and retirement benefits), and are set at levels that fairly represent the responsibilities of, and the time spent by the NEDs on Group matters.

NEDs receive a fee for being a director of the Board, and additional fees for either chairing or being a member of a committee. Work on special committees may attract additional fees of an amount considered appropriate in the circumstances. An additional fee is also paid if a NED serves as a director on a subsidiary board. NEDs do not receive any performance / incentive payments and are not eligible to participate in any of the Group's incentive arrangements.

Effective 1 October 2006, NED fees and Committee membership fees were increased by 5% and the Chairman's fee by 12%. These fee increases were based on an independent assessment of the competitiveness of ANZ's NED remuneration in comparison to other major companies and consideration of the relativity between the NED and Chairman fees. The NED fees are also reflective of their increased accountability and time commitment, largely driven by the increased corporate governance, regulatory requirements and complexities of operating a global business.

The fee structure is disclosed in Table 3 below:

TABLE 3

Role	2006/07 Fees $	2005/06 Fees $
Chairman	783,000	700,000
Non-Executive Director	192,000	183,000
Committee Chair (Risk, Audit & People)	48,000	45,500
Committee Chair (Governance, Technology)	28,000	26,775
Committee Member (Risk, Audit & People)	21,000	20,000
Committee Member (Governance, Technology)	8,400	8,033

For details of remuneration paid to directors for the year ended 30 September 2007, refer to Table 1 in section A of this Remuneration Report.

NED SHAREHOLDING GUIDELINES

NEDs have agreed to accumulate ANZ shares, over a five-year period, to the value of 100% (200% for Chairman) of the base annual NED Fee (i.e. $192,000 for 2006/2007) and to maintain this shareholding while a director of ANZ. NEDs have agreed to apply up to 25% of their base fee annually through the Directors' Share Plan or other means, towards the purchase of ANZ shares in order to achieve / maintain the desired holding level. This guideline was approved by the Board in September 2005.

B2. NON-EXECUTIVE DIRECTORS' RETIREMENT POLICY

The NED retirement scheme was closed effective 30 September 2005. Accrued entitlements relating to the ANZ Directors' Retirement Scheme were fixed at 30 September 2005 and NEDs had the option to convert these entitlements into ANZ shares. Such entitlements, either in ANZ shares or cash, will be carried forward and transferred to the NED when they retire (including interest accrued at the 30 day bank bill rate for cash entitlements).

The accrued entitlements fixed under the ANZ Directors' Retirement Scheme as at 30 September 2005 are as follows: C Goode – $1,312,539; G Clark – $83,197; J Ellis – $523,039; M Jackson – $487,022; D Meiklejohn – $64,781; J Morschel – $60,459.

B3. DIRECTORS' SHARE PLAN

The Directors' Share Plan (the plan) is available to both non-executive and executive directors. Directors may elect to forego remuneration to which they may have otherwise become entitled and receive shares to the value of the remuneration foregone, and therefore the shares acquired are not subject to performance conditions. Participation in the plan is voluntary. Shares acquired under the plan are purchased on market and are subject to a minimum 1 year restriction, during which the shares cannot be traded. In the event of serious misconduct, all shares held in trust will be forfeited. All costs associated with the plan are met by the Company.

Section C. Executive Remuneration Structure

C1. REMUNERATION GUIDING PRINCIPLES

ANZ's reward policy, approved by the Board, shapes the Group's remuneration strategies and initiatives.

The following principles underpin ANZ's reward policy:

1. Focus on creating and enhancing value for all ANZ stakeholders;
2. Differentiation of individual rewards commensurate with contribution to overall results and according to individual accountability, performance and potential;
3. Significant emphasis on "at risk" components of total rewards; and
4. The provision of a competitive reward proposition to successfully attract, motivate and retain the highest quality individuals required to deliver ANZ's business and growth strategies.

SHAREHOLDING GUIDELINES

Direct reports to the CEO are expected to accumulate ANZ shares over a five year period, to the value of 200% of their Fixed Remuneration and to maintain this shareholding while an executive of ANZ. The next most senior executives are expected to accumulate ANZ shares to the value of 100% of their Fixed Remuneration and to maintain this shareholding while an executive of ANZ. This guideline was introduced in June 2005. New executives are expected to accumulate the required holdings within five years of commencement.

C2. REMUNERATION STRUCTURE OVERVIEW

The executive remuneration program and structure detailed in Section C reflects the remuneration of senior managers and the company secretary (as defined in the Corporations Act) and KMP (excluding the CEO and NEDs) as defined by AASB 124. The program aims to differentiate remuneration on the basis of achievement against group, business unit and individual performance targets which are aligned to sustained growth in shareholder value using a balanced scorecard approach. The executive remuneration program also complies with the existing and revised ASX Corporate Governance Principles. The program comprises the following components which are benchmarked against the finance market median:

- Fixed Remuneration component: salary, non-monetary benefits and superannuation contributions (Refer to C3).
- Variable or "at risk" component (Refer to C4):
  – Short-Term Incentive (STI); and
  – Long-Term Incentive (LTI).

Depending on the competitive market, the proportion of remuneration "at risk" generally increases for the most senior or complex roles, or for those roles where there is strong market pressure to provide greater levels of remuneration. Figure 1 below shows the relative mix of Fixed, STI and LTI at target payment levels. The plan design allows for the opportunity to earn upper quartile total remuneration for significant out performance, and significantly reduced payment for underperformance. In this way the remuneration structure is heavily weighted towards "reward for performance".

C3. FIXED REMUNERATION

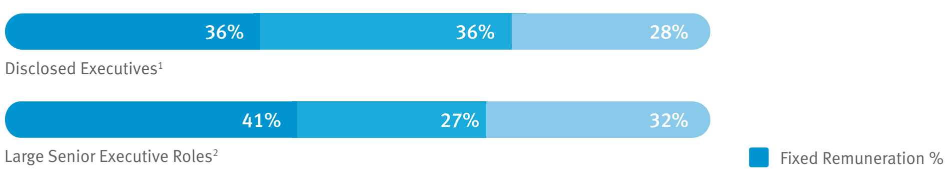
Fixed Remuneration comprises cash salary, a superannuation contribution, and the remainder as nominated benefits. The types of benefits that can be packaged include novated car leases, additional superannuation contributions, car parking, child care, laptops and contributions towards the Employee Share Save Scheme. Fixed Remuneration is reviewed annually based on individual performance and market data.

Fixed Remuneration at ANZ operates with a midpoint targeted to the local market median being paid in the finance industry in the relevant global markets in which ANZ operates, and a range around this midpoint.

C4. VARIABLE REMUNERATION

Variable remuneration forms a significant part of executives' potential remuneration, providing an at-risk component that is designed to drive performance in both the short-term (annually) and in the medium and long-term (3 years plus). The opportunities available to executives under ANZ's variable remuneration programs are designed to reinforce the achievement of short and long term performance targets and to ensure remuneration competitiveness in the relevant markets in which they operate. Executives participate in the STI plan detailed in section C4.1 and the LTI plan detailed in section C4.2. As specified in the ANZ Securities Trading Policy, equity allocated under ANZ incentive schemes must remain at risk until fully vested (in the case of Deferred Shares) or exercisable (in the case of Options or Performance Rights). As such, it is a condition of grant that no schemes are entered into that specifically protect the unvested value of Shares, Options and Performance Rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant Shares or Options. To monitor adherence to this policy, ANZ's senior executives are required to sign an annual declaration stating that they have not entered into (and are not currently involved in) any schemes to protect the value of their interests in any unvested ANZ securities. Based on the 2007 declarations, we can advise that all senior executives are fully compliant with this policy.

Figure 1: Target reward mix



1 2007 reward mix for disclosed executives (current KMP only) pertains to R Edgar, B Hartzer, G Hodges, P Hodgson, P Marriott and A Thursby.

2 Large senior executive roles are those we classify as being most reflective of "the company secretary and senior managers" (excluding disclosed executives) as defined in the Corporations Act.

C4.1 Short-Term Incentives

ANZ's Short-term incentive (STI) approach supports our strategic objectives by providing rewards that are significantly differentiated on the basis of achievement against performance targets. All STI plans are reviewed and approved by the Board People Committee.

Determination of STI Levels

The size of the overall pool available is based on performance against a cash earnings per share (EPS) growth target and a profit before provisions (PBP) growth target. This pool is then spread between the Divisions based on their performance against a balanced scorecard of financial and qualitative measures, and then distributed to individuals based on relative performance. The Board People Committee is required to approve the STI Group and Division outcomes and the distribution of the STI pool amongst the Divisions. Each executive has a target STI which is determined according to job size and market relativities. The size of the actual STI payment made at the end of each financial year to individuals may be at, above or below the target and this will be determined according to ANZ Group, Division and Individual Performance aligned with ANZ's overall balanced scorecard.

Performance objectives under ANZ's balanced scorecard include a number of qualitative and quantitative measures which include, but are not limited to:

- Financial Measures including: Economic Value Added (EVA™); Revenue, EPS and Net Profit After Tax
- Customer Measures including: Customer Satisfaction and Market Share
- Employee Engagement, Risk Management and Compliance Measures
- Environment, Health & Safety and Community Measures.

The performance of relevant executives against these objectives is assessed at the end of the year by the Board People Committee. The STI is payable 100% in cash (except where specific business plans require otherwise). Executives are able to elect to sacrifice part or all of their incentive towards the purchase of ANZ shares which are restricted from sale for 12 months, or towards additional superannuation contributions.

As the incentive amount has already been earned, there are no performance measures attached to the shares. The target STI award level for disclosed executives is 100% of Fixed Remuneration in 2007 with a maximum STI award of 150% of Fixed Remuneration. For large senior executive roles in the ANZ STI plan, the target STI is 67% of Fixed Remuneration, with a maximum of 100% of Fixed Remuneration. Note, the target and maximum STI amounts for executive roles may vary for customised incentive schemes.

C4.2 Long-Term Incentives

The long-term incentives (LTIs) are designed to link a significant portion of executives' remuneration to the attainment of sustained growth in shareholder value. LTI is delivered as 100% Performance Rights, with a single long-term performance measure (refer to section F10 for details of legacy LTI programs). A Performance Right is a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Performance Rights are designed to reward executives for share price growth dependent upon the Company's Total Shareholder Return (TSR) outperforming peers. TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The conditions under which Performance Rights are granted are approved by the Board in accordance with the rules of the ANZ Share Option Plan. In the event of a takeover or a scheme of arrangement, the ANZ Share Option Plan specifies that the Board has absolute discretion to permit the exercise of options or rights. If a company obtains control of ANZ and both the acquiring company and ANZ agree, ANZ may on the exercise of options, provide shares of the acquiring company (or its parent) to the same value as the ANZ shares that would have been issued.

Each Performance Right has the following features:

- Performance Rights held by eligible executives will be tested once only against the performance hurdle at the end of three years;
- Subject to the performance hurdle being met, the executive has a two-year exercise period that commences three years after the grant date;
- Upon exercise, each Performance Right entitles the executive to one ordinary share;
- In case of dismissal for serious misconduct, Performance Rights are forfeited;
- In case of resignation or termination on notice, unless the Board determines otherwise, only Performance Rights that become exercisable by the end of the notice period may be exercised; and
- In case of death or total & permanent disablement, the performance hurdle is waived and a grace period is provided in which to exercise all Performance Rights.

The proportion of Performance Rights that become exercisable will depend upon a single point testing of the TSR achieved by ANZ relative to the companies in the comparator group (shown below) at the end of a three-year period. An averaging calculation will be used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility.

TSR Vesting Scale

Relative TSR Performance	% Vesting
‹ 50th percentile	0%
50th to 74th percentile	50% – 98%
75th percentile or above	100%

Where median performance is achieved, executives' total remuneration will typically be below market median for the financial services industry. 75th percentile performance is required for full vesting which enables executives to receive the full value of their LTI. To ensure an independent TSR measurement, ANZ engages the services of an external organisation (Macquarie Financial Services) to calculate ANZ's performance against the TSR hurdle.

Comparator Group

The peer group of companies against which ANZ's TSR performance is measured, comprises the following companies:

AMP Limited

AXA Asia Pacific Holdings Limited

Commonwealth Bank of Australia

Insurance Australia Group Limited

Macquarie Bank Limited

National Australia Bank Limited

QBE Insurance Group Limited

St George Bank Limited

Suncorp-Metway Limited

Westpac Banking Corporation

The companies in this comparator group were chosen because they represent ANZ's key competitors in the financial services industry, are an appropriate reference group for investors and are of sufficient size by market capitalisation and weight in ASX Top 50.

Size of LTI Grants

The size of individual LTI grants is determined by an individual's level of responsibility, performance and the assessed potential of the executive. The target LTI for disclosed executives is around 28% of the individual's target reward mix, and 32% for large senior executive roles. Executives are advised of their LTI dollar value, which is then converted into a number of Performance Rights based on a valuation. ANZ engages external experts (PricewaterhouseCoopers and Mercer Finance & Risk Consulting) to independently value the Performance Right, taking into account factors including the performance conditions, share price volatility, life of instrument, dividend yield and share price at grant date. The highest acceptable value is then approved by the Board People Committee as the allocation value. LTI allocations are made annually around the end of October. The following example uses the October 2006 allocation value.

Example

- Executive granted LTI value of $200,000
- Approved Allocation Valuation is $13.08 per Performance Right
- $200,000 / $13.08 = 15,290 Performance Rights allocated to executive

C5. PERFORMANCE OF ANZ

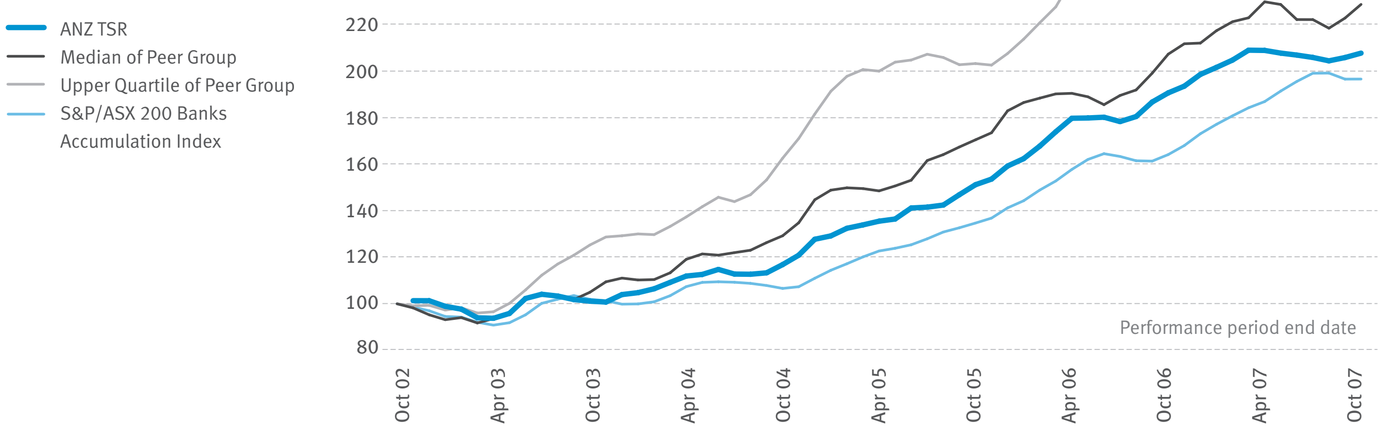
Table 4 shows ANZ's annual performance over the five-year period spanning 1 October 2002 to 30 September 2007. The table illustrates the impact of ANZ's performance on shareholder wealth, taking into account dividend payments, share price changes and other capital adjustments during the financial year.

TABLE 4	FY 2007*	FY 2006*	FY 2005	FY 2004	FY 2003
Basic Earnings Per Share (EPS)	224.1	200.0	160.9	153.1	142.4
NPAT ($m)	4,180	3,688	3,018	2,815	2,348
Total Dividend (cps)	136	125	110	101	95
Share price at 30 September ($)	29.70	26.86	24.00	19.02	17.17
Total Shareholder Return (%)	15.6	17.1	32.6	17.0	6.7

* Figures are based on AIFRS results

In Table 4, ANZ's TSR (which includes share price growth, dividends and other capital adjustments) has been shown for each individual financial year between 2003 and 2007. Figure 2 compares ANZ's TSR performance against the median TSR of the LTI comparator group and the S&P/ASX 200 Banks Accumulation Index over the 2003 to 2007 measurement period.

Figure 2: ANZ 5-Year Cumulative Total Shareholder Return Performance



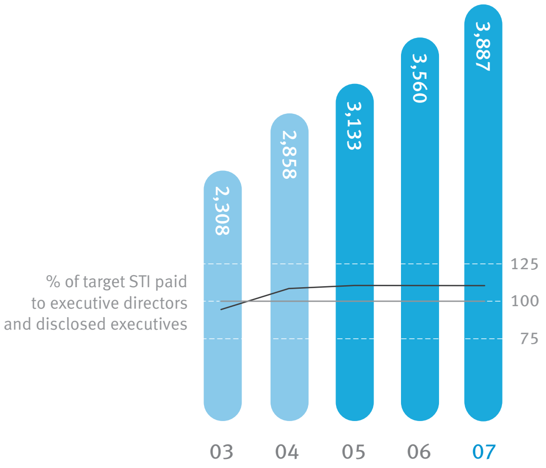


Figure 3: ANZ – Cash Earnings & Average STI payments ($ million)

- Cash earnings (AGAAP)[1]
- Cash earnings (AIFRS)[2]
- Average STI payments against target
- Target STI

Figure 3 illustrates the relationship between the average actual STI payments against target and the Group's performance measured using cash earnings over the last 5 years. The average STI payments for each year are based on those executives (including the CEO) disclosed in each relevant reporting period. As illustrated in the chart, the average STI payments are generally in alignment with the cash earnings trend.

1 Earnings excluding goodwill, significant items and NBNZ incremental integration costs.
2 Earnings adjusted for non-core items, AIFRS adjustments and preference share dividends.

Section D. Chief Executive Officers' remuneration

This section details the remuneration arrangements for J McFarlane who ceased as CEO of ANZ on 30 September 2007 (after 10 years as CEO), and his successor, M Smith, who commenced as CEO on 1 October 2007. The CEO is the only executive director at ANZ.

D1.REMUNERATION OVERVIEW FOR J MCFARLANE

The structure of J McFarlane's remuneration for the purposes of the 2006 and 2007 financial year disclosures was in accordance with his employment agreement and was as follows:

Fixed Remuneration: Consisted of salary, benefits and superannuation contributions. Since October 2003, J McFarlane elected to receive almost all of his Fixed Remuneration in the form of shares purchased under the Directors' Share Plan. These shares were not subject to a performance condition as they were provided in place of cash remuneration at the CEO's choice. However, they were subject to forfeiture in case of termination for serious misconduct.

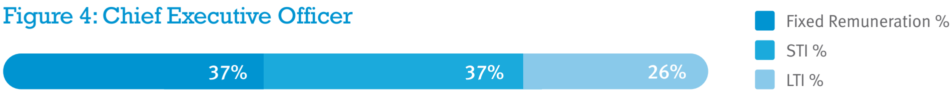
Short-Term Incentive: The Board set J McFarlane's balanced scorecard at the beginning of the financial year. The Board then assessed performance against these objectives at the end of the year to determine the appropriate incentive (relative to target). These objectives were aligned with the achievement of ANZ's business plan, and were the most appropriate indicators of performance. These objectives included a number of quantitative and qualitative measures, which included (but were not limited to) financial, customer, people, environment and community measures. J McFarlane's STI was able to be paid in cash or in shares purchased under the Directors' Share Plan.

Long-Term Incentive: J McFarlane's Long-Term Incentive was made up of Hurdled Options and Performance Shares as approved by shareholders at the 2001 and 2004 Annual General Meetings respectively. No long-term incentive equity was issued to J McFarlane in the 2006 or 2007 financial years. The performance conditions pertaining to the Options and Performance Shares issued during the 2005 year are indicated in F10.1 Hurdled A options and F10.3 respectively. They were linked to Company performance and increasing shareholder value. The remuneration of J McFarlane for the year ended 30 September 2007 is set out in Table 1 in section A of this Remuneration Report.

The mix of remuneration for J McFarlane was made up as follows:

- Fixed Remuneration of $2,200,000 per annum;
- Target variable Short-Term Incentive of $2,200,000 per annum;
- Long-Term Incentive of $2,600,000 granted on 31 December 2004, as per his 26 October 2004 contract - based on valuation at grant of last LTI allocation of 175,000 Performance Shares in December 2004. Note, the fair value of LTI equity granted since December 2003, and annualised over the period from grant date to 30 September 2007 is $1,530,000. This amount has been reflected in the reward mix bar in Figure 4 below.

Figure 4: Chief Executive Officer



D1.1 Contract Terms

On 5 December 2006, the Company announced an extension to the terms of J McFarlane's 26 October 2004 contract (which was also an extension of his contract dated 23 October 2001). The contract was extended by 3 months to 31 December 2007 (from 30 September 2007) to provide flexibility for orderly succession at ANZ. The following terms formed part of J McFarlane's 26 October 2004 contract.

- In addition to mandatory superannuation contributions, the Company made additional employer contributions of $300,000 per annum (effective from 1 October 2003), paid quarterly to J McFarlane's chosen superannuation fund; and
- J McFarlane was granted 175,000 Performance Shares on 31 December 2004.

Tax Liabilities on UK Pension Plan holdings

The terms of J McFarlane's contract provided for reimbursements for any additional tax liabilities that occurred on J McFarlane's UK Pension Plan holdings as a result of his continuing Australian residency. Under this agreement, ANZ reimbursed J McFarlane for additional tax liability incurred on his UK Pension Plan during his employment with ANZ, arising as a consequence of Australian Foreign Investment Fund rules.

D1.2 Participation in Equity Programs

Hurdled Options:

At the 2001 Annual General Meeting, four tranches of options were approved for granting by the Board: 500,000 in 2001; 1,000,000 in 2002; 1,000,000 in 2003 and 500,000 in 2004. For options granted to the CEO, the exercise price was equal to the weighted average share price during the five trading days immediately after the Annual General Meeting held in respect of the financial year that ended before the date of the grant of the relevant tranche of options. The exercise of these options was subject to performance hurdles being satisfied. J McFarlane's specific performance hurdles are indicated in section F10.1 (Hurdled A), and for Performance Shares in section F10.3. For options granted to the CEO, the life and exercise period may differ, as disclosed in F3.

Performance Shares:

175,000 Performance Shares were issued to J McFarlane on 31 December 2004 as part of his 26 October 2004 contract, as approved by shareholders at the 2004 Annual General Meeting. No dividends were payable on the shares until vesting. Vesting was subject to time and performance hurdles being satisfied as detailed in section F10.3.

Directors' Share Plan:

J McFarlane participated in the Directors' Share Plan, which is explained in section B3.

Please refer to section F for details of grants and holdings.

D1.3 Termination Benefits

On J McFarlane's departure on 30 September 2007, he received the following:

Contractual and Statutory Payments

J McFarlane received a payment of $550,000 (equal to 3 months of his Total Employment Cost) for the unexpired portion of his employment contract (being the 3 months from 1 October 2007 to 31 December 2007). J McFarlane was also paid all statutory leave entitlements, including a payment for pro rata long service leave totalling $365,261.

Short-Term Incentive

As part of the usual remuneration process at the end of the financial year, the Board considered and determined the extent to which J McFarlane satisfied the applicable performance criteria under the short-term incentive program for the 2007 financial year. As a result of that determination, Mr McFarlane received an STI payment in relation to the 2007 financial year of $2,090,000.

Long-Term Incentive

Of the 3,000,000 Hurdled Options granted to J McFarlane from December 2001 to December 2004, 250,000 Hurdled Options have not yet vested as at 31 October 2007.

In accordance with the rules of the ANZ Employee Option Plan, under which the Hurdled Options were granted, the unvested options may be held by J McFarlane until their expiry date (of 31 December 2008) set out in the terms of grant and his employment contract. The Hurdled Options will be subject to the performance condition and will be tested in accordance with their terms of grant until their expiry date, at which point they will lapse if the performance hurdle is not met.

The 175,000 Performance Shares granted to J McFarlane have not yet met their performance hurdle. In accordance with their terms of grant the Performance Shares may be held by J McFarlane (subject to the performance conditions) until the expiry date set out in their terms of grant and his employment contract and tested in accordance with the terms of grant until their expiry date (31/12/09). J McFarlane is taxed at the time of retirement on the Performance Shares as if they had passed the performance hurdles. For tax paid on Performance Rights and Options, the taxpayer will receive a refund of tax paid if the performance hurdles are not met. However this is not the case for Performance Shares in contrast to the position for Rights and Options. This is in ANZ's opinion inequitable and ANZ agreed to acquire J McFarlane's interest in the Performance Shares on his departure for a payment of $1,000,000. The Shares have been reclassified and are now available for allocation to other employees under ANZ's employee share plan.

Shares held under the ANZ Directors' Share Plan

J McFarlane elected to receive almost all of his remuneration (including annual bonuses) in the form of ANZ shares purchased under the ANZ Directors' Share Plan. On his cessation from ANZ, J McFarlane was entitled to all shares held on trust on his behalf under the ANZ Directors' Share Plan.

D1.4 Shareholding Guideline

The Chief Executive Officer of ANZ is expected to accumulate ANZ shares, over a five year period, to the value of 200% of his Fixed Remuneration and to maintain this shareholding while CEO of ANZ. This shareholding guideline was introduced in September 2005. J McFarlane was always well above the shareholding guideline.

D2. REMUNERATION OVERVIEW FOR M SMITH

M Smith commenced as CEO and Executive Director of ANZ on 1 October 2007 on a rolling twelve month contract with a minimum term of three years. The key terms of his employment arrangement are summarised below. They are in line with industry practice (based on external advice on Australian and international peer company benchmarks) and ASX Corporate Governance Principles.

Fixed Remuneration: A fixed component of $3 million per annum which consists of salary, benefits and superannuation contributions. M Smith's Fixed Remuneration will be constant for three years, and will be reviewed annually thereafter.

Short-Term Incentive: The short-term incentive target is 100% of Fixed Remuneration per annum. The actual short-term incentive awarded will be determined at the discretion of the Board based on ANZ and CEO performance against annual performance targets.

Long-Term Incentive: The LTI covering the first three years of employment consists of 3 tranches of Performance Rights, each to be granted after the 2007 Annual General Meeting, and each to a maximum value of $3 million. The performance periods for each tranche begin on date of grant and end on the 3rd, 4th and 5th anniversaries respectively. The grant of these Performance Rights will be subject to shareholder approval which will be sought at the 2007 Annual General Meeting. If shareholder approval is not obtained, the LTI will be a cash award equivalent to the value of the Performance Rights which would have become exercisable for each tranche and performance period, subject to satisfaction of the performance and time hurdles. The level of vesting for each tranche will be based on ANZ Total Shareholder Return (TSR) performance against a comparator group of companies consistent with the senior executive LTI program (refer to C4.2). Refer to section C4.2 for change of control provisions in relation to these Rights.

D2.1 Sign-On Award

The Board agreed to provide M Smith $9 million compensation in consideration for remuneration foregone from his previous employer on joining ANZ. As per the terms of M Smith's contract, he elected at the commencement of his employment to receive 100% of this compensation in the form of ANZ Deferred Shares. Shareholder approval will be sought at the 2007 Annual General Meeting for M Smith's sign-on award, to be held in trust until the end of the relevant vesting period.

One third of the sign on award will vest at each of the 1st, 2nd and 3rd anniversaries from commencement of employment as CEO. Given the purpose of the sign-on award for M Smith is to compensate him for remuneration foregone, the ANZ Deferred Shares will not be subject to any performance hurdles. The allocation of ANZ Deferred Shares and the time vesting component, will however strengthen the alignment of M Smith's interests with shareholders. If shareholder approval is not granted, the Company will pay the value of the sign-on award to M Smith in cash. On vesting, the cash amount paid will be the initial value of the relevant amount escalated at the 30 day bank bill rate throughout the period from commencement of employment as CEO until vesting, assuming interest is credited each 30 days.

D2.2 Termination Benefits

M Smith or ANZ may terminate the employment agreement by providing 12 months' written notice. If ANZ terminates M Smith's employment within the first 3 years, ANZ will give M Smith the greater of 12 months' written notice or notice equal to the unexpired term of three years from commencement as CEO. ANZ may elect to pay in lieu all or part of the notice period based on M Smith's Fixed Remuneration. In circumstances of serious misconduct, M Smith is only entitled to payment of Fixed Remuneration up to the date of termination.

In relation to M Smith's LTI (Performance Rights) and sign-on award the following will apply:

- Resignation by M Smith: All unexercised Performance Rights (or cash equivalent) and unvested sign-on award will be forfeited;
- Termination on notice by ANZ: All Performance Rights (or cash equivalent) which have vested or vest during the notice period will be retained and become exercisable; all Performance Rights (or cash equivalent) which have not yet vested will be retained and will vest and become exercisable subject to the relevant time and performance hurdles being satisfied. Sign-on award will vest in full;
- Termination without notice by ANZ in the event of serious misconduct: All Performance Rights (or cash equivalent) and sign-on award will be forfeited; and
- Death or total and permanent disablement: All Performance Rights (or cash equivalent) and sign-on award will vest.

D2.3 Relocation

Costs associated with M Smith's relocation to Melbourne will be paid consistent with ANZ's international relocation policies. Certain relocation expenses will also be paid in the event of termination of his employment.

Section E. Disclosed executives' contract terms

Contractual terms are similar, but do, on occasion, vary to suit different needs. Section E1 details the contractual terms for disclosed executives.

E1. CONTRACTS: R EDGAR, B HARTZER, G HODGES, P HODGSON, P MARRIOTT, S TARGETT AND A THURSBY

Length of Contract	Open-ended.
Fixed Remuneration	Remuneration consists of salary, 9% Superannuation Guarantee (SG) contributions (except for G Hodges) and nominated benefits.
Short-Term Incentive	Eligible to participate (refer to section C4.1 for details of short-term incentive arrangements).
Long-Term Incentive	Eligible to participate at the Board's discretion (refer to section C4.2 for long-term incentive arrangements).
Resignation	Employment may be terminated by giving 6 months' written notice. On resignation any options and unvested deferred shares will be forfeited.
Termination on Notice by ANZ	ANZ may terminate the executive's employment by providing 12 months' written notice or payment in lieu of the notice period based on Fixed Remuneration. On termination on notice by ANZ any Options or LTI Deferred Shares that have vested, or will vest during the notice period will be released, in accordance with the ANZ Share Option Plan Rules. LTI shares that have not yet vested will generally be forfeited, although for some executives (B Hartzer and P Marriott) these shares will be released in full. Deferred shares granted under STI arrangements will vest in full for all executives. There is discretion to pay short-term incentives on a pro-rata basis (depending on termination date and subject to business performance).
Redundancy	If ANZ terminates employment for reasons of bona fide redundancy, a severance payment will be made that is equal to 12 months' Fixed Remuneration. All STI Deferred Shares are released. All Options are released on a pro-rata basis. All LTI Deferred Shares are released on a pro-rata basis. There is discretion to pay short-term incentives on a pro-rata basis (depending on termination date and subject to business performance).
Death or Total and Permanent Disablement	All Options and Shares are released; pro-rata short-term incentive.
Termination for serious misconduct	ANZ may immediately terminate the executive's employment at any time in the case of serious misconduct, and the employee will only be entitled to payment of Fixed Remuneration up to the date of termination. Payment of statutory entitlements of long service leave and annual leave applies in all events of separation. On termination for serious misconduct any Options and any Deferred Shares still held in trust will be forfeited.
Other Aspects	As part of A Thursby's employment arrangement and to compensate for equity foregone from his previous employer, A Thursby has been offered 3 separate tranches of Deferred Shares to the value of $1,000,000 per annum, subject to Board approval. The first tranche was approved by the Board on 3 September 2007, with the second and third tranches to be approved around the first and second anniversary of A Thursby's employment with ANZ. The Shares will be restricted and held in trust for three years from the date of allocation for the beneficial interest of A Thursby, during which period they will be forfeited if employment ceases for any reason other than retrenchment, death or total and permanent disablement, and that for the whole period that the Shares remain in trust (including any further period) they will be forfeited for any serious misconduct.

E2. PARTICIPATION IN EQUITY PROGRAMS

A number of Shares and Options are granted to executives under the remuneration programs detailed in Section C. For disclosed executives, details of all grants made during the year and legacy LTI programs are listed in Section F. Aggregate holdings of Shares and Options are also shown.

Section F. Equity instruments relating to disclosed directors and executives

F1. SHAREHOLDINGS OF NON-EXECUTIVE DIRECTORS (INCLUDING MOVEMENTS DURING THE 2006 & 2007 YEARS)

2007 Financial Year

Name	Balance of shares as at 1 Oct 2006[1]	Shares acquired during the year in lieu of salary[2]	Shares resulting from any other change during the year[3]	Balance of shares held as at 30 Sept 2007[1,4]	Balance of shares held as at report sign-off date[1]
C Goode	627,028	23,799	18,669	669,496	669,496
G Clark	6,920	1,654	–	8,574	10,479
J Ellis	114,810	1,194	17	116,021	125,159
D Gonski	68,948	365	(16,308)	53,005	53,005
M Jackson	93,297	–	199	93,496	95,673
I Macfarlane	–	973	2,000	2,973	4,574
D Meiklejohn	7,156	–	–	7,156	7,156
J Morschel	7,422	1,654	–	9,076	10,677

2006 Financial Year

Name	Balance of shares as at 1 Oct 2005[1]	Shares acquired during the year in lieu of salary[2]	Shares resulting from any other change during the year[3]	Balance of shares held as at 30 Sept 2006[1,5]	Balance of shares held as at report sign-off date[1]
C Goode	535,637	26,046	65,345	627,028	648,003
G Clark	5,000	1,920	–	6,920	8,501
R Deane	75,364	–	–	75,364	75,364
J Ellis	91,196	1,614	22,000	114,810	115,951
D Gonski	54,904	2,534	11,510	68,948	68,948
M Jackson	93,297	–	–	93,297	93,297
D Meiklejohn	5,156	–	2,000	7,156	7,156
J Morschel	5,502	1,920	–	7,422	9,003

1 Balance of shares held at 1 October 2005/2006, 30 September 2006/2007, 1 November 2006 and 7 November 2007, includes directly held shares, nominally held shares and shares held by related parties.
2 All shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors' Share Plan).
3 Other shares resulting from any other changes during the year include the net result of any shares purchased/sold or acquired under the Dividend Reinvestment Plan.
4 The following shares were nominally held as at 30 September 2007: C Goode – 354,910; G Clark – 8,574; J Ellis – 49,092; D Gonski – 66,076; M Jackson – 10,831; I Macfarlane – 2,973; D Meiklejohn – 4,656; J Morschel – 5,076.
5 The following shares were nominally held as at 30 September 2006: C Goode – 408,553; G Clark – 1,920; R Deane – 73,000; J Ellis – 47,898; D Gonski – 66,076; M Jackson – 10,632; D Meiklejohn – 4,656; J Morschel – 3,422.

F2. SHAREHOLDINGS OF CEO, J McFARLANE (INCLUDING MOVEMENTS DURING THE 2006 & 2007 YEARS)

	Balance of shares as at 1 Oct 2005/2006[1]	Shares acquired during the year in lieu of salary[2]	Shares acquired during the year through the exercise of options[3]	Shares resulting from any other change during the year[4]	Balance of shares held as at 30 Sept 2006/2007[1,5]	Balance of shares held as at report sign-off date[1,6]
2007	1,973,422	52,581	750,000	(2,091,569)	684,434	509,434
2006	1,819,715	81,118	2,000,000	(1,927,411)	1,973,422	2,074,993

1 Balance of shares held at 1 October 2005/2006, 30 September 2006/2007, 1 November 2006 and 7 November 2007 includes directly held shares, nominally held shares and shares held by related parties.
2 All shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to section B3 of this Remuneration Report for an overview of the Directors' Share Plan).
3 All options held/exercised by the CEO have been approved by shareholders (December 1999 and December 2001).
4 Other shares resulting from any other changes during the 2006 / 2007 years include the net result of any shares purchased, sold, or acquired under the Dividend Reinvestment Plan. For 2006, it also includes those shares received on 31 October 2005 in regards to the 2005 incentive (for the period ending 30 September 2005)
5 1,486,294 shares were held nominally as at 30 September 2006 and 311,249 shares as at 30 September 2007.
6 The relinquishment of the CEO's Performance Shares (175,000) has been factored into this balance. Refer to section D1.3 for further details.

F3. OPTIONS GRANTED TO CEO, J McFARLANE[1]

Financial Year	2006	2007

Type of options	Grant date	First date exercisable	Date of expiry	Exercise price[3] $	Number granted[4,5]	Number vested during the 2006/2007 FY	Percentage that vested during the 2006/2007 FY %	Vested and exercisable as at 30 Sept 2006/2007	Vested and unexercisable as at 30 Sept[6] 2006/2007
Hurdled A	31-Dec-01	31-Dec-03	31-Dec-07	16.80	500,000	–	–	–	–
Hurdled A	31-Dec-02	31-Dec-04	31-Dec-07	16.69	1,000,000	–	–	500,000	500,000
Hurdled A	31-Dec-03	31-Dec-05	31-Dec-08	17.48	1,000,000	1,000,000	100	–	–
Hurdled A[2]	31-Dec-04	31-Dec-06	31-Dec-08	20.49	500,000	500,000	100	–	250,000
Total					3,000,000	1,500,000		500,000	750,000

1 All options granted to the CEO have been approved by shareholders (December 1999 and December 2001).
2 The fair value per option at the 31 December 2004 grant date is $1.98.
3 The exercise price is equal to the weighted average share price during the 5 trading days immediately after the Company's Annual General Meeting for the financial year that ended before the grant date. Note, the original exercise price of options issued prior to the Renouncable Rights issue in November 2003 have been reduced by 72 cents, because of the dilution of share capital associated with the Renouncable Rights issue.
4 Nil options forfeited or expired during the period.
5 The amortisation balance is nil for subsequent financial years and the value will be nil if the performance hurdle on the 250,000 unexercisable options is not achieved by 31 December 2008.
6 The options have met the time vesting hurdle, however only 50% of the 1.5 million granted had passed the performance hurdle as at 30 September 2007.

F4. OPTION HOLDINGS OF CEO, J McFARLANE (INCLUDING MOVEMENTS DURING THE 2006 & 2007 YEARS)[1]

Type of options	Balance as at 1 Oct 2005/2006	Exercised during the year	Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2006/2007	Total value of options granted and exercised during the year $
2007 Hurdled	1,000,000	300,000	20-Dec-06	300,000	3,513,000	28.40	16.69	250,000	3,513,000
		200,000	31-Aug-07	200,000	2,398,000	28.68	16.69		2,398,000
		250,000	31-Aug-07	250,000	2,047,500	28.68	20.49		2,047,500
2006 Hurdled	3,000,000	500,000	03-Jul-06	500,000	4,955,000	26.71	16.80	1,000,000	4,955,000
		500,000	04-Jul-06	500,000	5,030,000	26.75	16.69		5,030,000
		1,000,000	31-Aug-06	1,000,000	9,730,000	27.21	17.48		9,730,000

1 All options granted to the CEO have been approved by shareholders (December 1999 and December 2001).
2 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.

F5. DEFERRED SHARES GRANTED TO DISCLOSED EXECUTIVES

Financial Year	2006	2007

LTI Deferred Shares[1]

Name	Grant date	Vesting date	Number granted[2,3]	Number that vested during the 2006 or 2007 year	Percentage that vested during the 2006 or 2007 year %
R Edgar	23-Oct-02	23-Oct-05	7,600	7,600	100
	20-May-03	20-May-06	8,500	8,500	100
	05-Nov-03	05-Nov-06	8,889	8,889	100
	05-Nov-03	05-Nov-06	25,000	25,000	100
	11-May-04	11-May-07	8,452	8,452	100
	05-Nov-04	05-Nov-07	6,519	–	–
	05-Nov-04	05-Nov-07	26,000	–	–
Total			90,960	58,441	64
E Funke Kupper[4]	23-Oct-02	23-Oct-05	8,000	8,000	100
	20-May-03	20-May-06	6,800	6,800	100
	05-Nov-03	05-Nov-06	6,838	–	–
	11-May-04	11-May-07	6,256	–	–
	05-Nov-04	05-Nov-07	6,018	–	–
Total			33,912	14,800	44
B Hartzer	23-Oct-02	23-Oct-05	6,600	6,600	100
	20-May-03	20-May-06	6,500	6,500	100
	05-Nov-03	05-Nov-06	7,408	7,408	100
	11-May-04	11-May-07	7,135	7,135	100
	05-Nov-04	05-Nov-07	9,127	–	–
Total			36,770	27,643	75
G Hodges	23-Oct-02	23-Oct-05	3,800	3,800	100
	20-May-03	20-May-06	6,500	6,500	100
	05-Nov-03	05-Nov-06	5,699	5,699	100
	11-May-04	11-May-07	6,586	6,586	100
	05-Nov-04	05-Nov-07	7,522	–	–
Total			30,107	22,585	75
P Hodgson	23-Oct-02	23-Oct-05	900	900	100
	20-May-03	20-May-06	1,000	1,000	100
	05-Nov-03	05-Nov-06	1,097	1,097	100
	11-May-04	11-May-07	1,111	1,111	100
	05-Nov-04	05-Nov-07	1,974	–	–
	08-Dec-04	08-Dec-07	12,481	–	–
Total			18,563	4,108	22
P Marriott	23-Oct-02	23-Oct-05	9,300	9,300	100
	20-May-03	20-May-06	9,100	9,100	100
	05-Nov-03	05-Nov-06	9,573	9,573	100
	11-May-04	11-May-07	9,275	9,275	100
	05-Nov-04	05-Nov-07	8,475	–	–
Total			45,723	37,248	81
S Targett	05-Nov-04	05-Nov-07	6,519	–	–

1 LTI deferred shares were last granted under the ANZ Long-Term Incentive Program in the 2005 year, and therefore were not granted in the 2006 or 2007 years. LTI is now delivered in the form of Performance Rights (refer to section C4.2). The LTI deferred shares are restricted for 3 years and may be held in trust beyond this time. Refer to section F10.2 for more details.
2 Nil shares forfeited during the 2007 year; 19,112 shares forfeited during the 2006 year.
3 The maximum amortisation balance for each executive for subsequent financial years is as follows: R Edgar $22,130; B Hartzer $6,211; G Hodges $5,119; P Hodgson $16,996; P Marriott $5,768; S Targett nil.
4 E Funke Kupper forfeited unvested deferred shares on resignation.

F5. DEFERRED SHARES GRANTED TO DISCLOSED EXECUTIVES (CONTINUED)

Financial Year	2006	2007

STI Deferred Shares[1]

Name	Grant date	Vesting date	Number granted[2]	Number that vested during the 2006 or 2007 year	Percentage that vested during the 2006 or 2007 year %
R Edgar	23-Oct-02	23-Oct-05	6,423	6,423	100
	20-May-03	20-May-06	5,622	5,622	100
	05-Nov-03	05-Nov-06	6,781	6,781	100
	11-May-04	11-May-07	7,683	7,683	100
Total			26,509	26,509	100
E Funke Kupper[4]	23-Oct-02	23-Oct-05	8,554	8,554	100
	20-May-03	20-May-06	4,148	4,148	100
	05-Nov-03	05-Nov-06	7,636	–	–
	11-May-04	11-May-07	7,052	–	–
Total			27,390	12,702	46
B Hartzer	23-Oct-02	23-Oct-05	4,457	4,457	100
	20-May-03	20-May-06	1,992	1,992	100
	05-Nov-03	05-Nov-06	7,322	7,322	100
	11-May-04	11-May-07	7,244	7,244	100
Total			21,015	21,015	100
G Hodges	23-Oct-02	23-Oct-05	4,761	4,761	100
	20-May-03	20-May-06	4,503	4,503	100
	05-Nov-03	05-Nov-06	5,129	5,129	100
	11-May-04	11-May-07	5,653	5,653	100
Total			20,046	20,046	100
P Hodgson	23-Oct-02	23-Oct-05	8,305	8,305	100
	20-May-03	20-May-06	4,776	4,776	100
	05-Nov-03	05-Nov-06	7,835	7,835	100
	11-May-04	11-May-07	9,330	9,330	100
	05-Nov-04	05-Nov-05	4,262[3]	4,262	100
Total			34,508	34,508	100
P Marriott	23-Oct-02	23-Oct-05	8,527	8,527	100
	20-May-03	20-May-06	5,403	5,403	100
	05-Nov-03	05-Nov-06	7,978	7,978	100
	11-May-04	11-May-07	9,604	9,604	100
Total			31,512	31,512	100

1 STI deferred shares issued were granted under a historical ANZ Short-Term Incentive Program. (STI is now delivered generally as 100% cash, therefore no STI deferred shares were granted to the Executives during the year. Refer to section C4.1). STI deferred shares are restricted for 3 years and may be held in trust beyond this time.
2 Nil shares forfeited during the 2006 & 2007 years, and as at 30 September 2007, 100% of STI Deferred Shares have vested.
3 These STI deferred shares were granted as part of the Institutional Bonus Scheme in 2004. 20% of bonus amounts in excess of $125,000 were delivered as one year deferred shares.
4 Unvested shares were forfeited on resignation.

Other Deferred Shares

Name	Grant date	Vesting date	Number granted[3,4]	Value of deferred shares granted during the 2006 or 2007 year[5] $	Number that vested during the year	Percentage that vested during the year %
S Targett[1]	11-May-04	11-May-07	38,419	–	38,419	100
	05-Nov-04	05-Nov-07	35,105	–	–	–
	13-May-05	13-May-08	32,080	–	–	–
	07-Nov-05	07-Nov-08	29,838	703,282	–	–
Total			135,442	703,282	38,419	28
A Thursby[2]	03-Sep-07	03-Sep-10	34,602	1,005,188	–	–

1 Other shares issued to S Targett relate to the issue of deferred shares (four tranches to the value of $700,000 each issued at 6 month intervals in May and November in 2004 and 2005) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer upon commencement with ANZ.
2 Other shares issued to A Thursby relate to the issue of deferred shares to compensate A Thursby for the loss of access to equity as a result of his resignation from his previous employer upon commencement with ANZ.
3 Nil shares forfeited during the 2007 year; 14,688 shares forfeited during the 2006 year.
4 The maximum amortisation balance for subsequent financial years for S Targett is nil and A Thursby is $980,425.
5 The value of shares granted is based on the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted, multiplied by the number granted.

F6. SHAREHOLDINGS OF DISCLOSED EXECUTIVES (INCLUDING MOVEMENTS DURING THE 2006 & 2007 YEARS)

2007 Financial Year

Name	Balance of shares as at 1 Oct 2006[1]	Shares granted during the year as remuneration	Number of shares acquired during the year through exercise of options	Shares resulting from any other change during the year[2]	Balance of shares held as at 30 Sept 2007[1,3]
R Edgar	421,733	–	66,666	(100,000)	388,399
B Hartzer	96,083	–	269,194	(33,185)	332,092
G Hodges	239,319	–	42,735	–	282,054
P Hodgson	53,759	–	–	–	53,759
P Marriott	660,513	–	11,000	(98,884)	572,629
S Targett	142,961	–	153,688	(152,667)	143,982
A Thursby	–	34,602	–	–	34,602

2006 Financial Year

Name	Balance of shares as at 1 Oct 2005[1]	Shares granted during the year as remuneration	Number of shares acquired during the year through exercise of options	Shares resulting from any other change during the year[2]	Balance of shares held as at 30 Sept 2006[1,4]
R Edgar	421,733	–	–	–	421,733
E Funke Kupper[5]	189,892	–	–	(89,450)	100,442
B Hartzer	88,638	–	–	7,445	96,083
G Hodges	171,919	–	67,400	–	239,319
P Hodgson	59,557	–	–	(5,798)	53,759
P Marriott	641,633	–	168,000	(149,120)	660,513
S Targett	113,123	29,838	–	–	142,961

1 Balance of shares held at 1 October 2005/2006 and 30 September 2006/2007, include directly held shares, nominally held shares and shares held by related parties.
2 Other shares resulting from any other changes during the year include the net result of any shares purchased, or sold or any acquired under the Dividend Reinvestment Plan.
3 The following shares were held nominally as at 30 September 2007: R Edgar – 213,510; B Hartzer – 78,607; G Hodges – 146,747; P Hodgson – 53,759; P Marriott – 177,930; S Targett – 141,961; A Thursby – 34,602.
4 The following shares were held nominally as at 30 September 2006: R Edgar – 213,510; E Funke Kupper – 0; B Hartzer – 78,607; G Hodges – 104,012; P Hodgson – 53,759; P Marriott – 177,930; S Targett – 141,961.
5 Amounts shown do not include ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS). Elmer Funke Kupper held 500 ANZ StEPS up to and including 30 September 2006. No other disclosed executives held ANZ StEPS.

F7. OPTIONS GRANTED TO DISCLOSED EXECUTIVES[1]

Financial Year	2006	2007

Name	Type of options[2]	Grant date	First date exercisable	Date of expiry[3]	Exercise price[4,5] $	Number granted[6,7]	Number vested during the 2006 or 2007 year	Percentage that vested during the 2006 or 2007 year %	Vested and exercisable as at 30 Sept 2006 or 2007
R Edgar	Hurdled A	24-Oct-01	25-Oct-04	24-Oct-08	16.33	34,000	–	–	
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	41,000	–	–	
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	125,000	125,000	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	147,000	147,000	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	66,666	66,666	100	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	63,115	63,115	100	31,557
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	52,000	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	60,346	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	45,872	–	–	–
Total						634,999	401,781	63	31,557
E Funke Kupper[8]	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	131,000	131,000	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	119,000	119,000	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	51,282	–	–	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	46,722	–	–	–
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	48,000	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	45,518	–	–	–
Total						441,522	250,000	57	–
B Hartzer	Hurdled A	24-Apr-01	24-Apr-04	24-Apr-08	12.98	42,000	–	–	42,000
	Hurdled A	24-Oct-01	24-Oct-04	24-Oct-08	16.33	36,000	–	–	36,000
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	59,000	–	–	59,000
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	50,000	–	–	50,000
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	109,000	109,000	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	113,000	113,000	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	55,555	55,555	100	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	53,279	53,279	100	–
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	72,800	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	64,656	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	64,985	–	–	–
Total						720,275	330,834	46	187,000

F7. OPTIONS GRANTED TO DISCLOSED EXECUTIVES[1] (CONTINUED)

Financial Year	2006	2007

Name	Type of options[2]	Grant date	First date exercisable	Date of expiry[3]	Exercise price[4,5] $	Number granted[6,7]	Number vested during the 2006 or 2007 year	Percentage that vested during the 2006 or 2007 year %	Vested and exercisable as at 30 Sept 2006 or 2007
G Hodges	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	17,400	–	–	–
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	50,000	–	–	–
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	63,000	63,000	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	113,000	113,000	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	42,735	42,735	100	–
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	49,181	49,181	100	24,590
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	60,000	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	60,346	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–
Total						513,002	267,916	52	24,590
P Hodgson	Hurdled A	24-Oct-01	24-Oct-04	24-Oct-08	16.33	9,000	–	–	9,000
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	9,600	–	–	9,600
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	14,700	14,700	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	17,200	17,200	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	8,221	8,221	100	8,221
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	8,300	8,300	100	4,150
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	15,750	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	51,725	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	45,872	–	–	–
Total						180,368	48,421	27	30,971
P Marriott	Hurdled A	23-Feb-00	23-Feb-03	23-Feb-07	9.39	25,000	–	–	–
	Hurdled A	21-Nov-00	21-Nov-03	21-Nov-07	13.62	170,000	–	–	170,000
	Hurdled A	24-Oct-01	24-Oct-04	24-Oct-08	16.33	73,000	–	–	–
	Hurdled A	24-Apr-02	24-Apr-05	24-Apr-09	18.03	70,000	–	–	–
	Index Linked	23-Oct-02	23-Oct-05	22-Oct-09	17.34	153,000	153,000	100	–
	Index Linked	20-May-03	20-May-06	19-May-10	17.60	158,000	158,000	100	–
	Hurdled A	05-Nov-03	05-Nov-06	04-Nov-10	17.55	71,794	71,794	100	71,794
	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	69,263	69,263	100	34,631
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	67,600	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	62,501	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–
Total						977,498	452,057	46	276,425
S Targett[9]	Hurdled A	11-May-04	11-May-07	10-May-11	18.22	307,377	307,377	100	–
	Hurdled B	05-Nov-04	05-Nov-07	04-Nov-11	20.68	52,000	–	–	–
	Performance Rights	18-Nov-05	19-Nov-08	18-Nov-10	0.00	64,657	–	–	–
	Performance Rights	24-Oct-06	25-Oct-09	24-Oct-11	0.00	57,340	–	–	–
Total						481,374	307,377	64	–

1 Options granted pertains to those options granted, vested or exercised during the year, options yet to vest and any unexercised options.
2 Refer to section F10.1 for more details pertaining to hurdled A, hurdled B and index linked options.
3 Treatment of options on termination of employment is explained in section E of the Remuneration Report.
4 The exercise price for hurdled A & B options and index linked options is equal to the weighted average share price over the 5 trading days up to and including the grant date. The exercise price for performance rights is nil. Note, the original exercise price of options issued prior to the Renouncable Rights issue in November 2003 have been reduced by 72 cents, because of the dilution of share capital associated with the Renouncable Rights issue. Given index-linked options have a dynamic exercise price, the original exercise price is shown in F7 (refer to F10.1 for more details).
5 Refer to section F9 for details of the valuation methodology and inputs for performance rights granted in 2006 and 2007.
6 For the 2007 report, Performance Rights were granted on 30 October 2007 (before the report sign-off date). The allocation price was $12.96 with an expiry date of 5 years from the date of grant. The number of Performance Rights granted to each disclosed executive is as follows: R Edgar 19,290; B Hartzer 65,586; G Hodges 57,870; P Hodgson 57,870; P Marriott 57,870; A Thursby 46,296. These amounts relate to the 2008 financial year.
7 The maximum amortisation balance for each executive for subsequent financial years is as follows: R Edgar $684,141; B Hartzer $877,162; G Hodges $788,172; P Hodgson $643,108; P Marriott $798,309; S Targett $806,544. The value will be nil however, if the minimum performance hurdles are not achieved.
8 E Funke Kupper forfeited unvested options on resignation.
9 S Targett was granted Hurdled Options to compensate for the loss of equity from his previous employer.

F8. OPTION HOLDINGS OF DISCLOSED EXECUTIVES (INCLUDING MOVEMENTS DURING THE 2006 & 2007 YEARS)

2007 Financial Year

Name	Type of options	Balance as at 1 Oct 2006	Granted during the year as remuneration	Resulting from any other change during year	Value of options granted during the year[1] $	Exercised during the year
R Edgar	Hurdled	181,781	–	–	–	66,666
	Index-Linked	272,000	–	–	–	–
	Performance Rights	60,346	45,872	–	600,006	–
B Hartzer	Hurdled	368,634	–	–	–	42,000
						36,000
						59,000
						50,000
						55,555
						26,639
	Index-Linked	222,000	–	–	–	–
	Performance Rights	64,656	64,985	–	850,004	–
G Hodges	Hurdled	151,916	–	–	–	42,735
	Index-Linked	176,000	–	–	–	–
	Performance Rights	60,346	57,340	–	750,007	–
P Hodgson	Hurdled	50,871	–	–	–	–
	Index-Linked	31,900	–	–	–	–
	Performance Rights	51,725	45,872	–	600,006	–
P Marriott	Hurdled	378,657	–	–	–	–
	Index-Linked	311,000	–	–	–	–
	Performance Rights	62,501	57,340	–	750,007	–
	Other[3]	11,442	–	–	–	5,000
						5,000
						1,000
S Targett	Hurdled	359,377	–	–	–	153,688
	Performance Rights	64,657	57,340	–	750,007	–

2006 Financial Year

Name	Type of options	Balance as at 1 Oct 2005	Granted during the year as remuneration	Resulting from any other change during year[5]	Value of options granted during the year[1] $	Exercised during the year
R Edgar	Hurdled	181,781	–	–	–	–
	Index-Linked	272,000	–	–	–	–
	Performance Rights	–	60,346	–	702,427	–
E Funke Kupper	Hurdled	146,004	–	(146,004)	–	–
	Index-Linked	250,000	–	(250,000)	–	–
	Performance Rights	–	45,518	(45,518)	529,830	–
B Hartzer	Hurdled	368,634	–	–	–	–
	Index-Linked	222,000	–	–	–	–
	Performance Rights	–	64,656	–	752,596	–
G Hodges	Hurdled	219,316	–	–	–	17,400
						50,000
	Index-Linked	176,000	–	–	–	–
	Performance Rights	–	60,346	–	702,427	–
P Hodgson	Hurdled	50,871	–	–	–	–
	Index-Linked	31,900	–	–	–	–
	Performance Rights	–	51,725	–	602,079	–
P Marriott	Hurdled	546,657	–	–	–	25,000
						73,000
						70,000
	Index-Linked	311,000	–	–	–	–
	Performance Rights	–	62,501	–	727,512	–
	Other[3]	11,442	–	–	–	–
S Targett	Hurdled	359,377	–	–	–	–
	Performance Rights	–	64,657	–	752,607	–

1 The value of options granted during the year is based on the fair value of the option multiplied by the number granted. Refer to section F9 for details of the valuation methodology and inputs.
2 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.
3 Other refers to share options granted to a related party. 11,000 of these options were vested and exercisable as at 30 September 2006 and 442 at 30 September 2007.

Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2007[4]
15-Nov-06	66,666	765,326	29.03	17.55	115,115
–	–	–	–	–	272,000
–	–	–	–	–	106,218
16-May-07	42,000	693,000	29.48	12.98	99,440
16-May-07	36,000	473,400	29.48	16.33	
16-May-07	59,000	675,550	29.48	18.03	
16-May-07	50,000	572,500	29.48	18.03	
16-May-07	55,555	662,771	29.48	17.55	
16-May-07	26,639	299,955	29.48	18.22	
–	–	–	–	–	222,000
–	–	–	–	–	129,641
14-Nov-06	42,735	488,461	28.98	17.55	109,181
–	–	–	–	–	176,000
–	–	–	–	–	117,686
–	–	–	–	–	50,871
–	–	–	–	–	31,900
–	–	–	–	–	97,597
–	–	–	–	–	378,657
–	–	–	–	–	311,000
–	–	–	–	–	119,841
17-May-07	5,000	93,000	29.69	11.09	442
17-May-07	5,000	77,450	29.69	14.20	
17-May-07	1,000	16,710	29.69	12.98	
11-May-07	153,688	1,887,289	30.50	18.22	205,689
–	–	–	–	–	121,997

Date of exercise of options	Number of ordinary shares issued on exercise of options	Value of options exercised during the year[2] $	Share price on date of exercise of options $	Amount paid per share $	Balance as at 30 Sept 2006[6]
–	–	–	–	–	181,781
–	–	–	–	–	272,000
–	–	–	–	–	60,346
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	368,634
–	–	–	–	–	222,000
–	–	–	–	–	64,656
17-May-06	17,400	158,166	27.12	18.03	151,916
17-May-06	50,000	454,500	27.12	18.03	
–	–	–	–	–	176,000
–	–	–	–	–	60,346
–	–	–	–	–	50,871
–	–	–	–	–	31,900
–	–	–	–	–	51,725
10-Nov-05	25,000	342,000	23.07	9.39	378,657
11-Nov-05	73,000	511,730	23.34	16.33	
11-Nov-05	70,000	371,700	23.34	18.03	
–	–	–	–	–	311,000
–	–	–	–	–	62,501
–	–	–	–	–	11,442
–	–	–	–	–	359,377
–	–	–	–	–	64,657

4 Aggregate value of options exercised, granted and forfeited during the 2007 year for each disclosed executive is as follows: R Edgar $1,365,332; B Hartzer $4,227,180; G Hodges $1,238,468; P Hodgson $600,006; P Marriott $937,167; S Targett $2,637,296.
5 Refers to forfeiture of options upon resignation for E Funke Kupper. Value of options on forfeiture was $2,229,912.
6 Aggregate value of options exercised, granted and forfeited during the 2006 year for each disclosed executive is as follows: R Edgar – $702,427; E Funke Kupper – $2,229,912; B Hartzer – $752,596; G Hodges – $1,315,093; P Hodgson – $602,079; P Marriott – $1,952,942; S Targett – $752,607.

F9. OPTION VALUATIONS

Option type	Grant date	Option value[1] $	Exercise price (5 day VWAP) $	Share price at grant $	ANZ expected volatility[2] %	Option term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield[3] %	Risk free interest rate[4] %
Performance Rights	18-Nov-05	11.64	–	24.05	15.00	5	3	4	5.00	5.31
Performance Rights	24-Oct-06	13.08	–	28.15	15.00	5	3	4	4.80	6.00

1 PricewaterhouseCoopers and Mercer Finance & Risk Consulting independently valued these options. In accordance with AASB 2 the valuation model takes into account a range of factors to determine the value of a Performance Right such as the life of the Rights, the probability of vesting, the price of the underlying shares at grant, expected volatility of the share price and the dividends expected on the shares.

2 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

3 In estimating the fair value of the ANZ option grant, expected dividends were included in the application of the model. The expected dividend yield applied to the model was based on an analysis of ANZ's historical dividend payments and yields.

4 The risk-free interest rate is based on the implied yield currently available on zero-coupon bonds issued by the Australian government, with a remaining term equal to the expected life of ANZ's options.

F10. LEGACY LONG TERM INCENTIVE (LTI) PROGRAMS

F10.1 Options (Granted prior to October 2005)

Each option has the following features:

- An exercise price (or for index-linked options, the original exercise price) that is set equal to the weighted average sale price of all fully paid ordinary shares in the Company sold on the Australian Securities Exchange during the 1 week prior to and including the date of grant;
- A maximum life of 7 years and an exercise period that commences 3 years after the date of grant, subject to performance hurdles being met. Options are re-tested monthly (if required) after the commencement of the exercise period;
- Upon exercise, each option entitles the option-holder to one ordinary share;
- In case of resignation or termination on notice or dismissal for misconduct: options are forfeited;
- In case of redundancy: options are pro-rated and a grace period is provided in which to exercise the remaining options (with hurdles waived, if applicable);
- In case of retirement, death or total & permanent disablement: a grace period is provided in which to exercise all options (with hurdles waived, if applicable); and
- Performance hurdles, which are explained below for each type of option.

Hurdled Options (Hurdled B) (Granted November 2004)

In November 2004 hurdled options were granted with a relative TSR performance hurdle attached.

The proportion of options that become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group shown below. Performance equal to the median TSR of the comparator group will result in half the options becoming exercisable. Performance above median will result in further options becoming exercisable, increasing on a straight-line basis until all of the options become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

Comparator Group

AMP Limited

AXA Asia Pacific Holdings Limited

Commonwealth Bank of Australia

Insurance Australia Group Limited

Macquarie Bank Limited

National Australia Bank Limited

QBE Insurance Group Limited

St George Bank Limited

Suncorp-Metway Limited

Westpac Banking Corporation

Hurdled Options (Hurdled A) (Granted to Executives from February 2000 until July 2002, and from November 2003 until May 2004. Granted to CEO from December 2001 until December 2004)

Until May 2004, hurdled options were granted to executives with the following performance hurdles attached. The following performance hurdles also pertain to the options granted to the CEO during the year:

1. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced); and

2. The other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced).

Index-linked options (Granted from October 2002 to May 2003)

Index-linked options have a dynamic exercise price that acts as a built-in performance hurdle, i.e. the exercise price is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ). As an additional constraint, the adjusted exercise price can only be set at or above the original exercise price. They are exercisable between the 3rd and 7th year after grant date, subject to the adjusted exercise price being above the prevailing share price.

F10.2 Deferred Shares (Granted from February 2000)

Deferred Shares granted under the LTI arrangements were designed to reward executives for superior growth whilst also encouraging executive retention and an increase in the Company's share price.

- Shares are subject to a time-based vesting hurdle of 3 years, during which time they are held in trust;
- During the deferral period, the employee is entitled to any dividends paid on the shares;
- Shares issued under this plan may be held in trust for up to 10 years;
- The value used to determine the number of LTI deferred shares to be allocated has been based on the volume weighted average price of the shares traded on the ASX in the week leading up to and including the date of issue;
- In case of resignation or termination on notice or dismissal for misconduct: LTI shares are forfeited;
- In case of redundancy: the number of LTI shares that are released is pro-rated according to the time held as a proportion of the vesting period; and
- In case of retirement, death or total & permanent disablement: LTI shares are released to executives.

Deferred Shares no longer form part of the executive remuneration program detailed in section C, however there may be circumstances (such as retention) where this type of equity (including Deferred Share Rights) will be issued.

F10.3 Performance Shares (Granted December 2004 to CEO)

In December 2004 Performance Shares were granted to the CEO of ANZ with a relative TSR performance hurdle attached. The proportion of shares that vest will depend upon the TSR achieved by ANZ relative to the companies in the comparator group shown below. Performance equal to the median TSR of the comparator group will result in half the Performance Shares becoming exercisable. Performance above median will result in further Performance Shares becoming exercisable, increasing on a straight-line basis until all of the Performance Shares become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group.

No dividends will be payable on the shares until they vest, with the earliest possible vesting date being 31 December 2006.

Comparator Group

AMP Limited
AXA Asia Pacific Holdings Limited
Commonwealth Bank of Australia
Insurance Australia Group Limited
Macquarie Bank Limited
National Australia Bank Limited
QBE Insurance Group Limited
St George Bank Limited
Suncorp-Metway Limited
Westpac Banking Corporation

Signed in accordance with a resolution of the directors

Charles Goode
Chairman

Michael R P Smith
Director

7 November 2007

COPY OF THE AUDITOR'S INDEPENDENCE DECLARATION

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2007 there have been:

i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG
Melbourne

Michelle Hinchliffe
Partner

7 November 2007

CORPORATE GOVERNANCE

A SOLID FOUNDATION AT ANZ

This report sets out ANZ's annual statement on its corporate governance framework. Further details and copies/summaries of relevant documents are contained on anz.com › about ANZ › Corporate Governance, including how ANZ has applied the ASX Governance Principles (see below).

ANZ's Board is responsible to shareholders for the strategic guidance and oversight of the Company as set out in its publicly available Charter. The Board recognises its overriding responsibility to act honestly, fairly, and diligently, in accordance with the law, in building sustainable value for shareholders while acknowledging ANZ's shareholders, people, customers and the communities in which it operates as important stakeholders in an integrated and responsible approach to business.

Corporate governance is an important issue for ANZ and so receives close scrutiny from the Governance Committee which reports regularly to the Board. The Board considers that a comprehensive corporate governance framework provides ANZ with a strong commercial advantage – it enables the Board and ANZ to achieve ethical and stewardship obligations and at the same time facilitates the making of effective and timely decisions.

In relation to governance, the Board seeks to:

- embrace principles and practices it considers to be best practice internationally;
- be an 'early adopter', where possible, by complying before a published law or recommendation takes effect; and
- take an active role in discussions regarding the development of corporate governance best practice and associated regulation in Australia and overseas.

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

ANZ has equity securities listed on the Australian (ASX) and New Zealand (NZX) Securities Exchanges and has debt securities listed on these and other overseas Securities Exchanges. As such, ANZ must comply with a range of listing and corporate governance requirements from both Australia and overseas.

AUSTRALIA

As a company listed on the ASX, ANZ is required to disclose how it has applied the Recommendations contained within the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Governance Principles) during the financial year, explaining any departures from them. In August 2007, the ASX Corporate Governance Council issued a revised version of the ASX Governance Principles which will be effective in respect of ANZ's 2009 reporting period.

ANZ actively contributed to the development of the revised ASX Governance Principles and is supportive of the "if not, why not" disclosure approach to governance enshrined within both the current and revised ASX Governance Principles. ANZ has complied with each of the Recommendations contained within the current ASX Governance Principles throughout the financial year, and also complies with each of the Recommendations contained within the revised ASX Governance Principles.

NEW ZEALAND

As an overseas listed issuer on the NZX, ANZ is deemed to comply with the NZX Listing Rules provided that it remains listed on the ASX, complies with the ASX listing rules and provides the NZX with all the information and notices that it provides to the ASX. ANZ has complied with these requirements during the financial year.

The ASX Governance Principles differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at www.asx.com and, in respect of the NZX, at www.nzx.com.

Irrespective of any differences, ANZ complies with all applicable governance principles and requirements both in Australia and New Zealand.

OTHER JURISDICTIONS

United States of America – ANZ delisted its American Depositary Receipts from the New York Stock Exchange (NYSE) in July 2007, and subsequently deregistered from the US Securities and Exchange Commission. As a result, ANZ is no longer required to comply with certain corporate governance requirements contained in US securities laws, including applicable sections of the Sarbanes-Oxley Act of 2002 and applicable NYSE Listing Standards. While these steps were taken to reduce administrative burdens and costs, ANZ continues to be committed to best practice in preparing its financial statements. ANZ will maintain the strong control and financial goverance frameworks established under Sarbanes-Oxley compliance, tailoring them to the Group's specific processes and procedures.

ANZ also monitors best practice developments in corporate governance across other relevant jurisdictions including the US.

WEBSITE

Full details of the location of the references in this statement (and elsewhere in the Annual Report) which specifically set out how ANZ applies each Recommendation of both the current and revised ASX Governance Principles are contained on www.anz.com › about ANZ › Corporate Governance.

This section of ANZ's website also contains copies of all the charters and summaries of many of the documents and policies mentioned in this report, as well as summaries of other ANZ policies of interest to shareholders and stakeholders. The website is regularly updated to ensure it reflects ANZ's most recent corporate governance information.

DIRECTORS

Mr C B Goode, AC — Chairman, Independent Non-Executive Director

B Com (Hons), MBA, Hon LLD (Melb), Hon LLD (Monash)

Non-executive director since July 1991. Mr Goode was appointed Chairman in August 1995 and is an ex-officio member of all Board Committees.

Skills, experience and expertise
Mr Goode has a background in the finance and resources industries and has been a professional non-executive director since 1989. Mr Goode brings a wide range of skills and significant experience of the finance industry to his role as Chairman of the Board.

Current Directorships
Chairman: Australian United Investment Company Limited (Director from 1990), Diversified United Investment Limited (Director from 1991), and The Ian Potter Foundation Ltd (Director from 1987).
Member: International Council of the Asia Society (from 2000), Asia Society Australasia Centre (from 2003), AsiaLink Council (from 2002) and The Global Foundation (from 1999).

Former Directorships include
Former Chairman: Woodside Petroleum Limited (Director 1988-2007, Chairman 1999-2007).
Former President: Howard Florey Institute of Experimental Physiology and Medicine (Director 1987-2006, President 1997-2004).
Former Director: Singapore Airlines Limited (1999-2006).

Age 69. Residence Melbourne.

Mr M R P Smith, OBE — Chief Executive Officer, Executive Director

BSc (Hons)

Chief Executive Officer since 1 October 2007.

Skills, experience and expertise
Mr Smith is an international banker with 29 years experience in banking operations in Asia, Australia and internationally. Until June 2007, he was President and Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited, Chairman, Hang Seng Bank Limited, Global Head of Commercial Banking for the HSBC Group and Chairman, HSBC Bank Malaysia Berhad. Previously, Mr Smith was Chief Executive Officer of HSBC Argentina Holdings SA.

Mr Smith joined the HSBC Group in 1978 and during his international career he has held a wide variety of roles in Commercial, Institutional and Investment Banking, Planning and Strategy, Operations and General Management.

Current Directorships
Director: ANZ National Bank Limited (from 2007).
Member: Chongqing Mayor's International Economic Advisory Council (from 2006).
Fellow: The Hong Kong Management Association (from 2005).

Former Directorships include
Former Chairman: HSBC Bank Malaysia Berhad (2004-2007) and Hang Seng Bank Limited (2005-2007).
Former CEO and Director: The Hong Kong and Shanghai Banking Corporation Limited (2004-2007).
Former Director: HSBC Australia Limited (2004-2007), HSBC Finance Corporation (2006-2007) and HSBC Bank (China) Company Limited (2007).
Former Board Member: Visa International Asia Pacific (2005-2007).

Age 51. Residence Melbourne.

Dr G J Clark — Independent Non-Executive Director, Chairman of the Technology Committee

BSc (Hons), PhD, FAPS, FTSE

Non-executive director since February 2004. Dr Clark is a member of the Governance Committee.

Skills, experience and expertise
Dr Clark is Principal of Clark Capital Partners, a US-based firm that advises internationally on technology and the technology market place. Previously he held senior executive positions in IBM, News Corporation, and Loral Space and Communications. He brings to the Board international business experience and a distinguished career in micro-electronics, computing and communications.

Current Directorships
Chairman: GPM Classified Directories (from 2007).
Director: Babcock & Brown Capital Limited (from 2006) and KaComm Communications Pty Ltd (from 2006).

Former Directorships include
Former Director: James Hardie Industries NV (2002-2006) and Acton Semiconductor Pty Limited (2001-2005).

Age 64. Residence based in New York, United States of America but also resides in Sydney.

Mr J K Ellis

Independent Non-Executive Director

MA, FAICD, Hon FIE AUST, FAus IMM, FTSE, Hon DR ENG (CQU)

Non-executive director since October 1995. Mr Ellis is a member of the Audit Committee and the Technology Committee.

Skills, experience and expertise
Mr Ellis brings to the Board his analytical skills together with his practical understanding of operational issues, investments and acquisitions arising from his involvement across a range of sectors including natural resources, manufacturing, biotechnology and education.

Current Directorships
Chairman: Future Directions International Pty Ltd (Director from 2003), Landcare Australia Limited (from 2004), Golf Australia (from 2005), and the Earth Resources Development Council (from 2006).
Chancellor: Monash University (from 1999).
Member: Pacific Road Corporate Finance Pty Limited Advisory Board (from 2002), The Sentient Group Advisory Council (from 2001) and Anglo American plc's Australian Advisory Board (from 2006).

Former Directorships include
Former Chairman: The Broken Hill Proprietary Company Limited (Director 1991-1999, Chairman 1997-1999), Pacifica Group Limited (Chairman and Director 1999-2007), Black Range Minerals Limited (Chairman and Director 2000-2004), Australia–Japan Foundation (1999-2005) and National Occupational Health & Safety Commission (2003-2005).
Former Director: GroPep Limited (2000-2005).

Age 70. Residence Melbourne.

Ms M A Jackson, AC

Independent Non-Executive Director, Chairman of the People Committee

BEc, MBA, Hon LLD (Monash), FAICD, FCA

Non-executive director since March 1994. Ms Jackson is a member of the Audit Committee.

Skills, experience and expertise
A Chartered Accountant, with significant financial expertise, Ms Jackson has broad industrial and commercial experience including her involvement in transportation, mining, the media, manufacturing and insurance. This expertise coupled with her work in health and education contribute to her role on the Board.

Current Directorships
Chairman: Qantas Airways Limited (Director from 1992), FlexiGroup Limited (from 2006) and Asia Pacific Business Coalition on HIV/AIDS (from 2006).
President: Australian Volunteers International (from 2006).
Director: Billabong International Limited (from 2000), Florey Neuroscience Institutes (from 2007) and Australian Tissue Engineering Centre (from 2006).

Former Directorships include
Former Deputy Chairman: Southcorp Limited (Deputy Chairman and Director 2004-2005).
Former Co-Chairman: Australia NZ Leadership Forum (2003-2006).
Former Director: John Fairfax Holdings Limited (2003-2004) and Howard Florey Institute of Experimental Physiology and Medicine (1998-2006).
Former Partner: Consulting Division of KPMG Peat Marwick (1991-1992).

Age 54. Residence Melbourne.

Mr I J Macfarlane, AC

Independent Non-Executive Director, Chairman of the Governance Committee

BEc (Hons), MEc, Hon DSc (Syd), Hon DCom (Melb), Hon DLitt (Macq), Hon LLD (Monash)

Non-executive director since February 2007. Mr Macfarlane is a member of the Risk Committee and the Technology Committee.

Skills, experience and expertise
During his 28 year career at the Reserve Bank of Australia including a 10 year term as Governor, Mr Macfarlane made a significant contribution to economic policy in Australia and internationally. He has a deep understanding of financial markets as well as a long involvement with Asia.

Current Directorships
Director: Woolworths Limited (from 2007), Leighton Holdings Limited (from 2007), and the Lowy Institute for International Policy (from 2004).
Member: International Advisory Board of Goldman Sachs International (from 2007).

Former Directorships include
Former Chairman: Payments System Board (1998-2006), Australian Council of Financial Regulators (1998-2006), and Financial Markets Foundation for Children (1996-2006).
Former Governor: Reserve Bank of Australia (Member 1992-2006, Chairman 1996-2006).

Age 61. Residence Sydney.

Mr D E Meiklejohn — **Independent Non-Executive Director, Chairman of the Audit Committee**

B Com, Dip Ed, FCPA, FAICD, FAIM

Non-executive director since October 2004. Mr Meiklejohn is a member of the Governance Committee and the Risk Committee.

Skills, experience and expertise
Mr Meiklejohn has a strong background in finance and accounting. He also brings to the Board his experience across a number of directorships of major Australian companies spanning a range of industries.

Current Directorships
Chairman: PaperlinX Limited (Director from 1999).
Director: Coca Cola Amatil Limited (from 2005) and Mirrabooka Investments Limited (from 2006).
President: Melbourne Cricket Club (Committee member from 1987).

Former Directorships include
Former Chairman: SPC Ardmona Limited (Chairman and Director 2002-2005).
Former Deputy Chairman: GasNet Australia Limited (Deputy Chairman and Director 2001-2004).
Former Director: WMC Resources Limited (2002-2005) and OneSteel Limited (2000-2005). Director and Chief Financial Officer Amcor Limited (1985-2000).

Age 65. Residence Melbourne.

Mr J P Morschel — **Independent Non-Executive Director, Chairman of the Risk Committee**

DipQS, FAIM

Non-executive director since October 2004. Mr Morschel is a member of the People Committee.

Skills, experience and expertise
Mr Morschel has a strong background in banking, financial services and property and brings the experience of being a Chairman and Director of major Australian and international companies.

Current Directorships
Director: Singapore Telecommunications Limited (from 2001), Tenix Pty Limited (from 1998) and Gifford Communications Pty Limited (from 2000).

Former Directorships include
Former Chairman: Rinker Group Limited (Chairman and Director 2003-2007) and Leighton Holdings Limited (Chairman and Director 2001-2004).
Former Director: Rio Tinto Plc (1998-2005), Rio Tinto Limited (1998-2005), Westpac Banking Corporation (1993-2001) and Lend Lease Corporation Limited (1983-1995).

Age 64. Residence Sydney.

BOARD RESPONSIBILITY AND DELEGATION OF AUTHORITY

The Board is chaired by an independent non-executive Director. The roles of the Chairman and Chief Executive Officer are separate, and the Chief Executive Officer is the only executive Director on the Board.

ROLE OF THE CHAIRMAN

The Chairman plays an important leadership role and is involved in:

- chairing meetings of the Board and providing effective leadership to it;
- monitoring the performance of the Board (including overseeing the process) and the mix of skills and effectiveness of individual contributions;
- being a member of all principal Board Committees;
- maintaining ongoing dialogue with the Chief Executive Officer and providing appropriate mentoring and guidance; and
- being a respected ambassador for ANZ, including chairing meetings of shareholders and dealing with key customer, political and regulatory parties.

BOARD CHARTER

The Board Charter clearly sets out the Board's purpose, powers, and specific responsibilities.

The Board is responsible for:

- charting the direction, strategies and financial objectives for ANZ and monitoring the implementation of those policies, strategies and financial objectives;
- monitoring compliance with regulatory requirements, ethical standards and external commitments; and
- appointing and reviewing the performance of the Chief Executive Officer.

In addition to the above and any matters expressly required by law to be approved by the Board, powers specifically reserved for the Board include:

- approval of appointment of Senior Executives to roles leading ANZ businesses or functions and reporting to the Chief Executive Officer;
- any matters in excess of any discretions delegated to the Chief Executive Officer and senior management;
- annual approval of the budget and strategic plan;
- annual approval of the remuneration and conditions of service for any executive Directors, direct reports to the Chief Executive Officer and other key executives;
- significant changes to organisational structure;
- the acquisition, establishment, disposal or cessation of any significant business;

- the issue of ANZ shares or other ANZ equity securities;
- any public statements which reflect significant issues of ANZ policy or strategy; and
- any changes to the discretions delegated from the Board.

The Board may delegate any of its powers and responsibilities to Committees of the Board (see pages 43 to 45).

Key 2007 financial year highlights included:

- Appointment of the new Chief Executive Officer following a global search.
- Appointment of Mr I J Macfarlane as an independent non-executive Director.
- ANZ ranked the most sustainable bank globally in the Dow Jones Sustainability Index.
- ANZ named 2007 Money magazine Bank of the Year.
- Establishing a new Asia Pacific Division and finalising a number of international partnerships.
- Overseeing the ETrade Australia acquisition.

BOARD MEETINGS

The Board normally meets at least 8 times each year, including an offsite strategy meeting.

Typically at Board meetings the agenda will include:

- minutes of the previous meeting, and outstanding issues raised by Directors at previous meetings;
- the Chief Executive Officer's report;
- the Chief Financial Officer's report;
- Divisional Executive reports;
- specific business proposals;
- reports from Chairs of Committees which have met since the last Board meeting on matters considered at those meetings; and
- for review, the minutes of Committee meetings which have occurred since the last Board meeting.

There are two private sessions held at the end of each Board meeting which are chaired by the Chairman of the Board. The first involves all Directors including the CEO, and the second involves only the non-executive Directors.

On a revolving basis, a Director is appointed at each Board meeting to formally critique the meeting and this critique is presented at the end of the meeting and is minuted.

The Chief Financial Officer usually also attends all Board meetings. The Senior Managing Director, Divisional Heads and other members of Senior Management attend Board meetings when an issue under their areas of responsibility is being considered or as otherwise requested by the Board.

CEO AND DELEGATION TO MANAGEMENT

The Board delegates to the Chief Executive Officer, and through the Chief Executive Officer to other senior management, the authority and responsibility for managing the everyday affairs of ANZ. The Board monitors management and performance on behalf of shareholders.

The Group Discretions Policy details the comprehensive discretions framework that applies within ANZ and to employees appointed to operational roles or directorships of related entities.

The Group Discretions Policy is maintained by the Chief Financial Officer and reviewed annually by the Audit Committee with the outcome of this review reported to the Board.

BOARD COMPOSITION, SELECTION AND APPOINTMENT

The Board strives to achieve a balance of skills, knowledge, experience, tenure and perspective among its Directors. Details regarding the skills, experience and expertise of each Director in office at the date of this Annual Report can be found on pages 37 to 39.

The Governance Committee (see page 44) has been delegated responsibility for the director nomination process. The Committee regularly reviews the size and composition of the Board and Board Committees and assesses whether there is a need for any new non-executive Director appointments. Nominations may be provided from time to time to the Chairman of the Governance Committee. The Committee also reviews and recommends the process for the election of the Chairman of the Board and reviews succession planning for the Chairman of the Board, making recommendations to the Board as appropriate.

The Committee assesses potential candidates against Board approved selection criteria including integrity, fitness and propriety, skills, qualifications, experience, communication capabilities and community standing. If found suitable, and where there is a need for any new appointments, candidates are recommended to the Board. Otherwise, the Chairman of the Committee maintains names of suitable candidates for succession purposes. The Chairman of the Board is responsible for approaching potential candidates. During the course of the year, this process was formalised in a new Board Renewal and Performance Evaluation Policy.

Each new non-executive Director receives an appointment letter accompanied by:

- Directors' Handbook – The Handbook includes information on a broad range of matters relating to the role of a Director, including details of all applicable policies.
- Directors' Deed – Each Director signs a Deed in the form approved by shareholders at the 2005 Annual General Meeting which covers a number of issues including indemnity, directors' and officers' liability insurance, the right to obtain independent advice and requirements concerning confidential information.

UNDERTAKING INDUCTION TRAINING

Every new Director takes part in a formal induction program which involves the provision of information regarding ANZ's values and culture, the Group's governance framework, the Directors' Code of Conduct and Director related policies, Board and Committee policies, processes and key issues, financial management and business operations, and is briefed individually by senior management about matters concerning their area of responsibility.

MEETING SHARE QUALIFICATION

Non-executive Directors are required to accumulate within 5 years of appointment, and thereafter maintain, a holding in ANZ shares that is equivalent to at least 100% of a non-executive Director's base fee (and 200% of this fee in the case of the Chairman).

ELECTION AT NEXT ANNUAL GENERAL MEETING

Subject to the provisions of ANZ's Constitution and the Corporations Act 2001, the Board may appoint a person as a non-executive Director of ANZ at any time but that person must retire, and may seek election by shareholders, at the next Annual General Meeting.

FIT AND PROPER

ANZ has an effective and robust framework in place to ensure that individuals appointed to relevant senior positions within the Group have the appropriate fitness and propriety to properly discharge their prudential responsibilities both on appointment and throughout the course of their appointment.

The framework, set out in ANZ's Fit and Proper Policy, addresses the requirements of APRA's Fit and Proper Prudential Standard. It involves assessments being carried out for each Director, relevant senior executive and the external auditor prior to a new appointment being made. These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, and also involve attestations being completed by each individual, as well as the obtaining of evidence of material qualifications and the carrying out of checks such as criminal record, bankruptcy and regulatory disqualification checks.

These assessments are reviewed thereafter on an annual basis.

The Governance Committee and the Board have responsibility for assessing the fitness and propriety of non-executive Directors. The People Committee is responsible for assessing the fitness and propriety of the Chief Executive Officer and key senior executives. The Audit Committee is responsible for assessing the fitness and propriety of the external auditor.

INDEPENDENCE AND MATERIALITY

Under ANZ's Board Charter, the Board must contain a majority of non-executive Directors who satisfy ANZ's criteria for independence. The Board Charter sets out independence criteria in order to establish whether a non-executive Director may have a relationship with ANZ which could (or could be perceived to) impede their decision-making.

All non-executive Directors are required to notify the Chairman of a potential change in their outside Board appointments. The Chairman reviews the proposed appointments and will consult with other Directors as the Chairman deems appropriate.

In the 2007 financial year, the Board conducted its annual review of criteria for independence against international best practices including the ASX Governance Principles, NZX and NYSE Corporate Governance Standards, and the US Sarbanes-Oxley Act of 2002.

ANZ's criteria are more comprehensive than those set in most jurisdictions including criteria stipulated specifically for audit committee members. The criteria and review process are both set out in the Corporate Governance section of ANZ's website. In summary, a relationship with ANZ is regarded as material if a reasonable person would expect there to be a real and sensible possibility that it would influence a Director's mind in:

- making decisions on matters likely to come regularly before the Board or its Committees;
- objectively assessing information and advice given by management;
- setting policy for general application across ANZ; and
- generally, carrying out the performance of his or her role as a Director.

During 2007, the Board considered each non-executive Director's independence and concluded that the independence criteria were met by each non-executive Director.

The Board noted a corporate customer/ supplier relationship associated with one non-executive Director as follows:

Ms Jackson is Chairman of Qantas Airways Limited. ANZ has commercial relationships with Qantas as a partner in the co-branded ANZ Frequent Flyer Visa Cards, and ANZ also acquires travel services from Qantas.

The Board concluded that having regard to the nature and value of the commercial relationship and the materiality criteria described above, Ms Jackson remains independent.

Directors' biographies on pages 37 to 39 and on anz.com highlight their major associations outside of ANZ.

CONFLICTS OF INTEREST

Over and above the issue of independence, each Director has a continuing responsibility to determine whether he or she has a potential or actual conflict of interest in relation to any material matter which comes before the Board. Such a situation may arise from external associations, interests or personal relationships.

Under the Directors Disclosure of Interest Policy and Policy for Handling Conflicts of Interest, a Director may not exercise any influence over the Board if a potential conflict of interest exists. In such circumstances, the Director may not receive relevant Board papers and, unless the other Directors have resolved to the contrary, may not be present for Board deliberations on the subject, and may not vote on any related Board resolutions. These matters, should they occur, are recorded in the Board minutes.

INDEPENDENT ADVICE

In order to assist Directors in fulfilling their responsibilities, each Director has the right (with the prior approval of the Chairman) to seek independent professional advice regarding his/her responsibilities at the expense of ANZ. In addition, the Board and each Committee, at the expense of ANZ, may obtain whatever professional advice it requires to assist in its work.

TENURE AND RETIREMENT

ANZ's Constitution provides that an election of Directors must be held at each Annual General Meeting. Each non-executive Director must retire from office at the third Annual General Meeting after being elected or last re-elected, and may seek re-election. A new Director appointee must stand for election at the first Annual General Meeting after their appointment. These requirements do not apply to the Chief Executive Officer, whose appointment is a matter for the Board.

In the opinion of the Board, the length of service of a non-executive Director is not an automatic disabling criterion affecting that Director's independence.

It is Board policy that the majority of the non-executive Directors will have served less than 9 years, except in circumstances of an even number of non-executive Directors in which case it will be fifty percent or more. The Board maintains that having some Board members with a length of service greater than 9 years is beneficial in complex organisations that are subject to significant economic cycles.

It is also Board policy that Directors appointed since July 1993 will, except in unusual circumstances, retire after 15 years of service as a Director of ANZ.

During the 2007 financial year, Mr David Gonski (June 2007) and Mr John McFarlane (September 2007) retired from the Board as an independent non-executive Director and executive Director respectively. In addition, Mr Ian Macfarlane (February 2007) and Mr Michael Smith (October 2007) joined the Board as an independent non-executive Director and executive Director respectively.

CONTINUING EDUCATION

ANZ Directors take part in a range of training and continuing education programs. In addition to a formal induction program (see page 40), Directors also receive a quarterly newsletter designed to keep them abreast of matters relating to their duties and responsibilities as Directors.

Each Committee also conducts its own continuing education sessions from time to time as appropriate. Internal and/or external experts are engaged to conduct all education sessions.

Directors also receive regular Divisional briefings at Board meetings. These briefings provide Directors with an insight into each area of ANZ's business, in particular, performance, key issues, risks and strategies for growth. In addition, Directors participate in site visits from time to time which provide them with the opportunity to meet with staff and customers.

ACCESS TO DIRECTORS

Management is able to consult Directors as required on a regular basis. Employees have access to the Directors directly or through the Company Secretary. Shareholders who wish to communicate with the Directors may direct correspondence to a particular Director, or to the non-executive Directors as a whole.

ROLE OF COMPANY SECRETARY

The Board is responsible for the appointment of ANZ's Company Secretaries.

The Board has appointed three Company Secretaries.

The **Group General Counsel and Company Secretary** is normally in attendance at all Board and Committee meetings, and prepares minutes and provides legal advice to the Board as and when required. He works closely with the Chairman of the Governance Committee to develop and maintain ANZ's corporate governance principles, and is responsible to the Board for the Company Secretary's Office function.

The **Company Secretary** is responsible for the day-to-day operations of the Company Secretary's Office including lodgements with relevant securities exchanges and other regulators, the administration of Board and Board Committee meetings, the management of dividend payments and associated share plans, the administration of the Group's Australian subsidiaries and oversight of the relationship with ANZ's Share Registrar.

The **Chief Financial Officer** is also appointed as a Company Secretary. Profiles of ANZ's Company Secretaries can be found in the Directors' Report on page 11.

PERFORMANCE EVALUATIONS

Performance evaluations covering the Board, each non-executive Director and each principal Board Committee are conducted annually, with the process set out in the Board Renewal and Performance Evaluation Policy approved by the Governance Committee and described below. The process and all associated documentation are reviewed by an independent third party.

Details of how the performance evaluation process is undertaken in respect of the Chief Executive Officer (by the Board) and other key senior executives (by the People Committee), including how financial, operational and qualitative measures are assessed, are set out in the Remuneration Report commencing on page 14. Performance evaluations were carried out on this basis in respect of the 2006/07 reporting period.

BOARD, BOARD COMMITTEES AND INDIVIDUAL DIRECTORS

The framework used to assess the performance of Directors is based on the expectation they are performing their duties in a manner which should create and continue to build sustainable value for shareholders, and in accordance with the duties and obligations imposed upon them by ANZ's Constitution and the law.

The performance criteria take into account each Director's contribution to:

- the charting of direction, strategy and financial objectives for ANZ;
- the monitoring of compliance with regulatory requirements and ethical standards;
- the monitoring and assessing of management performance in achieving strategies and budgets approved by the Board;
- the setting of criteria for, and evaluation of, the Chief Executive Officer's performance; and
- the regular and continuing review of executive succession planning and executive development activities.

Board, Board Committee and non-executive Director performance evaluations are conducted in the following ways:

Annual review – On an annual basis, the Chairman has a one-on-one meeting with each Director specifically addressing the performance criteria. In addition, they discuss the effectiveness of the Board and related issues including the Board's oversight and contribution to the Company, Board discussion (including the performance of the non-executive Directors and the Chairman), Board memberships, Committees, and other relevant issues including compliance with the Directors' Code of Conduct. They also discuss the performance of the Board against its Charter and goals set for the year. A report is provided to the Governance Committee and the Board on the outcome of these meetings.

Board Committees – Board Committee performance self-evaluations are conducted annually to review performance against the Committee Charter and goals set for the year. The suitability of the Charter and any areas for improvement are also assessed. The review and stated objectives for the new financial year are submitted to the Governance Committee (and to the Board in the case of the Governance Committee).

Questionnaires – On an annual basis, each Director is also asked to complete a questionnaire setting out their views on the roles and responsibilities of the Board, the Chairman and the Directors as well as the effectiveness and performance of the Board, the Chairman, the Board's Committees and each Committee Chairman. The questionnaires are returned to the Chairman of the Governance Committee who presents the findings to the Governance Committee and the Board.

The Board also seeks input from senior management in relation to the clarity of the respective roles of the Board and senior management, the effectiveness of their relationship, the level of information provided to the Board, and potential areas for process improvement. This input is collated by the Chairman of the Governance Committee and reported to the Governance Committee and the Board.

Re-election statement – Directors when nominating for re-election may submit a written or oral statement to the Board setting out the reasons why they seek re-election. In the Director's absence, the Board evaluates this statement and the Director's performance (having regard to the performance criteria) and resolves whether to endorse the relevant Director's re-election.

Evaluations in accordance with the above processes have been undertaken in respect of the 2006/07 reporting period.

BOARD COMMITTEES

ANZ's Board has five principal Board Committees: Audit Committee, Governance Committee, People Committee, Risk Committee and Technology Committee.

MEMBERSHIP AND ATTENDANCE

Each of the principal Board Committees is comprised solely of independent non-executive Directors, has its own Charter and has the power to initiate any special investigations it deems necessary. Committee membership is reviewed annually.

Membership criteria are based on each Director's skills and experience, as well as his/her ability to add value and commit time to the Committee.

The Chairman is an ex-officio member of each principal Board Committee. The Chief Executive Officer is invited to attend Board Committee meetings as appropriate. His presence is not automatic, however, and he does not attend any meeting where his remuneration is considered or discussed, nor does he attend private sessions of Committees where they meet in the absence of management. Non-executive Directors may attend any meeting of any Committee.

Each Board Committee may, within the scope of its responsibilities, have unrestricted access to management, employees and information it considers relevant and necessary to carrying out its responsibilities under its Charter. Each Board Committee may require the attendance of any ANZ officer or employee, or request the attendance of any external party, at meetings as appropriate.

MEETINGS

The principal Board Committees plan their annual agenda following a process approved by the Board. The executives who are appointed to assist the Chairman of each Board Committee as a group, review the calendars of business prepared by each Committee to identify any potential gaps and unnecessary overlaps between the Committees. Any issues arising from this are reported to, and resolved by, the relevant Committee Chairmen. The results of this process are then reported to the Governance Committee to assist the Board in fulfilling its oversight responsibilities in respect of the delegations it has made to the various Board Committees.

Committees report at the next Board meeting through the Committee Chairmen. When there is a cross-Committee item, the Committees will communicate with each other through their Chairmen. Throughout the year, Committee Chairmen also conduct agenda planning meetings involving relevant stakeholders to take account of emerging issues.

AUDIT COMMITTEE

The Audit Committee is responsible for oversight and monitoring of:

- ANZ's financial reporting principles and policies, controls and procedures;
- the work of Internal Audit which reports directly and solely to the Chairman of the Audit Committee (refer to Internal Audit on page 46 for more information);
- the Audit Committees of subsidiary companies such as ANZ National Bank Limited; and
- the integrity of ANZ's financial statements, compliance with regulatory requirements and the independent audit thereof.

The Audit Committee is also responsible for:

- the appointment, evaluation and oversight of the external auditor, including reviewing their independence and fitness and propriety;
- compensation of the external auditor; and
- where appropriate, replacement of the external auditor.

Under the Committee Charter, all members of the Audit Committee must be financially literate.

ANZ BOARD COMMITTEE MEMBERSHIPS – from 1 October 2006 – 30 September 2007*

Audit	People	Governance	Risk	Technology
Mr D E Meiklejohn C, FE	Ms M A Jackson C	Mr I J Macfarlane C (member from 1/3/2007, Chairman from 1/7/2007)	Mr J P Morschel C	Dr G J Clark C
Ms M A Jackson FE	Mr I J Macfarlane (member from 1/3/2007)	Dr G J Clark	Mr J K Ellis	Mr I J Macfarlane (member from 1/3/2007))
Mr J K Ellis	Mr J P Morschel	Mr D E Meiklejohn	Mr D E Meiklejohn	Mr C B Goode (ex-officio)
Mr C B Goode (ex-officio)	Mr C B Goode (ex-officio)	Mr C B Goode (ex-officio)	Mr C B Goode (ex-officio)	

C – Chairman, FE – Financial Expert

*Mr I J Macfarlane Appointed Director on 16 February 2007.
Member of People, Governance and Technology Committees from 1 March 2007 and Chairman of Governance Committee from 1 July 2007.

*Mr D M Gonski Chairman of Governance Committee and member of Risk Committee prior to retirement from Board on 30 June 2007.

*For Board Committee memberships as at the date of this report, please see the Directors' biographies on pages 37 to 39.

Mr Meiklejohn (Chair) and Ms Jackson (member) were determined to be 'financial experts' for the 2007 financial year for the purposes of the US Sarbanes-Oxley Act of 2002. Refer to pages 38 and 39 for their qualifications. While the Board has determined that Mr Meiklejohn and Ms Jackson have the necessary attributes to be 'financial experts' within the meaning of US laws, it is important to note that they have no responsibilities additional to those of other members of the Audit Committee because of this.

The Audit Committee meets with the external auditor without management being present. The Chairman of the Audit Committee meets separately and regularly with the Group General Manager, Internal Audit, the external auditor and management.

The Group General Manager, Finance has been appointed as the executive responsible for assisting the Chairman of the Committee.

Key 2007 financial year highlights included:

- Reviewing of reporting processes – Following transitioning to Australian Equivalents of International Financial Reporting Standards (AIFRS) in 2006, the Committee has overseen further streamlining of reporting processes to enhance the effectiveness and efficiency of ANZ's Finance function.
- Overseeing the controls over financial reporting – The Committee oversaw the building of compliance with Section 404 of the US Sarbanes-Oxley Act (SOX) into a fully integrated financial governance framework. This framework is leveraging the SOX investment and providing ongoing assurance about the effectiveness of internal controls over financial reporting.
- Addressing ANZ Internal Audit staff – The Chairman of the Audit Committee addressed ANZ Internal Audit staff as part of the Committee's ongoing interest in reminding internal audit staff of the importance of internal controls over financial reporting and what the Audit Committee expects from Internal Audit.

GOVERNANCE COMMITTEE

The Governance Committee is responsible for:

- identifying and recommending prospective Board members and succession planning for the position of Chairman (see page 40);
- reviewing and approving procedures for the oversight and evaluation of the performance of the Board, Board Committees and non-executive Directors (see page 42);
- ensuring an appropriate Board and Board Committee structure is in place;
- reviewing and approving the Charters for each Board Committee except its own, which is reviewed and approved by the Board;
- reviewing the development of and approving corporate governance policies and principles applicable to ANZ; and
- reviewing and approving management's proposed corporate responsibility objectives and strategies for ANZ.

The Group General Counsel and Company Secretary has been appointed as the executive responsible for assisting the Chairman of the Committee.

Key 2007 financial year highlights included:

- Board Composition – The Committee proposed changes to Board composition.
- Monitoring changes to domestic and overseas legislation and regulations – The Committee received regular updates on changes to relevant legislation and regulations and considered potential impacts on ANZ's customers, staff, operations and the community. The Committee oversaw related changes to relevant Codes, Charters, policies and procedures.
- Review and approval of the Bank's submission on proposed revisions to the ASX Governance Principles.
- Performance Evaluation – The Committee approved the Board Renewal and Performance Evaluation Policy and conducted reviews under the Policy.

PEOPLE COMMITTEE

The People Committee is responsible for reviewing and approving the Group's compensation programs including any equity-based programs, compensation levels and policy guidelines (details in the Remuneration Report on pages 14 to 35).

The Committee also evaluates the performance of and approves the compensation for Board Appointees and makes recommendations to the Board on matters relating to the Chief Executive Officer (details in the Remuneration Report on pages 14 to 35).

The Group General Manager, People Capital and Breakout has been appointed as the executive responsible for assisting the Chairman of the Committee.

Key 2007 financial year highlights included:

- Annual review of remuneration for non-executive Directors, the Chief Executive Officer and direct reports to Chief Executive Officer, and review of the reward structure for the senior executive population.
- Review of succession plans – The Committee conducted reviews of the current succession plans for the Chief Executive Officer, Chief Executive Officer's direct reports and other business-critical roles.
- Preparation of the 2006 Remuneration Report.
- Fit and Proper – The Committee completed Fit and Proper assessments for Board Appointees.
- Review of remuneration matters associated with the CEO succession.
- Review of long-term incentive arrangements for senior executives.
- Review of Global Superannuation arrangements, Health and Safety, and Diversity at ANZ.

For more details on the activities of the People Committee, please refer to the Remuneration Report on pages 14 to 35.

RISK COMMITTEE

The Risk Committee is responsible for overseeing, monitoring and reviewing the Group's risk management principles and policies, strategies, processes and controls including credit, market, liquidity, balance sheet, operational risk and compliance. It is also authorised to approve credit transactions and other related matters beyond the approval discretion of executive management. The Chief Risk Officer is the executive responsible for assisting the Chairman of the Committee.

Key 2007 financial year highlights included:

- Embedding the Risk Appetite Framework across the Divisions – The Committee put particular focus on strategic and portfolio issues in the past year. Considerable effort was channelled into risk appetite, asset writing strategies, reputational risk, and model risk. Frameworks are being implemented across the businesses.
- Increased stress testing scenarios – The Committee reviewed a number of stress tests designed to assess how the Group would perform under certain economic downturn scenarios. Scenarios included both Australia and New Zealand and a mild recession and a liquidity crisis. A number of specific portfolios were stress tested, including rural and regional Australia for drought impact.
- Compliance – ANZ has a number of initiatives underway to strengthen its compliance with laws, codes of conduct and related ANZ policies in each of the countries where it operates. The initiatives will enable ANZ to strive to meet the Board defined appetite of "zero tolerance" for compliance breaches. A key initiative has been to explicitly recognise compliance as its own unique risk within the organisation through significant investment in capability development across our people, processes and culture. This initiative has for example seen the development and recent implementation of a renewed "Compliance Framework" which provides structure and support for embedding compliance as "everybody's business" in our organisation. ANZ views effective compliance risk management as fundamental to achieving its strategic aspirations.
- Basel II accreditation requirements (including new Pillar III market disclosure requirement) – ANZ made significant progress towards Basel II accreditation over the past year, with particular focus on systems development. The Risk Committee requested that close attention continue on the remaining Basel II initiatives.

TECHNOLOGY COMMITTEE

The Technology Committee assists the Board in the effective discharge of its responsibilities in relation to technology and operations related matters. The Committee is responsible for the oversight and evaluation of new projects in technology above $50 million and security issues relevant to ANZ's technology processes and systems. It is also responsible for the review and approval of management's recommendations for long-term technology and operations planning and the overall framework for the management of technology risk.

The Group Managing Director, Operations, Technology and Shared Services has been appointed as the executive responsible for assisting the Chairman of the Committee.

Key 2007 financial year highlights included:

- Review of technology systems – The Committee received reports on future technology and associated operations strategy for the Bank.
- Progress on the Bank's major projects – The Committee received detailed reports on the implementation of the Bank's major IT projects.
- Monitoring evolving technologies – The Committee received reports and demonstrations on a number of technologies that have the potential for changing the nature of the Bank's operations.
- Technology performance – The Committee received reports from major Divisions on their technology needs and performance.

ADDITIONAL COMMITTEES

In addition to the five principal Board Committees, the Board has constituted a Shares Committee and an Executive Committee, each consisting solely of Directors, to assist in carrying out specific tasks.

The Executive Committee has the full power of the Board and is convened as necessary between regularly scheduled Board meetings to deal with urgent matters. The Shares Committee has the power to administer ANZ's Employee Share Plan and Employee Share Option Plan. The Board also forms and delegates authority to ad-hoc Committees of the Board as and when needed to carry out specific tasks.

The number of Board meetings and meetings of Committees during the year the Director was eligible to attend, and the number of meetings attended by each Director were:

	Board		Risk Committee		Audit Committee		People Committee		Governance Committee		Technology Committee		Executive Committee		Shares Committee		Committee of the Board	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
G J Clark	9	9	–	–	–	–	–	–	5	5	4	4	1	1	–	–	–	–
J K Ellis	9	8	6	6	7	7	–	–	–	–	–	–	1	1	–	–	1	1
D M Gonski	7	7	4	4	–	–	–	–	4	4	–	–	–	–	–	–	–	–
C B Goode	9	9	6	6	7	7	5	5	5	5	4	4	4	4	1	1	4	4
M A Jackson	9	7	–	–	7	6	5	4	–	–	–	–	2	2	2	2	2	2
I J Macfarlane	5	5	–	–	–	–	4	4	2	2	2	2	1	1	–	–	–	–
J McFarlane	9	9	–	–	–	–	–	–	–	–	–	–	4	4	1	1	4	4
D E Meiklejohn	9	9	6	6	7	7	–	–	5	5	–	–	2	2	–	–	3	3
J P Morschel	9	8	6	6	–	–	5	5	–	–	–	–	1	1	–	–	–	–

Column A - Indicates the number of meetings the Director was eligible to attend.
Column B - Indicates the number of meetings attended. The Chairman is an ex-officio member of the Risk, Audit, People, Governance and Technology Committees.

RISK MANAGEMENT AND COMPLIANCE

ANZ has established a comprehensive risk and compliance management framework. The Board is principally responsible for establishing risk tolerance, approving related strategies and policies, monitoring and assessing business management, and overseeing policy compliance and the effectiveness of the risk systems and policies to meet the requirements of applicable regulations and the interests of shareholders, customers and staff.

The Risk Committee oversees the Group's risk management policies and controls, and may approve credit transactions and other related matters beyond the approval discretion of executive management. On a day-to-day basis, the various risks inherent in ANZ's operations are managed by both Group Risk Management and each business unit.

For further information on ANZ's risk management framework, including a description of the key risk developments, please see pages 44 and 45 and the Corporate Governance section of anz.com.

During the year, management has reported to the Risk Committee as to the effectiveness of ANZ's Risk Management framework and the management of material business risks.

AUDIT AND FINANCIAL GOVERNANCE

INTERNAL AUDIT

Internal Audit provides independent assurance that the design and operation of the risk and control framework across the Group is effective. It operates under a Charter from the Audit Committee that gives it unrestricted access to review all activities of the Group. The Group General Manager, Internal Audit reports to the Chairman of the Audit Committee. The Audit Committee reviews the performance of the Group General Manager, Internal Audit.

A risk-based audit approach is used to ensure that the higher risk activities in each business are audited each year. All audits are conducted in a manner that conforms to international auditing standards. Audit results also influence incentive compensation of business heads.

The Audit Committee receives formal reports on significant issues to ensure that any remedial action is undertaken promptly. A robust process exists to ensure that audit issues are resolved on a timely basis, which includes regular reviews of progress by the Chief Executive Officer and the Chairman of the Audit Committee.

Internal Audit plays an active role in ensuring compliance with the requirements of supervisory regulatory authorities. Internal Audit also works collaboratively with the external auditor to ensure a comprehensive audit scope.

The Risk Committee receives a quarterly report from Internal Audit.

EXTERNAL AUDIT

The external auditor's role is to provide an independent opinion that ANZ's financial reports are true and fair and comply with applicable regulations. The external auditor performs an independent audit in accordance with Australian Auditing Standards. The Audit Committee oversees ANZ's Policy on Relationship with the External Auditor. Under the Policy, the Audit Committee is responsible for the appointment (subject to ratification by shareholders), compensation, retention and oversight of the external auditor. The Policy also stipulates that the Audit Committee:

- pre-approves all audit and non-audit services;
- regularly reviews the independence of the external auditor; and
- evaluates the effectiveness of the external auditor.

Details of non-audit services, together with the statement from the Board as to their satisfaction with KPMG's compliance with the related independence requirements of the Corporations Act 2001, are in the Directors' Report on pages 11 and 12.

In addition, ANZ requires a 2 year period before any former partner or employee of the external auditor is appointed as a Director or Senior Executive of ANZ.

The lead partner of the external auditor is required to rotate off the ANZ audit after 5 years and cannot return for a further 5 years. Certain other senior audit staff are required to rotate off after a maximum of seven years. Any potential appointments of ex-partners or ex-employees of the external auditor as ANZ finance staff, at senior management level or higher, must be pre-approved by the Chairman of the Audit Committee.

As disclosed in previous Annual Reports, the US Securities and Exchange Commission (SEC) commenced an inquiry into non-audit services provided by ANZ's auditor, KPMG. ANZ has provided the information requested by the SEC. This inquiry has not concluded. Should the SEC determine that services provided by KPMG did not comply with the US auditor independence rules, the SEC may seek sanctions, the nature and amount of which are not known. Whilst ANZ cannot predict the outcome of the inquiry, based on information currently available, ANZ does not believe it will have a material adverse effect on the Company.

FINANCIAL CONTROLS

As previously noted, the Audit Committee of the Board oversees ANZ's financial reporting policies and controls, the integrity of ANZ's financial statements, the relationship with the external auditor, the work of Internal Audit, and the Audit Committees of various subsidiary companies.

During the year, ANZ deregistered from the US Securities and Exchange Commission (SEC) as a Foreign Private Issuer of securities in the United States. As such, ANZ is no longer required to comply with Section 404 of the Sarbanes-Oxley Act. However, ANZ is committed to ensuring that it maintains its robust financial reporting control system.

ANZ has in place a Financial Reporting Governance (FRG) Program which evaluates the design and tests the operation of key financial reporting controls, including Company-level controls, period-end controls, process-level controls, and IT general controls.

In addition, Preparers' Statements in the form of half-yearly certifications are completed by Divisional Managing Directors and Divisional Chief Financial Officers. These Statements comprise representations and questions about financial results, disclosures, processes and controls and are aligned with ANZ's external obligations.

The process is independently evaluated by Internal Audit and tested under the FRG Program. Any issues arising from the evaluation and testing are reported to the Audit Committee.

This process assists the Chief Executive Officer and Chief Financial Officer in making the certifications to the Board under the Corporations Act and ASX Governance Principles as set out in the Directors' Report on page 12.

ETHICAL AND RESPONSIBLE DECISION-MAKING

VALUES

The Board encourages management to promote and maintain a culture within ANZ which draws upon a set of unifying values to guide the actions and decisions of the Board and all employees (see the Corporate Responsibility section of our website at anz.com/cr).

More than 30,000 ANZ employees have now participated in the Breakout culture development program. The program includes workshops to help staff to apply values-based decision-making, and to balance the competing needs of staff, shareholders, customers and the community in their roles and activities.

Details on ANZ's comprehensive approach can be found in ANZ's Corporate Responsibility Report and on our website at anz.com/cr.

CODES OF CONDUCT

To assist Directors and employees in their understanding of the culture and values of the organisation, ANZ has three main codes of conduct which guide everyday business practice and decision-making throughout the Group. These are detailed below.

Codes of Conduct for Directors and for Employees – These two Codes set out the ethical standards to which Directors and employees are expected to adhere. They require that Directors and employees adhere to the law, disclose any relevant interests, and act honestly and ethically in all their dealings. The Codes also cover the confidentiality of information, limits on acceptance of gifts or entertainment and on use of ANZ goods, services and facilities.

The Codes of Conduct provide an ethical framework within which ANZ employees can work to build sustainable value for shareholders by taking a responsible approach to business. They acknowledge the importance of ANZ's shareholders, our own people, our customers, and the communities and environments in which ANZ operates.

Adherence to the Directors' Code of Conduct forms part of a Director's annual performance evaluation. To ensure that the Employee Code of Conduct is well understood by new and existing staff, ANZ has developed a Code of Conduct training course which covers the practical application of the Code of Conduct and a Code of Conduct Declaration in which staff indicate that they understand the principles of the Code and agree to comply with them.

Code of Conduct for Financial Officers – (adopted from the Group of 100 Code of Conduct for CFOs and Senior Financial Officers). The Code requires that chief financial officers and other finance staff influencing financial reporting adhere to principles of honesty and integrity, respect confidentiality of information, declare conflicts of interest, maintain transparency in reporting, exercise diligence and good faith, ensure sound internal controls and set a standard for other financial professionals.

SECURITIES TRADING POLICY

ANZ has a Securities Trading Policy that prohibits trading in ANZ securities or the securities of other companies for all employees, Directors, contractors and consultants engaged by ANZ who are aware of unpublished price-sensitive information.

The Policy specifically prohibits restricted employees trading in ANZ securities during 'blackout periods' leading up to the day following the half-yearly and annual results announcements. Blackout periods also apply for certain nominated employees in respect of the periods leading up to the trading updates which are announced to the market on a six monthly basis.

Non-executive Directors are required to seek approval from the Chairman in advance of any trading in ANZ securities. The Chairman of the Board is required to seek approval from the Chairman of the Governance Committee. Senior Executives and other restricted employees are also required to seek approval before trading in ANZ securities.

The Policy requires certain prescribed employees to submit a quarterly declaration to Group Compliance to declare that they have not traded in securities (ANZ's and other companies' securities) while in possession of unpublished, price-sensitive information.

It is a condition of the Policy and of the grant of employee share options (including Performance Rights) and deferred shares that no schemes are entered into by any employee that specifically protect the value of such shares, options and Performance Rights before the shares have vested or the options or Performance Rights have entered their exercisable period. Any breach of this prohibition would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares, options or Performance Rights.

WHISTLEBLOWER POLICY

The ANZ Whistleblower Policy is a mechanism by which ANZ employees may voice serious concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

The Policy is aligned to both ANZ's values and ANZ's Employee Code of Conduct and is one of a number of policies and procedures within ANZ to support and promote honest and ethical behaviour. The Policy is intended as a last option, when all other internal reporting avenues have been exhausted or are not available.

ANZ employees can make complaints under the Policy to designated Whistleblower Protection Officers. If a complaint relates to finance or audit-related matters, the Protection Officer will consider whether the matter should be referred to the Audit Committee, or may refer the matter to ANZ's external auditors. If the report relates to breaches of the law, regulations or ANZ policies, the Protection Officer may refer the matter to the Risk Committee.

COMMITMENT TO SHAREHOLDERS

Shareholders are the owners of ANZ, and ANZ's stated aim is to 'perform and grow to create value for our shareholders'.

The approaches described below are enshrined in ANZ's Shareholder Charter. A copy of the Shareholder Charter can be found on the Corporate Governance section of anz.com.

COMMUNICATION

In order to make informed decisions about ANZ, and to communicate views to ANZ, shareholders need an understanding of ANZ's business operations and performance.

ANZ encourages shareholders to take an active interest in ANZ, and seeks to provide shareholders with quality information in a timely fashion generally through ANZ's reporting of results, ANZ's Annual Report, briefings, half yearly newsletters and via its dedicated shareholder site on anz.com.

ANZ strives for transparency in all its business practices, and recognises the impact of quality disclosure on the trust and confidence of the shareholder, the wider market and the community. In the recently announced Dow Jones Sustainability Index, ANZ received the highest sector score (100%) in relation to stakeholder engagement.

Should shareholders require any information, contact details for ANZ and its Share Registrar are set out in the half-yearly shareholder newsletters and the shareholders section of anz.com.

MEETINGS

ANZ upholds shareholder rights and provides shareholders with the opportunity to be involved in shareholder meetings.

To allow as many shareholders as possible to have an opportunity to attend a meeting, ANZ rotates shareholder meetings around capital cities and makes them available to be viewed online using webcast technology. Further details on meetings and presentations held throughout this financial year are available on anz.com › shareholders › Presentations.

Prior to the Annual General Meeting, shareholders are given the opportunity to submit any questions they have for the Chairman or Chief Executive Officer to enable key common themes to be considered.

The external auditor is present at ANZ Annual General Meetings and available to answer shareholder questions. The auditor can respond on any matter that concerns them in their capacity as auditor, including in relation to the conduct of the audit and the preparation and content of the auditor's report.

The letter of appointment, which has been agreed to and signed by all non-executive Directors, states that Directors are also expected to attend and be available to meet shareholders at the Annual General Meeting each year.

Shareholders have the right to vote on various resolutions put to a meeting. If shareholders are unable to attend a meeting they can submit their proxies via post or electronically through anz.com. Where votes are taken on a poll, which is usual ANZ practice, ANZ appoints an independent party to verify the results, which are reported to the ASX and posted on anz.com.

CONTINUOUS DISCLOSURE

ANZ's practice is to release all price-sensitive information in a timely manner and as required under the ASX listing rules to all relevant securities exchanges on which ANZ's securities are listed, and to the market and community generally through ANZ's media releases, website and other appropriate channels. Through ANZ's Continuous Disclosure Policy, ANZ demonstrates its commitment to continuous disclosure.

The Policy reflects relevant obligations under applicable securities exchange listing rules and legislation. For disclosure purposes, price-sensitive information is information that a reasonable person would expect to have a material effect on the price or value of ANZ's securities.

Designated Disclosure Officers have responsibility for reviewing proposed disclosures and making decisions in relation to what information can be or should be disclosed to the market. Each ANZ employee is required to inform a Disclosure Officer regarding any potentially price-sensitive information concerning ANZ as soon as they become aware of it.

During the course of the year, the Policy was reviewed and revised by the Governance Committee to require Disclosure Officers to regularly meet together as a Continuous Disclosure Committee.

Apart from reviewing information to determine whether disclosures are required in order to comply with the requirements of the Listing Rules of the ASX and other overseas exchanges where ANZ securities are listed, as well as the requirements of applicable corporations and securities legislation relating to the disclosure of price-sensitive information, the Committee also overviews the effectiveness of ANZ's systems and procedures for achieving compliance with applicable regulatory requirements in relation to the disclosure of price-sensitive information.

In carrying out its role, the Committee recognises ANZ's commitment to achieving best practice in terms of disclosure by acting in accordance with the spirit, intention and purposes of the applicable regulatory requirements and by looking beyond form to substance.

POLITICAL DONATIONS

In the year to 30 September 2007, ANZ donated $150,000 to the Liberal Party and $75,000 to the Australian Labor Party.

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SHAREHOLDER INFORMATION

Ordinary shares

At 6 October 2007, the twenty largest holders of ordinary shares held 1,050,323,057 ordinary shares, equal to 56.32% of the total issued ordinary capital.

Name	Number of shares	%	Name	Number of shares	%
1. HKBA NOMINEES LIMITED	266,035,505	14.27	12. UBS NOMINEES PTY LTD	6,652,221	0.36
2. CHASE MANHATTAN NOMINEES LTD	205,868,107	11.04	13. SUNCORP CUSTODIAN SERVICES PTY LIMITED	6,075,092	0.33
3. NATIONAL NOMINEES LIMITED	197,899,627	10.61	14. ANZEST PTY LTD (DEFERRED SHARE PLAN A/C)	5,227,759	0.28
4. CITICORP NOMINEES PTY LIMITED	95,360,328	5.11	15. TASMAN ASSET MANAGEMENT LTD	4,884,004	0.26
5. ANZ NOMINEES LIMITED	90,215,496	4.84	16. AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,877,049	0.26
6. RBC GLOBAL SERVICES AUSTRALIA	47,005,443	2.52			
7. COGENT NOMINEES PTY LIMITED	40,960,617	2.19	17. ANZEST PTY LTD (ESAP SHARE PLAN A/C)	4,875,551	0.26
8. QUEENSLAND INVESTMENT CORPORATION	20,080,126	1.08	18. PERPETUAL TRUSTEE COMPANY LTD	4,764,328	0.26
9. AMP LIFE LIMITED	18,491,477	0.99	19. ARGO INVESTMENTS LIMITED	4,353,230	0.23
10. POTTER WARBURG NOMINEES PTY LIMITED	11,943,562	0.64	20. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	4,051,684	0.22
11. PSS BOARD	10,701,851	0.57			
Total				1,050,323,057	56.32

Distribution of shareholdings

At 6 October 2007 Range of shares	Number of holders	% of holders	Number of shares	% of shares
1 to 1,000	187,778	57.46	81,684,399	4.38
1,001 to 5,000	111,885	34.24	246,188,964	13.20
5,001 to 10,000	16,482	5.04	115,130,610	6.18
10,001 to 100,000	10,193	3.12	215,013,871	11.53
Over 100,000	468	0.14	1,206,759,879	64.71
Total	326,806	100.00	1,864,777,723	100.00

At 6 October 2007:

- there were no entries in the register of Substantial Shareholdings;
- the average size of holdings of ordinary shares was 5,706 (2006: 6,302) shares; and
- there were 5,322 holdings (2006: 5,023 holdings) of less than a marketable parcel (less than $500 in value or 17 shares based on the market price of $ 30.57), which is less than 1.63% of the total holdings of ordinary shares.

Voting rights of ordinary shares

The Constitution provides for votes to be cast:

i) on show of hands, 1 vote for each shareholder; and

ii) on a poll, 1 vote for each fully paid ordinary share.

ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)

At 6 October 2007, the twenty largest holders of ANZ StEPS held 4,353,579 securities, equal to 43.54% of the total issued securities.

Name	Number of securities	%
1. ANZ NOMINEES LIMITED	1,067,385	10.67
2. NATIONAL NOMINEES LIMITED	616,752	6.17
3. CHASE MANHATTAN NOMINEES LTD	581,247	5.81
4. POTTER WARBURG NOMINEES PTY LIMITED	492,583	4.93
5. CITICORP NOMINEES PTY LIMITED	287,503	2.88
6. UBS NOMINEES PTY LTD	279,566	2.80
7. HKBA NOMINEES LIMITED	248,991	2.49
8. UCA CASH MANAGEMENT FUND LTD	152,500	1.52
9. RBC GLOBAL SERVICES AUSTRALIA	93,497	0.93
10. COGENT NOMINEES PTY LIMITED	73,269	0.73
11. QUESTOR FINANCIAL SERVICES LIMITED (TPS RF A/C)	70,900	0.71
12. SHARE DIRECT NOMINEES PTY LTD (GLOBAL MARKETS ACCOUNT)	56,922	0.57
13. AUSTRALIAN EXECUTOR TRUSTEES LIMITED (NO 1 ACCOUNT)	53,618	0.54
14. THE AUSTRALIAN NATIONAL UNIVERSITY	50,000	0.50
15. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (GSJBW A/C)	40,807	0.41
16. ECAPITAL NOMNINEES PTY LIMITED (SETTLEMENT A/C)	40,000	0.40
17. RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (NMSMT A/C)	39,617	0.40
18. UBS NOMINEES PTY LTD (TP00014 15 A/C)	39,422	0.39
19. GORDON MERCHANT NO 2 PTY LTD (MERCHANT FAMILY A/C)	39,000	0.39
20. ARMADA INVESTMENTS PTY LTD	30,000	0.30
Total	4,353,579	43.54

Distribution of ANZ StEPS holdings

At 6 October 2007 Range of securities	Number of holders	% of holders	Number of securities	% of securities
1 to 1,000	11,611	93.86	3,175,541	31.76
1,001 to 5,000	652	5.27	1,454,239	14.54
5,001 to 10,000	55	0.44	428,903	4.29
10,001 to 100,000	45	0.36	1,214,790	12.15
Over 100,000	8	0.07	3,726,527	37.26
Total	12,371	100.00	10,000,000	100.00

At 6 October 2007: There were 2 holdings (2006: 3 holdings) of less than a marketable parcel (less than $500 in value or 5 securities based on the market price of $101.03), which is less than 0.02% of the total holdings of StEPS.

Voting rights of ANZ StEPS

A preference share does not entitle its holder to vote at any general meeting of ANZ except in the following circumstances:

a) on a proposal:

i) to reduce the share capital of ANZ;

ii) that affects rights attached to the preference shares;

iii) to wind up ANZ; or

iv) for the disposal of the whole of the property, business and undertaking of ANZ;

b) on a resolution to approve the terms of a buy-back agreement;

c) during the period in which a dividend which has been declared as payable on a dividend payment date has not been paid in full; or

d) during the winding-up of ANZ.

If a poll is conducted on a resolution on which a holder is entitled to vote, the holder has one vote for each preference share held.

Employee shareholder information

At the Annual General Meeting in January 1994, shareholders approved an aggregate limit of 7% of all classes of shares and options, which remain subject to the rules of a relevant incentive plan, being held by employees and directors. At 30 September 2007 participants held 1.81% (2006: 2.25%) of the issued shares and options of ANZ under the following incentive plans:

ANZ Employee Share Acquisition Plan;

ANZ Employee Share Save Scheme;

ANZ Share Option Plan;

ANZ Directors' Share Plan; and

ANZ Directors' Retirement Benefit Plan.

Stock exchange

The Australia and New Zealand Banking Group Limited's ordinary shares are listed on the Australian Securities Exchange and the New Zealand Stock Exchange.

The Group's other stock exchange listings include:

- Australian Securities Exchange – ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) [*ANZ Holdings (New Zealand) Limited and Australia and New Zealand Banking Group Limited*]; senior and subordinated debt [*Australia and New Zealand Banking Group Limited*];
- Channel Islands Stock Exchange – Senior debt [*ANZ Jackson Funding 2 Limited, ANZ Jackson Funding 3 Limited*] and subordinated debt [*ANZ Jackson Funding PLC*]
- London Stock Exchange – Non-cumulative mandatory convertible stapled securities (UK stapled Securities) [*Australia and New Zealand Banking Group Limited*]; and senior and subordinated debt [*Australia and New Zealand Banking Group Limited and ANZ National (Int'l) Limited*];
- Luxembourg Stock Exchange – Subordinated debt [*Australia and New Zealand Banking Group Limited*]; and non-cumulative Trust Securities (Euro Trust Securities) [*ANZ Capital Trust III*];
- New Zealand Stock Exchange – Senior and subordinated debt [*ANZ National Bank Limited*]; and
- Swiss Stock Exchange – Senior debt [*Australia and New Zealand Banking Group Limited*].

New York Stock Exchange Delisting and US Securities and Exchange Commission Deregistration

In June 2007, Australia and New Zealand Banking Group Limited announced its intention to withdraw the listing of its American Depositary Receipts ("ADRs") and the underlying ordinary shares from the New York Stock Exchange ("NYSE") and deregister from the United States Securities and Exchange Commission ("SEC").

The ADRs were delisted from the NYSE on 12 July 2007 and, upon filing a Form 15F with the SEC seeking deregistration, the Company's reporting obligation to the SEC were immediately suspended on 13 July 2007. With the SEC having raised no objection to the Company's Form 15F during the prescribed 90 day period from filing, the Company's deregistration from the SEC became effective on 13 October 2007.

American Depositary Receipts

Following the delisting of its American Depository Receipts (ADRs) from the NYSE, the Company's ADRs now trade in the over-the-counter ("OTC") securities market on the Pink Sheets electronic platform operated by Pink Sheets LLC in the United States under the new ticker symbol: ANZBY and the CUSIP number: 05258304.

The Bank of New York Mellon Corporation ("BNY Mellon") is the Depositary for the Company's ADR program in the United States. Holders of the Company's ADRs should deal directly with BNY Mellon on all matters relating to their ADR holdings, by telephone on 1-888-269-2377 (for callers within the US), 1-212-815-3700 (for callers outside the US) or by email to shareowners@bankofny.com.

ANZ StEPS

In September 2003, 10 million ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) were issued at an issue price of $100.00 each. Each ANZ StEPS is a stapled security comprising a preference share in Australia and New Zealand Banking Group Limited and an unsecured senior note issued by ANZ Holdings (New Zealand) Limited. ANZ StEPS are quoted on the Australian Securities Exchange. Until the occurrence of an assignment date, the preference shares and senior note components of an ANZ StEPS cannot be separately transferred.

Euro Trust Securities

In December 2004, ANZ issued 500,000 Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at an issue price of €1,000 each through ANZ Capital Trust III (formed in the State of Delaware). Each Euro Trust Security is a stapled security comprising a preference share in Australia and New Zealand Banking Group Limited and an unsecured subordinated note issued by ANZ Jackson Funding PLC. The Euro Trust Securities are quoted on the Luxembourg Stock Exchange. The unsecured subordinate notes are listed on the Channel Islands Stock Exchange. Prior to a conversion event, the preference share and subordinated note components of a Euro Trust Security cannot be separately traded.

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FINANCIAL REPORT

INCOME STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER

	Note	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Total income	3	30,293	25,510	21,588	17,914
Interest income	3	26,210	22,301	17,809	14,618
Interest expense	4	(18,908)	(15,358)	(13,148)	(10,341)
Net interest income		7,302	6,943	4,661	4,277
Other operating income	3	3,824	3,015	3,779	3,296
Share of joint venture profit from ING Australia and ING New Zealand	3	172	138	–	–
Share of associates' profit	3	87	56	–	–
Operating income		11,385	10,152	8,440	7,573
Operating expenses	4	(4,953)	(4,531)	(3,623)	(3,250)
Profit before credit impairment and income tax		6,432	5,621	4,817	4,323
Provision for credit impairment	16	(567)	(407)	(388)	(278)
Profit before income tax		5,865	5,214	4,429	4,045
Income tax expense	6	(1,678)	(1,522)	(878)	(871)
Profit for the year		4,187	3,692	3,551	3,174
Comprising:					
Profit attributable to minority interests		7	4	–	–
Profit attributable to shareholders of the Company[1]		4,180	3,688	3,551	3,174
Earnings per ordinary share (cents)					
Basic	8	224.1	200.0	n/a	n/a
Diluted	8	218.3	194.0	n/a	n/a
Dividend per ordinary share (cents)	7	136	125	136	125

The notes appearing on pages 58 to 155 form an integral part of these financial statements.

1 The results of 2007 include the following items:
- Gain on sale of Fleet Partners Pty Limited and Truck Leasing Limited, including previously unrecognised capital losses on the buyback of TrUEPrs being applied against the gain following Australian Tax Office clearance ($195 million profit after tax, tax expense nil), Company (nil)
- Restatement of deferred tax assets following the announced change in New Zealand company tax rate which takes effect from 1 October 2008 ($24 million loss after tax), Company (nil)

The results of 2006 include the following items:
- Settlement of ANZ National Bank warranty claims ($14 million profit after tax), Company (nil)
- Settlement of NHB insurance claim ($79 million profit after tax), Group and Company

BALANCE SHEETS AS AT 30 SEPTEMBER

	Note	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Assets					
Liquid assets	9	16,987	15,019	10,618	10,427
Due from other financial institutions	10	8,040	9,665	6,134	6,253
Trading securities[1]	11	15,167	9,179	13,359	7,508
Derivative financial instruments	12	22,237	9,164	21,403	8,787
Available-for-sale assets	13	14,006	10,653	11,383	8,657
Net loans and advances	14	288,846	255,922	198,610	172,287
Customers' liability for acceptances		14,536	13,435	14,523	13,425
Due from controlled entities		–	–	15,481	9,418
Regulatory deposits	17	235	205	148	132
Shares in controlled entities	18	–	–	8,405	11,424
Shares in associates and joint venture entities	18	3,430	2,200	582	307
Deferred tax assets	19	113	253	87	135
Goodwill and other intangible assets[2]	20	3,677	3,337	511	419
Other assets	21	3,846	4,499	2,136	2,558
Premises and equipment	22	1,493	1,109	739	527
Total assets		392,613	334,640	304,119	252,264
Liabilities					
Due to other financial institutions	23	17,986	14,118	14,110	11,652
Deposits and other borrowings	24	234,873	204,794	161,195	128,321
Derivative financial instruments	12	24,180	8,753	25,001	8,442
Liability for acceptances		14,536	13,435	14,523	13,425
Due to controlled entities		–	–	5,371	12,556
Current tax liabilities	25	468	569	587	701
Deferred tax liabilities	25	135	253	103	267
Payables and other liabilities	26	10,507	10,679	8,387	8,823
Provisions	27	1,021	957	710	688
Bonds and notes	28	54,075	50,050	43,157	39,839
Loan capital	29	12,784	11,126	11,886	10,251
Total liabilities		370,565	314,734	285,030	234,965
Net assets		22,048	19,906	19,089	17,299
Shareholders' equity					
Ordinary share capital	30	8,946	8,271	8,946	8,271
Preference share capital	30	871	871	871	871
Reserves	31	(889)	(354)	(164)	(16)
Retained earnings	31	13,082	11,084	9,436	8,173
Share capital and reserves attributable to shareholders of the Company		22,010	19,872	19,089	17,299
Minority interests	32	38	34	–	–
Total equity		22,048	19,906	19,089	17,299

Commitments (note 44)
Contingent liabilities, contingent assets and credit related commitments (note 45)

The notes appearing on pages 58 to 155 form an integral part of these financial statements.

1 Includes bills held in portfolio $2,305 million (September 2006: $1,569 million).
2 Excludes notional goodwill in equity accounted entities.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 SEPTEMBER

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Items recognised directly in equity[1]				
Currency translation adjustments				
Exchange differences on translation of foreign operations taken to equity	(563)	(203)	(291)	97
Available-for-sale assets				
Valuation gain taken to equity	109	20	100	15
Cumulative (gain) transferred to the income statement on sale	(14)	(8)	(4)	(7)
Cash flow hedges				
Valuation gain taken to equity	74	121	40	36
Transferred to income statement for the year	(7)	(56)	–	(7)
Actuarial (loss)/gain on defined benefit plans	77	(55)	75	(54)
Net (loss)/income recognised directly in equity	(324)	(181)	(80)	80
Profit for the year	4,187	3,692	3,551	3,174
Total recognised income and expense for the year	3,863	3,511	3,471	3,254
Total recognised income and expense for the year attributable to minority interests	7	4	–	–
Total recognised income and expense for the year attributable to shareholders of the Company	3,856	3,507	3,471	3,254

The notes appearing on pages 58 to 155 form an integral part of these financial statements.

1 These items are disclosed net of tax (refer note 6).

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER

	Note	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Cash flows from operating activities					
Interest received		27,024	23,014	17,788	14,623
Dividends received		99	53	1,134	1,151
Fee income received		2,327	2,082	1,616	1,434
Other income received		943	1,057	833	1,273
Interest paid		(18,540)	(14,676)	(12,923)	(9,311)
Personnel expenses paid		(2,980)	(2,737)	(2,105)	(1,887)
Premises expenses paid		(417)	(379)	(284)	(262)
Other operating expenses paid		(2,423)	(2,416)	(1,098)	(1,154)
Recovery from NHB litigation		–	114	–	114
Income taxes paid					
Australia		(1,381)	(788)	(1,384)	(793)
Overseas		(500)	(437)	(58)	(46)
Goods and services tax paid		(11)	(18)	(1)	–
(Increase)/decrease in operating assets					
Liquid assets – greater than three months		(1,641)	(1,300)	(1,865)	(441)
Due from other financial institutions – more than 90 days		(410)	1,318	(195)	177
Trading securities		(7,325)	(1,681)	(6,894)	(182)
Regulatory deposits		(54)	(42)	(31)	(17)
Loans and advances		(36,947)	(26,848)	(27,586)	(18,732)
Net intra-group loans and advances		–	–	(10,305)	66
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		33,964	16,129	34,585	14,736
Due to other financial institutions		4,326	1,859	3,050	2,462
Payables and other liabilities		(91)	541	(11)	1,221
Net cash (used in)/provided by operating activities	39(a)	(4,037)	(5,155)	(5,734)	4,432
Cash flows from investing activities					
Net (increase)/decrease					
Available-for-sale assets					
Purchases		(13,215)	(15,480)	(10,652)	(16,880)
Proceeds from sale or maturity		9,701	16,239	7,770	13,695
Controlled entities and associates					
Purchased (net of cash acquired)		(1,450)	(289)	(549)	(230)
Proceeds from sale (net of cash disposed)		444	14	67	10
Premises and equipment					
Purchases		(411)	(250)	(356)	(161)
Proceeds from sale		79	19	7	12
Other		1,588	1,697	1,034	(239)
Net cash (used in)/provided by investing activities		(3,264)	1,950	(2,679)	(3,793)
Cash flows from financing activities					
Net increase/(decrease)					
Bonds and notes					
Issue proceeds		16,443	17,506	15,149	14,316
Redemptions		(8,140)	(8,949)	(7,499)	(8,873)
Loan capital					
Issue proceeds		3,013	1,248	2,691	1,188
Redemptions		(980)	(656)	(500)	(626)
Dividends paid		(1,958)	(1,930)	(1,921)	(1,903)
Share capital issues		132	147	132	147
Share capital buyback		–	(146)	–	(146)
Net cash provided by/(used in) financing activities		8,510	7,220	8,052	4,103
Net cash (used in)/provided by operating activities		(4,037)	(5,155)	(5,734)	4,432
Net cash (used in)/provided by investing activities		(3,264)	1,950	(2,679)	(3,793)
Net cash provided by/(used in) financing activities		8,510	7,220	8,052	4,103
Net increase/(decrease) in cash and cash equivalents		1,209	4,015	(361)	4,742
Cash and cash equivalents at beginning of year		20,344	13,702	13,570	7,899
Foreign currency translation on opening balances		(2,479)	2,627	(1,169)	929
Cash and cash equivalents at end of year	39(b)	19,074	20,344	12,040	13,570

The notes appearing on pages 58 to 155 form an integral part of these financial statements.

1: Significant Accounting Policies

i) Basis of preparation

These consolidated financial statements comprise a general purpose financial report and:

- comply with the accounts provisions of the Banking Act 1959
- have been prepared in accordance with the Australian Accounting Standards (AAS), other authoritive pronouncements of the Australian Accounting Standards Board (AASB), AASB and Urgent Issues Group Interpretations and the Corporations Act 2001
- are presented in Australian dollars
- have been prepared in accordance with the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments, including the fair value of any applicable underlying exposure; assets treated as available-for-sale; financial instruments held for trading; term funding instruments including specific loan capital and bonds and notes; assets and liabilities designated at fair value through the profit and loss; and defined benefit plan assets and liabilities.

The preparation of the financial report requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. Discussion of these critical accounting treatments, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates may require review in future periods.

The Parent entity is an entity of the kind referred to in Australian Securities and Investments Commission class order 98/100. Consequently, amounts in the financial report have been rounded to the nearest million dollars except where otherwise indicated.

The financial report was authorised for issue by the directors on 7 November 2007.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards issued by the AASB, being AAS. The Group's application of AAS ensures that the Group's consolidated financial statements comply with IFRS. However the Company's financial statements do not comply with IFRS.

The accounting policies have been consistently applied by all consolidated entities and to all periods presented in the consolidated financial report, except as described in xxvi) below.

The following standards and amendments were available for early adoption but have not been applied by the Group in these financial statements:

- AASB 7: 'Financial Instruments: Disclosure'. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10: 'Amendments to Australian Accounting Standards' (September 2005) makes consequential amendments to AASB 132: 'Financial Instruments: Presentation and Disclosure', AASB 101: 'Presentation of Financial Statements', AASB 114: 'Segment Reporting', AASB 117: 'Leases', AASB 133: 'Earnings per Share', AASB 139: 'Financial Instruments: Recognition and Measurement', AASB 1, AASB 4, AASB 1023: 'General Insurance Contracts' and AASB 1038: 'Life Insurance Contracts' arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

AASB 7 requires the disclosure of the significance of financial instruments on an entity's financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. AASB 2005-10 amendments arise from the release of AASB 7 and are only applicable when an entity adopts AASB 7.

The Group has not early adopted AASB 7; however, certain disclosures have been enhanced in preparation for the transition to AASB 7.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company or the Group as these standards are only concerned with disclosures.

- AASB 8: 'Operating Segments' replaces the presentation requirements of segment reporting in AASB 114: 'Segment Reporting'. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB 2007-3: 'Amendments to Australian Accounting Standards' makes consequential amendments to AASB 5: 'Non-current Assets Held for Sale and Discontinued Operations', AASB 107: 'Cash Flow Statements', AASB 119: 'Employee Benefits', AASB 127: 'Consolidated and Separate Financial Statements', AASB 134: 'Interim Financial Reporting', AASB 136: 'Impairment Assets', AASB 1023: 'General Insurance Contracts' and AASB 1038: 'Life Insurance Contracts' arising from the release of AASB 8: 'Operating Segments'. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009.

The application of AASB 8 and AASB 2007-3 is not expected to have an impact on the financial results of the Company or the Group as these standards are only concerned with disclosures.

- AASB Interpretation 10: 'Interim Financial Reporting and Impairment' does not allow an entity to reverse impairment losses recognised in a previous interim period in respect of goodwill, an equity instrument or a financial asset carried at cost. AASB Interpretation 10 is applicable for annual reporting periods beginning on or after 1 November 2006.

The application of this interpretation is not expected to have a material impact on the financial results of the Company or the Group as the Company or Group has not recognised an impairment loss that would be revised under the amended guidance.

- AASB Interpretation 11: 'AASB 2 Share-based Payment – Group and Treasury Share Transactions' addresses the classification of share-based payment transactions (as equity or cash settled) when a parent or another group entity transfers the shares. AASB Interpretation 11 is applicable for annual reporting periods beginning on or after 1 March 2007.
- AASB 2007-1: 'Amendments to Australian Accounting Standards' amends AASB 2: 'Share-based Payments' to insert the transitional provisions of IFRS 2, previously contained in AASB 1: 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', arising from AASB Interpretation 11: 'AASB 2 Share-based Payments – Group and Treasury Share Transactions'. AASB 2007-1 is applicable for financial reporting periods beginning on or after 1 March 2007.

The application of AASB Interpretation 11 and AASB 2007-1 is not expected to have a material impact on the financial results of the Company or the Group as the current Group policy reflects the amended guidance.

1: Significant Accounting Policies (continued)

- AASB 2007-4: 'Amendments to Australian Accounting Standards arising from ED 151: 'Australian Additions to, and Deletions from, IFRS' was approved by the AASB in May 2007. AASB 2007-4 brings Australian equivalents to International Financial Reporting Standards (AIFRS) closer to their IFRS equivalents, making consequential amendments to 34 different standards in all. New accounting policy options are introduced and a large number (but not all) of the Australian-specific disclosures and requirements have been eliminated. AASB 2007-4 is applicable for annual reporting periods beginning on or after 1 July 2007.
- AASB 2007-7: 'Amendments to Australian Accounting Standards' makes minor consequential editorial amendments to various accounting standards as a result of the release of the AASB 2007-4. AASB 2007-7 is also applicable for annual reporting periods beginning on or after 1 July 2007.

The application of AASB 2007-4 and AASB 2007-7 is not expected to have a material impact on the financial results of the Company or the Group as the amendments only deal with disclosure or introduce accounting options that are unlikely to be used by ANZ.

- In June 2007 the AASB issued a revised version of AASB 123: 'Borrowing Costs' which requires the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs are immediately recognised as expense. The standard is applicable to annual reporting periods beginning on or after 1 January 2009.
- AASB 2007-6: 'Amendments to Australian Accounting Standards arising from AASB 123' makes consequential amendments to AASB 1: 'First-time adoption of Australian Equivalents to International Financial Reporting Standards', AASB 101: 'Presentation of Financial Statements', AASB 107: 'Cash Flow Statements', AASB 111: 'Construction Contracts', AASB 116: 'Property, Plant and Equipment', AASB 138: 'Intangible Assets' as a result of the revision to AASB 123 'Borrowing Costs'. These amendments are applicable to annual reporting periods beginning on or after 1 January 2009.

The impact of applying the revised AASB 123 and AASB 2007-6 is not expected to have a material impact on the financial results of the Company or the Group as the qualifying assets to which borrowing costs would be applied already capitalise borrowing costs.

- In October 2006, the AASB revised AASB 101: 'Presentation of Financial Statements' which removed some of the additional Australian disclosure requirements previously existing in the standard. The revised AASB 101 is applicable to annual reporting periods beginning on or after 1 January 2007.

The application of this revised standard is not expected to have a material impact on the financial results of the Company or the Group as the amendments only relate to disclosure.

- AASB Interpretation 13: 'Customer Loyalty Programmes' requires customer loyalty award credits to be accounted for as a separately identifiable component of a sales transaction. Interpretation 13 is applicable to financial reporting periods beginning on or after 1 July 2008.

The application of AASB Interpretation 13 is not expected to have a material impact on the financial results of the Company or the Group as only a small element of the revenue generated by the Group's customer loyalty programmes is impacted by the interpretation.

- AASB Interpretation 14: 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies the amount of surplus that can be recognised by an entity sponsoring a defined benefit plan where minimum funding requirements exist. AASB Interpretation 14 is applicable for annual reporting periods beginning on or after 1 January 2008.

The application of AASB Interpretation 14 is not expected to have a material impact on the financial results of the Company or the Group as the defined benefit asset currently recognised by the Group is relatively immaterial.

The Group does not intend to apply any of the above pronouncements until their operative date.

ii) Consolidation

The financial statements consolidate the financial statements of Australia and New Zealand Banking Group Limited (the Company) and all of its controlled entities where it is determined that there is a capacity to control.

Where controlled entities have been sold or acquired during the year, their operating results have been included to the date of disposal or from the date of acquisition.

Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually present when an entity has: power over more than one-half of the voting rights of the other entity; power to govern the financial and operating policies of the other entity; power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity. In addition, potential voting rights that are presently exercisable or convertible are taken into account. However, all the facts of a particular situation are considered when determining whether control exists. In relation to special purpose entities, such control is also deemed to exist even where an entity owns less than a majority of the shareholder or Board voting power of such companies, provided that the following factors exist:

- the majority of the benefits from their activities accrue to the entity; and
- the entity has the majority of the residual risks and rewards of the special purpose entity.

Further detail on special purpose entities is provided in note 2(i).

The Group adopts the equity method of accounting for associates and the Group's interest in joint venture entities.

The Group's share of results of associates and joint venture entities is included in the consolidated income statement. Shares in associates and joint venture entities are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition net assets. Interests in associates and joint ventures are reviewed annually for impairment primarily using a discounted cash flow methodology. In the course of completing this impairment review other methodologies are considered to determine the reasonableness of the valuation, including the multiples of earnings methodology.

In the Company's financial statements, investments in associates and joint venture entities are carried at cost.

All significant activities of the Group, with the exception of the ING Australia Joint Venture and the investment in AMMB Holdings Berhad are operated through wholly owned controlled entities.

Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet but retains either all risks and rewards of the transferred assets or a portion

1: Significant Accounting Policies (continued)

of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. The main types of financial assets that do not qualify for derecognition are debt securities held by counterparties as collateral under repurchase agreements, equity securities lent under securities lending agreements and securitised assets.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

iii) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Translation differences on non-monetary items, such as derivatives measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items. Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity. Translation differences on monetary items are recognised in profit or loss in the period in which they arise.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from (i) the settlement of such transactions, and (ii) the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

(i) assets and liabilities of each foreign operation are translated at the rates of exchange ruling at balance date;

(ii) revenue and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and

(iii) all resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from borrowings and other currency instruments designated as hedges of net investment in foreign operations, are taken to the foreign currency translation reserve.

When a foreign operation is disposed, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate ruling at balance date.

iv) Interest income and interest expense

Interest income and interest expense are recognised in the income statement as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial instrument. Income and expense on the financial instruments are recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

Loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn or immediately to the income statement for expired commitments.

v) Fee and commission income

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the determination of the effective interest rate.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

vi) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. At the Group level, this generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as being effective;
- where gains and losses arise from a group of similar transactions such as foreign exchange gains and losses;
- where amounts are collected on behalf of third parties, where the Group is acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Group is reimbursed.

vii) Trading securities and financial assets at fair value through profit or loss

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking are initially recognised and subsequently measured in the balance sheet at their fair value. Additionally, this valuation basis is used as an alternative to hedge accounting for certain financial instruments where specific conditions are met.

Derivatives that are neither financial guarantee contracts nor effective hedging instruments are carried at fair value through profit and loss. In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where any of the following applies:

1: Significant Accounting Policies (continued)

- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value (gains or losses) of these financial instruments are recognised in the income statement in the period in which they occur.

Purchases and sales of trading securities are recognised on trade date.

viii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons), or for hedging purposes (where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially on trade date at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Where the derivative is designated effective as a hedging instrument, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

- **Fair value hedge**
  Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

  Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity.

  If the hedged item is derecognised from the Group's balance sheet, the unamortised fair value adjustment is recognised immediately in the income statement.

- **Cash flow hedge**
  The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve, which forms part of shareholders' equity. Any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place.

  When the hedge expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

  When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.

- **Net investment hedge**
  Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss from remeasuring the fair value of the hedging instrument relating to the effective portion of the hedge is deferred in equity and the ineffective portion is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of funding instruments are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and unrealised interest is included in net interest income. The remainder of the fair value movement is included in other income.

Embedded derivatives

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit and loss. The embedded derivative is measured at fair value with changes in fair value immediately recognised in the income statement.

Cash flow treatment

Movements in the derivative financial position are recorded in the cash flow statement when they are settled.

Set-off arrangements

Fair value gains/losses arising from trading derivatives are not offset against fair value gains/losses on the balance sheet unless a legal right of set-off exists and there is an intention to settle net.

For contracts subject to master netting agreements that create a legal right of set-off for which only the net revaluation amount is recognised in the income statement, net unrealised gains on derivatives are recognised as part of other assets and net unrealised losses are recognised as part of other liabilities.

1: Significant Accounting Policies (continued)

ix) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments, certain loans and advances, and fixed term securities. They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the 'Available-for-sale revaluation reserve'. When the asset is sold the cumulative gain or loss relating to the asset is transferred to the income statement.

Where there is objective evidence of impairment on an available-for-sale asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement.

Premiums and discounts are included within the calculation of the fair value of the security. Interest income is accrued on an effective yield basis and dividend income is recognised when the right to receive payment is established.

Purchases and sales of available-for-sale financial assets are recognised on trade date as with all regular way assets, being the date on which the Group commits to purchase or sell the asset.

x) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method (refer note 1(iv)). They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

All loans are subject to scrutiny and graded according to the level of credit risk.

Net loans and advances includes direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills. Overdrafts, credit cards, finance lease receivables, term loans and commercial bills are carried at amortised cost.

Customer financing through redeemable preference shares is included within net loans and advances. Dividends received on redeemable preference shares are taken to the income statement as part of interest income.

xi) Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures, including off-balance sheet items such as commitments and guarantees, that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans), and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

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

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Subsequent recoveries of amounts previously written-off are indirectly credited back to the income statement.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairment losses are indirectly reversed in the income statement.

A provision is also raised for off-balance sheet items such as commitments and guarantees that are considered to be onerous.

xii) Leasing

Leases as lessee

Leases entered into by the Group as lessee are predominantly operating leases, and the operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leases as lessor

Contracts to lease assets, and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

xiii) Acceptances

Commercial bills accepted but not held in portfolio are accounted for as a liability with a corresponding contra asset. The liability is disclosed as liability for acceptances, and the asset is disclosed as Customer's liability for acceptances

The Group's own acceptances discounted are held as part of the trading securities portfolio.

1: Significant Accounting Policies (continued)

xiv) Goodwill and other intangible assets

Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is recognised as an asset and not amortised, but assessed for impairment annually and whenever there is an indication that the goodwill may be impaired. This involves, where required, using the discounted cash flow (DCF) or the capitalisation of earnings methodology (CEM) to determine the expected future benefits of the cash-generating units. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the income statement.

Any impairment of goodwill is not subsequently reversed.

Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems (“software”).

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years, except for certain core infrastructure projects where the useful life has been determined to be 7 years.

At each reporting date, software assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

xv) Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and impairment.

The gain or loss on the disposal of premises and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal.

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight-line method.

The depreciation rates used for each class of asset are:

Buildings	1%
Building integrals	10%
Furniture & equipment	10%
Computer & office equipment	12.5%–33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful lives or remaining terms of the lease.

Premises and equipment impairment assessment

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

xvi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group, and a counterparty liability is disclosed under the classifications of due to other financial institutions or payables and other liabilities. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as liquid assets, net loans and advances, or due from other financial institutions, depending on the term of the agreement and the counterparty. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

xvii) Capitalised expenses

Direct external expenses, comprising direct and incremental costs related to the acquisition of interest earning assets, including structured institutional lending, mortgages and finance leases, are initially recognised as part of the cost of acquiring the asset and amortised as part of expected yield over its expected life using the effective interest method. The write-off is to interest income as part of the effective interest rate. For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience assessed on a regular basis. Impairment of capitalised expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

xviii) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures and other related interest bearing financial instruments. They are measured at amortised cost. The interest expense is recognised using the effective interest method as explained in note 1(iv).

xix) Bonds, notes and loan capital

Bonds, notes and loan capital are accounted for in the same way as deposits and other borrowings, except for those bonds and notes which are stated at fair value, with fair value movements recorded in the income statement.

xx) Employee benefits

Leave benefits

The amounts expected to be paid in respect of employees’ entitlements to annual leave are accrued at expected salary rates including on-costs. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes and also contributes, according to local law, in the various countries in which it operates, to government and other plans that have the characteristics of defined contribution schemes. The Group’s contributions to these schemes are recognised as an expense in the income statement when incurred.

1: Significant Accounting Policies (continued)

Defined benefit superannuation schemes

The Group operates a number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries. A defined benefit liability is recognised, to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in a benefit to the Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each subsequent reporting period, ongoing movements in the defined benefit liability or asset carrying value is treated as follows:

- the net movement relating to the current period's service cost, interest cost, expected return on scheme assets, past service costs and other costs (such as the effects of any curtailments and settlements) is recognised as an employee expense in the income statement
- movements relating to actuarial gains and losses are recognised directly in retained earnings
- contributions incurred are recognised directly against the net defined benefit position.

Share-based compensation

The Group has various equity settled share-based compensation plans. These are described in note 47 and largely comprise the Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ ordinary shares: The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed immediately when shares vest immediately or on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in equity.

Share options: The fair value of share options is measured at grant date, using an option pricing model. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as an employee compensation expense with a corresponding increase in the share options reserve.

The option pricing model takes into account the exercise price of the option, the risk-free interest rate, the expected volatility of ANZ ordinary share price and other factors. Market vesting conditions are taken into account in estimating the fair value.

Performance rights: A Performance Right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and performance hurdles. Upon exercise, each Performance Right entitles the holder to one ordinary share in ANZ. The fair value of Performance Rights is determined at grant date using an option pricing model, taking into account market conditions. The fair value is expensed over the relevant vesting period. This is recognised as an employee expense with a corresponding increase in equity.

Other adjustments: Subsequent to the grant of an equity-based award, the amount recognised as an expense is adjusted for vesting conditions other than market conditions so that, ultimately, the amount recognised as an expense is based on the number of equity instruments that eventually vests.

Treasury shares: Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share-based awards) and deducted from share capital.

xxi) Provisions

The Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Any expected third party recoveries are recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

xxii) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

xxiii) Contingent Liabilities

These items are recorded as liabilities on the balance sheet when the following requirements are met:

- the transaction is probable in that the contingency is likely to occur; and
- the contingency can be reasonably estimated.

Further disclosure is made in note 45, where the above requirements are not met but there is a possible obligation that is more than remote. Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

xxiv) Income tax

Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date, including any adjustment for tax payable in previous years. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

1: Significant Accounting Policies
(continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

xxv) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. This is typically the premium received. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses.

xxvi) Change in accounting policy

In May 2005, AASB 2005-1 (an amendment to AASB 139: 'Financial Instruments: Recognition and Measurement') was issued which stipulated circumstances in which a hedge of a forecast intragroup transaction qualified for hedge accounting. As a result of this amendment, cash flow hedge relationships covering New Zealand's revenue flows no longer qualified for hedge accounting. The realised gains on the hedges of future years' New Zealand dollar revenues of $141 million (net of tax) that were included in the hedging reserve at 30 September 2006 were, in line with the transitional provisions of AASB 2005-1, transferred directly to retained earnings as at 1 October 2006.

2: Critical Estimates and Judgements Used in Applying Accounting Policies

The Group prepares its consolidated financial statements in accordance with policies which are based on AAS, other authoritative accounting pronouncements of the Australian Accounting Standards Board (AASB), AASB and Urgent Issues Group Interpretations and the Corporations Act of 2001. This involves the Group making estimates and assumptions that affect the reported amounts within the financial statements. Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of critical estimates and judgements, and their impact on the Group, follows:

Critical Accounting Estimates and Assumptions

Provisions for credit impairment

The accounting policy, as explained in note 1(xi), relating to measuring the impairment of loans and advances, requires the Group to assess impairment regularly. The credit provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Individual provisioning is applied when the full collectibility of one of the Group's loans is identified as being doubtful.

Individual and collective provisioning is calculated using discounted expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

Critical judgements in applying the entity's accounting policies

i) Special purpose and off balance sheet entities

The Group may invest in or establish special purpose entities (SPEs) to enable it to undertake specific types of transactions. The main types of these SPEs are securitisation vehicles, structured finance entities, and entities used to sell credit protection.

Where the Group has established SPEs which are controlled by the Group to facilitate transactions undertaken for Group purposes, these are consolidated in the Group's financial statements.

The Group does not consolidate SPEs that it does not control in accordance with the Group's policy outlined in note 1(ii). As it can sometimes be difficult to determine whether the Group has control of an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

The table below summarises the main types of SPEs that are not consolidated into the Group, the reason for their establishment, and the key risks associated with them. ANZ does not bear the majority of residual risks and rewards of these SPEs.

			SPE Assets	
Type of SPE	Reason for establishment	Key Risks	2007 $m	2006 $m
Securitisation vehicles	Assets are transferred to an SPE which funds the purchase by issuing securities. This enables ANZ or customers to increase diversity of funding sources. The amount disclosed here is the total assets of SPEs managed or arranged by ANZ. It includes SPEs that purchase assets from sellers other than ANZ.	ANZ may manage securitisation vehicles, service assets in a vehicle or provide liquidity or other support and retains the risks associated with the provision of these services.[1] Credit and market risks associated with the underlying assets are not retained or assumed by ANZ except to the limited extent that ANZ provides arm's length services and facilities.	7,786	9,381
Structured finance entities[2]	These entities are set up to assist with the structuring of client financing.	ANZ may manage these vehicles and also provide derivatives.	n/a	n/a
Credit protection	These entities are set up to allow the Group to sell the credit risk on portfolios.	ANZ may manage these vehicles.	2,145	2,145

1 Liquidity support facilities provided in relation to ANZ sponsored securitisation vehicles totalled $5.9 billion as at 30 September 2007, of which $2.9 billion had been drawn as at that date.
2 ANZ's net investment in the structured finance entities is $229 million as at 30 September 2007 (30 September 2006: $233 million).

ii) Valuation of investment in ING Australia Limited (INGA)

The Group adopts the equity method of accounting for its 49% interest in INGA. As at 30 September 2007, the Group's carrying value was $1,519 million (September 2006: $1,462 million).

The carrying value is subject to a recoverable amount test to ensure that this does not exceed its recoverable amount at the reporting date.

Any excess of carrying value above recoverable amount is written off to the income statement as an impairment write-down.

During the year the Group engaged Ernst & Young [ABC] Limited (EY [ABC]) to provide an independent valuation of INGA for 31 March 2007 assessment purposes. The valuation was a stand alone market based assessment of economic value, and excluded the Group's specific synergies. The independent valuation was based on a discounted cashflow approach, with allowance for the cost of capital. EY [ABC] presented an independent valuation range of $4,750 million to $5,083 million, reflecting a range of sales and cost base assumptions. Based on this review, ANZ believed that no change was required to the carrying value of the investment as at 31 March 2007.

At 30 September 2007, impairment testing via a management review was conducted to determine whether there were any indicators of impairment. The assessment involved review of the following indicators of impairment:

- Performance
- Operational and regulatory factors
- Economic and industry factors

The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

(iii) Valuation of investment in ING (NZ) Holdings Limited (ING NZ)

The Group adopts the equity method of accounting for its 49% interest in ING NZ.

As at 30 September 2007, the Group's carrying value was $162 million (September 2006: $146 million).

The carrying value is subject to a recoverable amount test to ensure that this does not exceed its recoverable amount at the reporting date.

Any excess of carrying value above recoverable amount is written off to the income statement as an impairment write-down.

During the year the Group engaged PricewaterhouseCoopers (PwC) to provide an impairment analysis of ING NZ for 31 March 2007 assessment purposes. The valuation was based on a discounted cashflow approach.

PwC presented a valuation range as at 31 December 2006 of $344 million to $386 million (at 30 September 2007 exchange rates), reflecting a range of sales and cost base assumptions.

PwC also considered the additional cash generated by ING NZ in the period between 31 December 2006 and 31 March 2007 in order to provide an assessment as at 31 March 2007 of the appropriateness of the carrying value. Based on this review ANZ believed that no change was required to the

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

carrying value of the investment as at 31 March 2007.

At 30 September 2007, impairment testing via a management review was conducted to determine whether there were any indicators of impairment based on the 31 March 2007 valuation. The assessment involved review of the following indicators of impairment:

- Performance
- Operational and regulatory factors
- Economic and industry factors

The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

iv) Goodwill

The carrying value of goodwill is reviewed at each balance date and is written down, to the extent that it is no longer supported by probable future benefits.

Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write-down.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management reporting purposes.

Impairment testing of purchased goodwill is performed annually in March through an independent valuation, by comparing the fair value of the CGU with the current carrying amount of its net assets, including goodwill. Where the current carrying value is greater than fair value, a charge for impairment of goodwill will be recorded in the income statement.

As at 30 September 2007, the balance of goodwill recorded as an asset in ANZ National Bank Limited was $2,781 million (30 September 2006: $2,828 million). This represents the most significant component of the Group's goodwill balance.

In determining the fair value of the CGU for testing of the goodwill in ANZ National Bank Limited, an independent valuation is obtained based on a capitalisation of earnings approach. Under this methodology, valuation multiples (such as the price to earnings (PE) ratio) observed from previous transactions in the banking sector and current price/cash earnings multiples from similar businesses are used to determine an appropriate price/earnings multiple for the CGU.

In determining an appropriate price multiple for the valuation, judgement is applied when assessing comparable companies and transactions, particularly with respect to the mix of business, geographic location, growth prospects, riskiness of future earnings and size of the overall business.

The results of the independent valuation carried out as at 31 March 2007 showed a fair value in excess of the then current carrying value for the CGU and hence the carrying value of the goodwill was not considered impaired.

In June 2007 the Group obtained 100% ownership of ETRADE Australia Limited. This acquisition resulted in the recognition of $264 million of goodwill.

At 30 September 2007, impairment testing via a management review was conducted to determine whether there were any indicators of impairment in the carrying value of ANZ National Bank Limited's goodwill and the goodwill recognised on the acquisition of ETRADE Australia Limited. The assessment involved review of the following indicators of impairment:

- Performance
- Operational and regulatory factors
- Economic and industry factors

The assessment did not indicate the existence of impairment and accordingly no write-down was required.

v) Significant Associates

The carrying value of all investments in associates is subject to an annual recoverable amount test. This assessment involves ensuring that either the investment's fair value (less costs to sell) is greater than its carrying amount or its value in use can be estimated to be close to its fair value (less costs to sell).

The Group has made several recent significant investments in associates and each will be subject to an annual recoverable amount test. Furthermore, at each reporting period, all investments are assessed against potential impairment indicators.

As at 30 September 2007, the Group has reviewed all investments in associates against the following impairment indicators:

- actual financial performance against budgeted financial performance;
- any material unfavourable operational factors and regulatory factors;
- any material unfavourable economic outlook and market competitive factors;
- carrying value against market value (supported by third-party broker valuation); and
- carrying value against market capitalisation (for listed investments).

Where appropriate, additional potential impairment indicators are reviewed which are more specific to the respective investment.

As at 30 September 2007, no impairment of associates was identified as a result of either the review of impairment indicators listed above, or the recoverable amount test performed on longer term investments.

NOTES TO THE FINANCIAL STATEMENTS

3: Income

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Interest income				
Other financial institutions	488	407	373	254
Trading securities	955	526	749	384
Available-for-sale assets	629	736	498	448
Loans and advances	22,049	18,802	14,192	11,791
Acceptances	1,072	969	1,072	969
Other	1,017	861	586	507
	26,210	22,301	17,470	14,353
Controlled entities	–	–	339	265
Total interest income	26,210	22,301	17,809	14,618
Other operating income				
Lending fees[1]	491	430	374	336
Non-lending fees and commissions arising from financial assets and liabilities not at fair value through profit or loss	150	131	139	121
Fee income on trust and other fiduciary activities where ANZ holds or invests assets on behalf of its customers	20	17	–	–
Other fees and commissions	1,956	1,808	1,340	1,222
	2,617	2,386	1,853	1,679
Controlled entities	–	–	178	173
Total fee and commission income	2,617	2,386	2,031	1,852
Fee and commission expense[2]	(237)	(241)	(168)	(175)
Net fee and commission income	2,380	2,145	1,863	1,677
Other income				
Net foreign exchange earnings	510	447	523	203
Net (losses)/gains from trading securities[3]	(47)	(7)	(21)	(17)
Net gains/(losses) from trading derivatives	416	216	133	167
Movements on financial instruments measured at fair value through profit or loss[4]	100	49	80	36
Settlement of ANZ National Bank Limited warranty claims	–	14	–	–
Gain on sale of Esanda Fleetpartners	195	–	–	–
Profit/(loss) on sale of premises[5]	37	2	–	–
Stadium Australia income	38	–	–	–
Dividends received from controlled entities	–	–	1,134	1,145
Brokerage income	55	3	–	2
Other	140	146	67	83
Total other income	1,444	870	1,916	1,619
Total other operating income	3,824	3,015	3,779	3,296
Share of joint venture profit from ING Australia and ING (NZ) (refer note 42)	172	138	–	–
Share of associates' profit (refer note 41)	87	56	–	–
Total share of joint venture and associates' profit	259	194	–	–
Total income[6]	30,293	25,510	21,588	17,914

1 Lending fees exclude fees treated as part of the effective yield calculation and included in interest income (refer note 1(iv)).
2 Comprises interchange fees paid.
3 Does not include interest income.
4 Includes any fair value movements (excluding realised and accrued interest) on derivatives entered into to manage interest rate and foreign exchange risk on funding instruments, and not designated as accounting hedges, ineffective portions of cashflow hedges, and fair value movements in financial assets and liabilities designated at fair value.
The net gain on financial assets and liabilities designated at fair value was $127 million (2006: $128 million) for the Group and $125 million (2006: $125 million) for the Company.
5 Gross proceeds on sale of premises is $63 million (2006: $4 million).
6 Total income includes external dividend income of $99 million (2006: $53 million) for the Group and $1 million (2006: $6 million) for the Company.

4: Expenses

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Interest expense				
Financial institutions	872	636	764	527
Deposits	10,123	8,000	6,876	5,296
Borrowing corporations' debt	671	652	–	–
Commercial paper	1,210	1,440	394	245
Acceptances	915	809	915	809
Loan capital, bonds and notes	4,628	3,387	3,509	2,537
Other	489	434	386	299
	18,908	15,358	12,844	9,713
Controlled entities	–	–	304	628
Total interest expense	18,908	15,358	13,148	10,341
Operating expenses				
i) Personnel				
Employee entitlements and taxes	236	207	163	137
Salaries and wages	1,892	1,746	1,314	1,201
Superannuation costs – defined benefit plans (refer note 46)	11	11	6	6
Superannuation costs – defined contribution plans	180	160	139	121
Equity-settled share-based payments (refer note 47)	62	76	50	65
Temporary staff	131	121	94	75
Other	479	461	353	338
Total personnel expenses	2,991	2,782	2,119	1,943
ii) Premises				
Amortisation of leasehold improvements (refer note 22)	22	18	16	12
Depreciation of buildings and integrals (refer note 22)	22	15	4	2
Rent	254	228	169	146
Utilities and other outgoings	138	128	96	92
Other	26	23	19	24
Total premises expenses	462	412	304	276
iii) Computer				
Computer contractors	50	47	38	39
Data communication	71	64	44	40
Depreciation and amortisation[1]	208	208	174	170
Rentals and repairs	73	68	54	49
Software purchased	134	117	100	84
Software written-off	16	10	14	10
Other	40	41	13	19
Total computer expenses	592	555	437	411
iv) Other				
Advertising and public relations	157	175	97	123
Amortisation of other intangible assets (refer note 20)	6	3	4	3
Audit and other fees (refer note 5)	12	12	8	8
Depreciation of furniture and equipment (refer note 22)	57	48	44	36
Freight and cartage	53	47	46	40
Loss on sale of equipment	3	4	2	2
Non-lending losses, frauds and forgeries	43	55	48	18
Postage and stationery	115	116	74	73
Professional fees	130	120	89	91
Settlement of NHB insurance claim	–	(113)	–	(113)
Telephone	55	56	27	30
Travel	152	136	102	89
Other	125	123	222	220
Total other expenses	908	782	763	620
Total operating expenses	4,953	4,531	3,623	3,250
Total expenses	23,861	19,889	16,771	13,591

1 Comprises software amortisation of $122 million (2006: $114 million), refer note 20, and computer depreciation of $86 million (2006: $94 million), refer note 22. The Company comprises software amortisation of $109 million (2006: $100 million), refer note 20, and computer depreciation of $65 million (2006: $70 million), refer note 22.

5: Compensation of Auditors

	Consolidated		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
KPMG Australia				
Audit or review of financial reports of the Company or Group	6,696	6,462	5,624	5,572
Other audit-related services[1]	2,210	1,152	1,575	878
Other assurance services[2]	110	209	110	209
Total	9,016	7,823	7,309	6,659
Overseas related practices of KPMG Australia				
Audit or review of financial reports of Group entities	2,678	2,654	584	527
Other audit-related services[1]	760	1,031	374	497
Other assurance services[2]	–	38	–	–
	3,438	3,723	958	1,024
Total compensation of auditors	12,454	11,546	8,267	7,683

It is Group policy that KPMG Australia or any of its related practices may provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by the Company's regulators such as the Australian Prudential Regulation Authority (APRA). KPMG Australia or any of its related practices may not provide services that are perceived to be materially in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be materially in conflict with the role of auditor may be provided by KPMG Australia or any of its related practices subject to the approval of the Audit Committee.

1 Includes prudential supervision reviews for central banks and work required for local statutory purposes.
2 Other assurance services includes:

Consolidated	2007 $'000	2006 $'000
Sustainability review	–	203
Compliance testing for securitisation transaction	66	–
Training course	44	44
Total	**110**	**247**

6: Income Tax Expense

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
(a) Income tax recognised in the Income Statement				
Tax expense/(income) comprises:				
Income tax expense/(income)	1,847	1,754	1,185	1,206
Adjustments recognised in the current year in relation to the current tax of prior years	(2)	(4)	(4)	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(101)	(225)	(238)	(333)
Benefits arising from previously unrecognised tax losses, tax credits, or temporary differences of a prior period that is used to reduce: - current tax expense	(66)	(3)	(65)	(2)
Total income tax expense charged in the Income Statement	1,678	1,522	878	871
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement.				
Operating profit before income tax	5,865	5,214	4,429	4,045
Prima facie income tax expense at 30%	1,760	1,564	1,329	1,214
Change in income tax expense due to:				
Overseas tax rate differential	30	25	(2)	(5)
Rebateable and non-assessable dividends	(10)	(6)	(340)	(345)
Other non-assessable income	(3)	(9)	–	–
Profit from associated and joint venture entities	(75)	(57)	–	–
Recognition of previously unrecognised capital losses	(54)	–	(54)	–
Restatement of deferred tax balances for New Zealand tax rate change	24	–	–	–
Foreign exchange translation of US Hybrid loan capital	–	–	(67)	9
Other	8	9	16	(2)
	1,680	1,526	882	871
Income tax (over) provided in previous years	(2)	(4)	(4)	–
Total income tax expense charged in the Income Statement	1,678	1,522	878	871
Effective Tax Rate	28.6%	29.2%	19.8%	21.5%
Australia	1,073	984	797	784
Overseas	605	538	81	87
(b) Income tax recognised directly in equity				
The following income tax amounts were charged directly to equity during the period	135	2	99	(3)

Tax consolidation

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group in accordance with the arrangement.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations.

7: Dividends

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Ordinary dividends[1]				
Interim dividend	1,144	1,024	1,144	1,024
Final dividend[2]	1,267	1,078	1,267	1,078
Bonus option plan adjustment	(48)	(34)	(48)	(34)
Dividends on ordinary shares	2,363	2,068	2,363	2,068

1 Dividends are not accrued and are recorded when paid.
2 Proposed final dividend of $1,381 million for 2007, based on the forecast number of ordinary shares on issue at the dividend record date, is not included in the table above.

A final dividend of 74 cents, fully franked, is proposed to be paid on each fully paid ordinary share on 21 December 2007 (2006: final dividend of 69 cents, paid 15 December 2006, fully franked). The 2007 interim dividend of 62 cents, paid 2 July 2007, was fully franked (2006: interim dividend of 56 cents, paid 3 July 2006, fully franked).

The tax rate applicable to the franking credits attached to the interim dividend and to be attached to the proposed final dividend is 30% (2006: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2007 and 2006 were as follows:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Paid in cash	1,921	1,903	1,921	1,903
Satisfied by issue of shares	442	165	442	165
	2,363	2,068	2,363	2,068

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Preference dividends				
Euro Trust Securities	37	27	–	–
Dividends on preference shares	37	27	–	–

7: Dividends (continued)

Euro Trust Securities

On 13 December 2004, the Group issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1,000 each into the European market, raising €500 million ($871 million at the spot rate at the date of issue, net of issue costs). The Euro Trust Securities comprise 2 fully paid securities – an interest paying unsecured note issued by a United Kingdom subsidiary (ANZ Jackson Funding PLC) and a fully paid €1,000 preference share issued by the Company, which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears (on 15 March, 15 June, 15 September, 15 December of each year) based upon a floating distribution rate equal to 3 month EURIBOR rate plus a 66 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on Euro Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or below the preference share component. (Refer to note 30 for further details.)

Dividend Franking Account

The amount of franking credits available to the Company for the subsequent financial year is $580 million (2006: $341 million) after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 2007 financial year, $592 million of franking credits which will be utilised in franking the proposed final dividend and franking credits that may not be accessible by the Company at present.

Restrictions which Limit the Payment of Dividends

There are presently no significant restrictions on the payment of dividends from controlled entities to the Company. Various capital adequacy, liquidity, statutory reserve and other prudential requirements must be observed by certain controlled entities and the impact on these requirements caused by the payment of cash dividends is monitored.

There are presently no restrictions on payment of dividends by the Company. Reductions of shareholders' equity through payment of cash dividends is monitored having regard to the regulatory requirements to maintain a specified capital adequacy ratio. In particular, the Australian Prudential Regulation Authority (APRA) has advised that a bank under its supervision must consult with it before declaring a coupon payment on a Tier 1 instrument, including a dividend if the bank has incurred a loss, or proposes to pay coupon payments on Tier 1 instruments (including dividends), which exceed the level of current year profits.

Dividend Reinvestment Plan

During the year, 3,613,226 ordinary shares were issued at $28.25 per share, and 11,621,468 ordinary shares at $29.29 per share, under the dividend reinvestment plan (2006: 3,545,901 ordinary shares at $23.85 per share, and 3,039,401 ordinary shares at $26.50 per share). All eligible shareholders can elect to participate in the dividend reinvestment plan.

A number of changes have been made to the terms and conditions of the dividend reinvestment plan and bonus option plan, effective for the 2007 final dividend only, including the application of a 1.5% discount. For the 2007 final dividend only, the balance of the dividend not reinvested by shareholders in the dividend reinvestment plan or foregone by shareholders under the bonus option plan, will be fully underwritten by UBS AG, Australia branch.

Bonus Option Plan

The amount of dividends paid during the year has been reduced as a result of certain eligible shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued bonus shares.

During the year, 1,729,427 ordinary shares were issued under the bonus option plan (2006: 1,384,144 ordinary shares).

	Determined dividend $m	Bonus option plan adjustment $m	Amount paid $m
Final dividend 2006	1,267	(19)	1,248
Interim dividend 2007	1,144	(29)	1,115
	2,411	(48)	2,363

8: Earnings per Ordinary Share

	Consolidated 2007	Consolidated 2006
Basic earnings per share (cents)	224.1	200.0
Earnings reconciliation ($millions)		
Profit for the year	4,187	3,692
Less: profit attributable to minority interests	7	4
Less: preference share dividend paid	37	27
Earnings used in calculating basic earnings per share	4,143	3,661
Weighted average number of ordinary shares (millions)	1,848.5	1,830.3
Diluted earnings per share (cents)	218.3	194.0
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	4,143	3,661
Add: US Trust Securities interest expense	44	53
Add: ANZ StEPS interest expense	50	45
Add: UK Hybrid interest expense	21	–
Earnings used in calculating diluted earnings per share	4,258	3,759
Weighted average number of ordinary shares (millions)		
Used in calculating basic earnings per share	1,848.5	1,830.3
Add: potential conversion of options to ordinary shares	15.2	13.9
potential conversion of US Trust Securities to ordinary shares at current market price	42.0	54.8
potential conversion of ANZ StEPS to ordinary shares	34.5	38.2
potential conversion of UK Hybrid Securities to ordinary shares	10.7	–
Used in calculating diluted earnings per share	1,950.9	1,937.2

The weighted average number of converted and lapsed options, weighted with reference to the date of conversion or lapse, and included in the calculation of diluted earnings per share is approximately 2 million.

9: Liquid Assets

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia				
Coins, notes and cash at bankers	844	1,286	709	1,242
Money at call, bills receivable and remittances in transit	656	938	489	892
Securities purchased under agreement to resell in less than 90 days	3,824	4,776	3,824	4,776
	5,324	7,000	5,022	6,910
New Zealand				
Coins, notes and cash at bankers	2,585	913	–	–
Money at call, bills receivable and remittances in transit	1,302	1,398	–	–
Other banks' certificates of deposit	1,403	1,351	–	–
Securities purchased under agreement to resell in less than 90 days	277	260	–	–
	5,567	3,922	–	–
Overseas Markets				
Coins, notes and cash at bankers	238	251	113	111
Money at call, bills receivable and remittances in transit	2,582	2,279	2,324	1,946
Other banks' certificates of deposit	3,276	1,566	3,159	1,460
Securities purchased under agreement to resell in less than 90 days	–	1	–	–
	6,096	4,097	5,596	3,517
Total liquid assets	16,987	15,019	10,618	10,427
Maturity analysis based on original term to maturity				
Less than 90 days	12,307	11,633	6,701	8,050
More than 90 days	4,680	3,386	3,917	2,377
Total liquid assets	16,987	15,019	10,618	10,427

10: Due from Other Financial Institutions

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia	2,857	3,090	2,853	3,068
New Zealand	1,546	3,236	–	–
Overseas Markets	3,637	3,339	3,281	3,185
Total due from other financial institutions	8,040	9,665	6,134	6,253
Maturity analysis based on original term to maturity				
Less than 90 days	6,767	8,711	5,339	5,520
More than 90 days	1,273	954	795	733
Total due from other financial institutions	8,040	9,665	6,134	6,253

11: Trading Securities

Trading securities are allocated between Australia, New Zealand and Overseas Markets based on the domicile of the issuer

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Listed – Australia				
Other securities and equity securities	31	5	31	5
	31	5	31	5
Listed – Overseas Markets				
Other government securities	27	44	27	44
	27	44	27	44
Total listed	58	49	58	49
Unlisted – Australia				
Commonwealth securities	556	328	556	328
Local, semi-government and other government securities	3,611	2,635	3,611	2,635
ANZ accepted bills	2,305	1,569	2,305	1,569
Other securities and equity securities	6,204	2,639	6,020	2,363
	12,676	7,171	12,492	6,895
Unlisted – New Zealand				
Other government securities	124	210	–	37
Other securities and equity securities	1,489	1,220	–	–
	1,613	1,430	–	37
Unlisted – Overseas Markets				
Other government securities	299	–	288	–
Other securities and equity securities	521	529	521	527
	820	529	809	527
Total unlisted	15,109	9,130	13,301	7,459
Total trading securities	15,167	9,179	13,359	7,508

12: Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying variables or indices, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties, called "Over the Counter" or "OTCs". 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 exchange and interest rates as part of its asset and liability management activities (i.e. balance sheet risk management).

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.

Types of derivative instruments

The principal foreign exchange rate contracts used by the Group are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

The principal commodity contracts used by the Group are forward commodity contracts, commodity swaps and commodity options. Forward commodity contracts are agreements for the payment of the difference between a specified commodity price and a fixed rate on a notional volume of the commodity at a future date. A commodity swap generally involves the exchange of the return on the commodity for a fixed or floating interest payment without the exchange of the underlying commodity or principal amount. Commodity options provide the buyer with the right, but not the obligation, to exchange the difference between a specified commodity price and a fixed rate on a notional volume of the commodity at a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period. In certain circumstances the option premium is paid at the end of the option period.

The principal interest rate contracts used by the Group are forward rate agreements, interest rate futures, interest rate swaps and options. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Interest rate options provide the buyer with the right but not the obligation either to receive or pay interest at a specified rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

12: Derivative Financial Instruments (continued)

The principal credit contracts used by the Group are default swaps. Default swaps are contracts that provide for a specified payment to be made to the purchaser of the swap following a defined credit event.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Group's balance sheet risk management.

Trading positions

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Gains or losses, including any current period interest, from the change in fair value of trading positions are recognised in the income statement as 'other income' in the period in which they occur.

Balance sheet risk management

The Group designates balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions.

Gains or losses from the change in fair value of balance sheet risk management derivatives that form part of an effective hedging relationship are recognised in the income statement based on the hedging relationship. Any ineffectiveness is recognised in the income statement as 'other income' in the period in which it occurs.

Gains or losses, excluding any current period interest, from the change in fair value of balance sheet risk management positions that are not designated into hedging relationships are recognised in the income statement as 'other income' in the period in which they occur. Current period interest is included in interest income and expense.

The following tables provide an overview of the Group's and the Company's foreign exchange rate, commodity, credit and interest rate derivatives. They include all trading and balance sheet risk management contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and as a consequence the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held and notional principal amounts are set out as follows.

NOTES TO THE FINANCIAL STATEMENTS

12: Derivative Financial Instruments (continued)

Consolidated at 30 September 2007	Notional principal amount $m	Fair value – Trading – Assets $m	Fair value – Trading – Liabilities $m	Fair value – Hedging – Fair value – Assets $m	Fair value – Hedging – Fair value – Liabilities $m	Fair value – Hedging – Cash flow – Assets $m	Fair value – Hedging – Cash flow – Liabilities $m	Fair value – Hedging – Net investment in foreign operations – Assets $m	Fair value – Hedging – Net investment in foreign operations – Liabilities $m	Total fair value of derivatives – Assets $m	Total fair value of derivatives – Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	278,479	4,605	(6,570)	–	–	1	–	31	–	4,637	(6,570)
Swap agreements	141,881	6,270	(6,320)	440	(587)	–	–	–	–	6,710	(6,907)
Futures contracts	144	7	(6)	–	–	–	–	–	–	7	(6)
Options purchased	6,476	1,047	–	–	–	–	–	–	–	1,047	–
Options sold	9,718	–	(1,001)	–	–	–	–	–	–	–	(1,001)
Collateral	–	(1,875)	1,612	–	–	–	–	–	–	(1,875)	1,612
	436,698	10,054	(12,285)	440	(587)	1	–	31	–	10,526	(12,872)
Commodity contracts											
Derivative contracts	15,429	1,664	(1,600)	–	–	–	–	–	–	1,664	(1,600)
Interest rate contracts											
Forward rate agreements	137,039	13	(15)	–	–	2	–	–	–	15	(15)
Swap agreements	944,079	7,755	(7,902)	538	(284)	311	(114)	–	–	8,604	(8,300)
Futures contracts	96,815	961	(987)	–	–	18	(9)	–	–	979	(996)
Options purchased	26,621	142	–	–	–	–	–	–	–	142	–
Options sold	22,711	–	(115)	–	–	–	–	–	–	–	(115)
	1,227,265	8,871	(9,019)	538	(284)	331	(123)	–	–	9,740	(9,426)
Credit contracts											
Credit default swaps	47,702	307	(282)	–	–	–	–	–	–	307	(282)
	1,727,094	20,896	(23,186)	978	(871)	332	(123)	31	–	22,237	(24,180)

12: Derivative Financial Instruments (continued)

Consolidated at 30 September 2006	Notional principal amount $m	Fair value – Trading Assets $m	Fair value – Trading Liabilities $m	Hedging – Fair value Assets $m	Hedging – Fair value Liabilities $m	Hedging – Cash flow Assets $m	Hedging – Cash flow Liabilities $m	Hedging – Net investment in foreign operations Assets $m	Hedging – Net investment in foreign operations Liabilities $m	Total fair value of derivatives Assets $m	Total fair value of derivatives Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	217,522	2,054	(2,195)	–	–	–	–	1	(34)	2,055	(2,229)
Swap agreements	110,638	2,714	(2,247)	114	(64)	–	–	–	–	2,828	(2,311)
Futures contracts	187	45	(29)	–	–	–	–	–	–	45	(29)
Options purchased	9,150	259	–	–	–	–	–	–	–	259	–
Options sold	13,906	–	(202)	–	–	–	–	–	–	–	(202)
Collateral	–	(1,279)	1,256	–	–	–	–	–	–	(1,279)	1,256
	351,403	3,793	(3,417)	114	(64)	–	–	1	(34)	3,908	(3,515)
Commodity contracts											
Derivative contracts	7,793	1,055	(916)	–	–	–	–	–	–	1,055	(916)
Interest rate contracts											
Forward rate agreements	96,147	14	(10)	–	–	–	–	–	–	14	(10)
Swap agreements	589,135	3,296	(3,566)	212	(263)	211	(61)	–	–	3,719	(3,890)
Futures contracts	99,184	249	(242)	–	–	2	(2)	–	–	251	(244)
Options purchased	17,733	141	–	–	–	–	–	–	–	141	–
Options sold	33,638	–	(100)	–	–	–	–	–	–	–	(100)
	835,837	3,700	(3,918)	212	(263)	213	(63)	–	–	4,125	(4,244)
Credit contracts											
Credit default swaps	23,965	76	(78)	–	–	–	–	–	–	76	(78)
	1,218,998	8,624	(8,329)	326	(327)	213	(63)	1	(34)	9,164	(8,753)

12: Derivative Financial Instruments (continued)

		Fair value							
		Trading		Hedging				Total fair value of derivatives	
				Fair value		Cash flow			
Company at 30 September 2007	Notional principal amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts									
Spot and forward contracts	263,920	4,333	(6,115)	–	–	–	–	4,333	(6,115)
Swap agreements	164,933	7,089	(9,051)	356	(581)	–	–	7,445	(9,632)
Futures contracts	144	7	(6)	–	–	–	–	7	(6)
Options purchased	6,047	1,033	–	–	–	–	–	1,033	–
Options sold	9,481	–	(995)	–	–	–	–	–	(995)
Collateral	–	(1,419)	1,513	–	–	–	–	(1,419)	1,513
	444,525	11,043	(14,654)	356	(581)	–	–	11,399	(15,235)
Commodity contracts									
Derivative contracts	15,429	1,664	(1,600)	–	–	–	–	1,664	(1,600)
Interest rate contracts									
Forward rate agreements	85,748	11	(13)	–	–	2	–	13	(13)
Swap agreements	730,968	6,481	(6,542)	222	(176)	218	(72)	6,921	(6,790)
Futures contracts	81,560	957	(957)	–	–	18	(9)	975	(966)
Options purchased	26,568	124	–	–	–	–	–	124	–
Options sold	22,700	–	(115)	–	–	–	–	–	(115)
	947,544	7,573	(7,627)	222	(176)	238	(81)	8,033	(7,884)
Credit contracts									
Credit default swaps	47,680	307	(282)	–	–	–	–	307	(282)
	1,455,178	20,587	(24,163)	578	(757)	238	(81)	21,403	(25,001)

12: Derivative Financial Instruments (continued)

Company at 30 September 2006	Notional principal amount $m	Fair value: Trading Assets $m	Fair value: Trading Liabilities $m	Fair value: Hedging Fair value Assets $m	Fair value: Hedging Fair value Liabilities $m	Fair value: Hedging Cash flow Assets $m	Fair value: Hedging Cash flow Liabilities $m	Total fair value of derivatives Assets $m	Total fair value of derivatives Liabilities $m
Foreign exchange contracts									
Spot and forward contracts	201,577	1,902	(1,948)	–	–	–	–	1,902	(1,948)
Swap agreements	149,823	3,086	(2,292)	112	(64)	–	–	3,198	(2,356)
Futures contracts	187	45	(29)	–	–	–	–	45	(29)
Options purchased	8,782	250	–	–	–	–	–	250	–
Options sold	13,644	–	(193)	–	–	–	–	–	(193)
Collateral	–	(1,279)	571	–	–	–	–	(1,279)	571
	374,013	4,004	(3,891)	112	(64)	–	–	4,116	(3,955)
Commodity contracts									
Derivative contracts	8,074	1,056	(917)	–	–	–	–	1,056	(917)
Interest rate contracts									
Forward rate agreements	85,514	7	(6)	–	–	–	–	7	(6)
Swap agreements	460,101	2,843	(2,992)	121	(106)	194	(45)	3,158	(3,143)
Futures contracts	84,259	248	(241)	–	–	2	(2)	250	(243)
Options purchased	17,863	124	–	–	–	–	–	124	–
Options sold	34,092	–	(100)	–	–	–	–	–	(100)
	681,829	3,222	(3,339)	121	(106)	196	(47)	3,539	(3,492)
Credit contracts									
Credit default swaps	23,940	76	(78)	–	–	–	–	76	(78)
	1,087,856	8,358	(8,225)	233	(170)	196	(47)	8,787	(8,442)

12: Derivative Financial Instruments (continued)

Credit risk on derivative instruments

The credit risk of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligation. Credit risk arises when market movements are such that the derivative has a positive value to the Group. It is the cost of replacing the contract in the event of counterparty default. The Group limits its credit risk within a conservative framework by dealing with creditworthy counterparties, setting credit limits on exposures to counterparties, and obtaining collateral where appropriate.

The Group further restricts its exposure to credit losses by entering into master agreements with counterparties with which it undertakes a significant volume of transactions. The use of a master agreement does not generally result in an offset of balance sheet assets and liabilities. However, the credit risk is reduced by a master agreement to the extent that if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Despite this, as a result of the number of transactions that are usually subject to such master agreements, the Group's overall exposure to credit risk on derivative instruments can change substantially within a short period.

Hedging Relationships

There are three types of allowable hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Each has specific requirements when accounting for the fair value changes in the hedging relationship. For details on the accounting treatment of each type of hedging relationship refer to Note 1 (viii).

Fair value hedges

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If a hedging relationship is terminated, the fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as 'other income' as a part of the gain or loss on disposal.

Cash flow hedges

The risk being hedged in a cash flow hedge is the potential volatility in future cash flows that may affect the income statement. Volatility in the future cash flows may result from changes in interest rates or changes in exchange rates arising from recognised financial assets and liabilities and highly probable forecast transactions. The Group's cash flow hedges consist principally of interest rate swaps, forward rate agreements and foreign currency swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The Group primarily applies cash flow hedge accounting to its variable rate loan assets, variable rate liabilities and short term re-issuances of fixed rate customer and wholesale deposit liabilities. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is deferred to the hedging reserve which forms part of shareholders' equity. Amounts deferred in equity are recognised in the income statement in the period during which the hedged forecast transactions take place and is fully amortised when the hedging relationship matures. The schedule below shows the movements in the hedging reserve:

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Balance at start of year	227	n/a	40	n/a
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139	–	162	–	11
Adjustment on adoption of AASB 2005–1[1]	(141)	–	–	–
Restated balance at start of year	86	162	40	11
Items recorded in the income statement	(10)	(81)	–	(10)
Tax effect of items recorded in the income statement	3	25	–	3
Valuation gain taken to equity	106	179	57	53
Tax effect of net gain on cash flow hedges	(32)	(58)	(17)	(17)
Closing Balance	153	227	80	40

1 All NZD revenue related cash flow hedging was de-designated at 30 September 2006. The amount deferred in the hedging reserve was transferred to retained earnings at 1 October 2006 on adoption of AASB 2005-1.

12: Derivative Financial Instruments (continued)

The table below shows the breakdown of the hedging reserve attributable to each type cash flow hedging relationship:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Variable rate loan assets	(64)	(8)	(53)	(15)
Variable rate liabilities	135	59	79	33
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	82	35	54	22
NZD revenue related cash flow hedges[1]	–	141	–	–
Total hedging reserve	153	227	80	40

1 All NZD revenue related cash flow hedging was de-designated at 30 September 2006. The amount deferred in the hedging reserve was transferred to retained earnings at 1 October 2006 on adoption of AASB 2005-1.

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0–10 years (2006: 0–10 years).

The mechanics of hedge accounting results in the gain (or loss) in the hedging reserve above being released into the income statement at the same time that the corresponding loss (or gain) attributable to the hedged item impacts the income statement. It will not necessarily be released to the income statement uniformly over the period of the hedging relationship as the fair value of the derivative is driven by changes in market rates over the term of the instrument. As market rates do not always move uniformly across all time periods, a change in market rates may drive more value in one forecast period than another, which impacts when the hedging reserve is released to the income statement.

Net investment hedges (consolidated)

In a hedge of a net investment in a foreign operation, the risk being hedged is the exposure to exchange differences arising on consolidation of foreign operations with a functional currency other than the Australian Dollar. Hedging is undertaken using forward foreign exchange contracts or by financing with borrowings in the same currency as the foreign functional currency involved.

Concentrations of Credit Risk

Concentrations of credit risk exist for groups of counterparties when they have similar economic characteristics. Major concentrations of credit risk arise by location and type of customer.

The following table shows the concentrations of credit risk, by class of counterparty and by geographic location, measured by credit equivalent amount.

Approximately 67% (2006: 72%) of the Group's exposures are with counterparties which are either Australian banks or banks based in other OECD countries.

Consolidated at 30 September 2007	OECD governments $m	Australian and OECD banks $m	Corporations, non-OECD banks and others $m	Total credit equivalent amount $m
Australia	567	14,227	7,535	22,329
New Zealand	80	4,465	994	5,539
Overseas Markets	41	968	357	1,366
	688	19,660	8,886	29,234

Consolidated at 30 September 2006	OECD governments $m	Australian and OECD banks $m	Corporations, non-OECD banks and others $m	Total credit equivalent amount $m
Australia	133	10,099	3,900	14,132
New Zealand	57	2,134	736	2,927
Overseas Markets	19	912	359	1,290
	209	13,145	4,995	18,349

13: Available-for-sale Assets

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Available-for-sale assets are allocated between Australia, New Zealand and Overseas Markets based on the domicile of the issuer				
Listed – Australia				
Other securities and equity investments	6	6	6	6
	6	6	6	6
Listed – Overseas Markets				
Other government securities	208	102	208	102
Other securities and equity investments	2,986	2,198	2,595	2,198
	3,194	2,300	2,803	2,300
Total listed	3,200	2,306	2,809	2,306
Unlisted – Australia				
Local and semi-government securities	1,791	1,908	1,791	1,908
Other securities and equity investments	7,126	2,971	5,932	2,421
Loans and advances	704	1,946	704	1,946
	9,621	6,825	8,427	6,275
Unlisted – New Zealand				
New Zealand government securities	4	285	–	–
Other securities and equity investments	37	29	–	–
	41	314	–	–
Unlisted – Overseas Markets				
Other government securities	648	532	73	71
Other securities and equity investments	496	676	74	5
	1,144	1,208	147	76
Total unlisted	10,806	8,347	8,574	6,351
Total available-for-sale assets	14,006	10,653	11,383	8,657

No impairment loss was recognised or reversed in the Income Statement.

13: Available-for-sale Assets (continued)

Available-for-sale assets by maturities and yields

Based on remaining term to maturity at 30 September 2007

	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Australia							
Local and semi-government securities	1,791	–	–	–	–	–	1,791
Other securities and equity investments	5,702	–	1,022	–	289	119	7,132
Loans and advances	263	22	419	–	–	–	704
	7,756	22	1,441	–	289	119	9,627
Overseas							
New Zealand government securities	1	–	3	–	–	–	4
Other government securities	616	186	17	–	–	37	856
Other securities and equity investments	180	577	2,074	356	1	331	3,519
	797	763	2,094	356	1	368	4,379
Total	8,553	785	3,535	356	290	487	14,006

Weighted average yields[1]

	Less than 1 year %	Between 1 year and 5 years %	Between 5 years and 10 years %	After 10 years %
Australia				
Local and semi-government securities	6.38	–	–	–
Other securities and equity investments	6.80	6.77	–	7.11
Loans and advances	7.84	7.23	–	–
Overseas				
New Zealand government securities	8.17	7.20	–	–
Other government securities	5.08	4.69	–	–
Other securities and equity investments	5.37	5.59	5.76	2.76

1 Based on effective yields for loans and advances, fixed interest and discounted securities and dividend yield for equity investments at 30 September 2007.

13: Available-for-sale Assets (continued)

Available-for-sale assets by maturities and yields

Based on remaining term to maturity at 30 September 2006

	Less than 3 months $m	Between 3 months and 12 months $m	Between 1 year and 5 years $m	Between 5 years and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Australia							
Local and semi-government securities	1,224	684	–	–	–	–	1,908
Other securities and equity investments	2,544	–	308	–	107	18	2,977
Loans and advances	1,080	359	507	–	–	–	1,946
	4,848	1,043	815	–	107	18	6,831
Overseas							
New Zealand government securities	273	–	12	–	–	–	285
Other government securities	474	108	51	–	1	–	634
Other securities and equity investments	342	622	1,460	96	336	47	2,903
	1,089	730	1,523	96	337	47	3,822
Total	5,937	1,773	2,338	96	444	65	10,653

Weighted average yields[1]

	Less than 1 year %	Between 1 year and 5 years %	Between 5 years and 10 years %	After 10 years %
Australia				
Local and semi-government securities	6.08	–	–	–
Other securities and equity investments	6.14	6.41	–	8.37
Loans and advances	6.77	6.99	–	–
Overseas				
New Zealand government securities	7.19	6.90	–	–
Other government securities	5.20	4.20	–	7.50
Other securities and equity investments	3.94	5.18	4.86	4.54

1 Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2006.

14: Net Loans and Advances

Loans and advances are classified between Australia, New Zealand and Overseas markets based on the domicile of the lending point

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia				
Overdrafts	7,464	6,237	7,464	6,237
Credit card outstandings	6,641	6,190	6,641	6,190
Term loans – housing	113,994	101,945	113,201	100,874
Term loans – non-housing	64,260	53,905	60,149	49,774
Hire purchase	9,824	9,081	1,196	1,046
Lease receivables (refer below)	1,813	2,378	857	804
Other	852	864	827	731
	204,848	180,600	190,335	165,656
New Zealand				
Overdrafts	1,728	1,666	–	–
Credit card outstandings	1,149	1,081	–	–
Term loans – housing	42,350	37,845	–	–
Term loans – non-housing	29,672	26,979	–	–
Hire purchase	431	426	–	–
Lease receivables (refer below)	215	421	–	–
Other	447	511	–	–
	75,992	68,929	–	–
Overseas Markets				
Overdrafts	532	518	371	333
Credit card outstandings	201	198	8	8
Term loans – housing	1,040	766	749	599
Term loans – non-housing	9,699	8,347	8,493	7,160
Lease receivables (refer below)	186	179	116	112
Commercial bills	349	192	349	192
Other	1	2	1	2
	12,008	10,202	10,087	8,406
Total gross loans and advances	292,848	259,731	200,422	174,062
Less: Provision for credit impairment (refer note 16)	(2,294)	(2,226)	(1,631)	(1,566)
Less: Unearned income	(2,278)	(2,122)	(348)	(367)
Add: Capitalised brokerage/mortgage origination fees	570	539	167	158
	(4,002)	(3,809)	(1,812)	(1,775)
Total net loans and advances	288,846	255,922	198,610	172,287
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	571	512	176	115
1 to 5 years	1,131	1,381	617	615
Later than 5 years	208	255	179	186
Less: unearned future finance income on finance leases	(238)	(382)	(121)	(189)
Net investment in finance lease receivables	1,672	1,766	851	727
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	179	411	–	–
1 to 5 years	124	398	1	–
Later than 5 years	1	21	–	–
	304	830	1	–
Total lease receivables	1,976	2,596	852	727
Present value of net investment in finance lease receivables				
Less than 1 year	567	516	167	55
1 to 5 years	1,075	1,172	553	512
Later than 5 years	185	188	157	158
	1,827	1,876	877	725

15: Impaired Financial Assets

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Summary of impaired financial assets				
Non-performing loans	666	661	491	452
Restructured loans	–	–	–	–
Unproductive facilities	126	37	121	30
Gross impaired financial assets	792	698	612	482
Individual provisions				
Non-performing loans	(260)	(279)	(172)	(179)
Unproductive facilities	(42)	(7)	(42)	(6)
Net impaired financial assets	490	412	398	297
Real estate or other assets acquired through the enforcement of security In the event of customer default, any loan security is usually held as mortgagee in possession and therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security	–	–	–	–
Accruing loans past due 90 days or more[1] These amounts are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held on an accrual basis for up to 180 days past due	561	499	429	381

Interest and other income forgone on impaired financial assets

The following table shows the estimated amount of interest and other income not recognised, net of interest recoveries and unwind of discount, on average impaired financial assets during the period.

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Gross interest and other income receivable on non-performing loans, restructured loans and unproductive facilities				
Australia	40	34	35	29
New Zealand	10	13	–	–
Overseas Markets	8	7	2	2
Total gross interest and other income receivable on non-performing loans, restructured loans and unproductive facilities	58	54	37	31
Interest recognised[2]				
Australia	(23)	(20)	(23)	(20)
New Zealand	(4)	(6)	–	–
Overseas Markets	–	–	–	–
Total interest recognised	(27)	(26)	(23)	(20)
Net interest and other income foregone				
Australia	17	14	12	9
New Zealand	6	7	–	–
Overseas Markets	8	7	2	2
Total net interest and other income not recognised	31	28	14	11

1 Includes unsecured credit card and personal loans 90 day past due accounts which are allowed by APRA to be retained on a performing basis for up to 180 days past due amounting to $87 million (2006: $84 million). The remainder of 90 day past due accounts are predominately held on an accrual basis having been assessed as well secured.
2 The impairment loss on a non-performing loan is calculated as the difference between the loan's carrying amount and the estimated future cashflows discounted to their present value. As this discount unwinds during the period it is recognised as interest income. Refer note 1(xi) for explanation on how it arises.

16: Provision for Credit Impairment

Movement in provision for credit impairment

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Collective provision				
Balance at start of year	1,940	2,167	1,381	1,564
Adjustment due to adoption of accounting standard AASB139	–	(288)	–	(238)
Provisions disposed	(4)	–	–	–
Adjustment for exchange rate fluctuations	(27)	(8)	(16)	3
Charge to income statement	83	69	52	52
Total collective provision[1]	1,992	1,940	1,417	1,381
Individual provision				
Balance at start of year	286	273	185	145
Adjustment due to adoption of accounting standard AASB139	–	(1)	–	4
Charge to income statement	484	338	336	226
Adjustment for exchange rate fluctuations	(15)	(4)	(4)	(1)
Discount unwind	(20)	(26)	(17)	(20)
Bad debts written off	(584)	(421)	(401)	(259)
Recoveries of amounts previously written off	151	127	115	90
Total individual provision	302	286	214	185
Total provision for credit impairment	**2,294**	**2,226**	**1,631**	**1,566**

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Provision movement analysis				
New and increased provisions				
Australia	632	508	530	417
New Zealand	81	81	–	–
Asia	31	24	1	–
Other overseas markets	12	5	8	2
	756	618	539	419
Provision releases	(121)	(153)	(88)	(103)
	635	465	451	316
Recoveries of amounts previously written off	(151)	(127)	(115)	(90)
Individual provision charge	484	338	336	226
Collective provision charge	83	69	52	52
Charge to income statement	**567**	**407**	**388**	**278**
Ratios	%	%	%	%
Provisions[2] as a % of total advances				
Individual	0.1	0.1	0.1	0.1
Collective	0.7	0.7	0.7	0.7
Provisions[2] as a % of risk weighted assets				
Individual	0.1	0.1	0.1	0.1
Collective	0.7	0.8	0.7	0.8
Bad debts written off as a % of total advances	0.2	0.2	0.2	0.1

1 The collective provision includes amounts for off balance sheet credit exposures, $261 million at September 2007 (2006: $260 million). The impact to the income statement for the year ended 30 September 2007 relating to off balance sheet credit exposures was $8 million charge (2006: $5 million charge).
2 Excludes provisions for unproductive facilities.

17: Regulatory Deposits

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Overseas central banks	235	205	148	132
Maturity:				
Less than 90 days	96	70	85	61
After 5 years	139	135	63	71
	235	205	148	132

18: Shares in Controlled Entities, Associates and Joint Venture Entities

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Total shares in controlled entities	–	–	8,405	11,424
Total shares in associates[1] (refer note 41)	1,749	592	582	307
Total shares in joint venture entities[2] (refer note 42)	1,681	1,608	–	–
Total shares in controlled entities, associates and joint venture entities	3,430	2,200	8,987	11,731

1 Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity
2 Investments in joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity

ACQUISITIONS OF CONTROLLED ENTITIES

On 23 February 2007, the Group obtained control of Stadium Australia Group, which owns the long-term leasehold of the Telstra Stadium in Sydney. Prior to this, the Group was a sole senior lender to, and a holder of convertible notes and stapled securities issued by Stadium Australia Group.

Stadium Australia Group contributed revenues of $35 million and net profit of $6 million to the Group for the period from 1 March 2007 to 30 September 2007. If the acquisition had occurred on 1 October 2006, consolidated revenue and consolidated profit for the year ended 30 September 2007 would have been $53 million and $9 million respectively.

On 24 April 2007, the Group obtained a controlling interest in ETRADE Australia Limited (ETrade Australia), an online stockbroker. The Group has since obtained 100% ownership of the shares in ETrade Australia. Prior to this, the Group held a stake in the entity and accounted for it as an associate, applying the equity method of accounting.

ETrade Australia contributed revenues of $37 million and net profit of $9 million to the Group for the period from 1 May 2007 to 30 September 2007. If the acquisition had occurred on 1 October 2006, consolidated revenue and consolidated profit for the year ended 30 September 2007 would have been $95 million and $19 million respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the impact as if the fair value adjustments had applied from 1 October 2006 less the amount of the share of the associate's earnings actually recognised by the Group, together with the consequential tax effects.

In addition, the Group and the Company obtained controlling stakes in the following entities:

- Citizens Security Bank (CSB) – CSB is a community bank operating in Guam. In July 2007, the Group acquired 100% of CSB for $28 million.
- ANZ Vientiane Commercial Bank (VCB) – VCB is a commercial bank operating in Laos. In September 2007, the Group acquired 60% of VCB for $12 million.
- Rabinov Property Management Limited (Rabinov) – Rabinov is the manager and responsible entity of a listed diversified property trust.

18: Shares in Controlled Entities, Associates and Joint Venture Entities (continued)

The Company's investments in ETrade Australia, CSB, VCB and Rabinov are carried at cost. The Company, therefore, does not recognise goodwill separately.

Details of aggregate assets and liabilities of controlled entities acquired by the Group (Stadium Australia Group, ETrade Australia, CSB, VCB and Rabinov) and cost of acquisitions, for the purposes of measuring goodwill on acquisitions of controlled entities are as follows:

	Consolidated	
	Acquiree's carrying amount $m	Fair value $m
Liquid assets and due from other financial institutions	131	131
Financial assets – trading and available-for-sale	335	335
Net loans and advances	106	106
Premises and equipment	162	217
Deferred tax assets	-	6
Intangible assets[1]	56	57
Other assets	41	41
Due to other financial institutions	(2)	(4)
Deposits and other borrowings[2]	(456)	(240)
Payables and other liabilities	(331)	(348)
Provisions and contingent liabilities	(2)	(2)
Deferred tax liabilities	(7)	(17)
Net assets	33	282
Interest previously held		(23)
Minority interests		(5)
Net identifiable assets acquired		254
Cost of acquisition		
Cash paid		252
Equity instruments issued as purchase consideration		99
Loan receivable or other instruments existing on date of acquisition		179
Direct costs relating to acquisitions		6
Total cost of acquisitions		536
Goodwill		282

1 Fair value excludes $31 million of previously recognised goodwill of the acquiree, now included in total goodwill.
2 Included in deposits and other borrowings of acquiree were loans payable and other debt instruments held by the Group prior to acquisition. On acquisition these instruments are no longer financial assets of the Group. They are treated as a cost of acquisition.

The fair value of assets and liabilities acquired are based on discounted cash flow models. No restructuring provisions were created. The acquired entities did not have significant contingent liabilities.

Of the total amount of goodwill on acquisition of $282 million recognised by the Group, $264 million relates to ETrade Australia.

Net cash consideration paid in acquisitions was as follows:

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Cash consideration paid and direct costs relating to acquisitions	258	–	229	–
Less: Balances acquired of cash and equivalents	(55)	–	(52)	–
Outflow of cash to acquire subsidiaries, net of cash acquired	203	–	177	–

There were no material controlled entities acquired during the year ended 30 September 2006.

18: Shares in Controlled Entities, Associates and Joint Venture Entities (continued)

DISPOSAL OF CONTROLLED ENTITIES

On 31 October 2006, Fleet Partners Pty Limited and Truck Leasing Limited were sold. The gain before tax on disposal was $195 million (tax expense: nil). Net tangible assets on disposal were $144 million.

Details of aggregate assets and liabilities of controlled entities disposed by the Group are as follows (the Company: nil):

	Carrying amount $m
Net loans and advances	1,420
Premises and equipment	2
Other assets, including allocated goodwill	25
Deposits and other borrowings	(1,239)
Payables and other liabilities	(63)
Provision for long-term employee benefits	(1)
Net assets disposed	144
Cash consideration received	377
Provisions for warranties and indemnities	(38)
Gain on disposal	195

Net proceeds received resulting in cash inflow for the Group was as follows:

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Cash consideration received and direct costs relating to acquisitions	377	–	–	–
Less: Balances of disposed cash and equivalents	–	–	–	–
Inflow of cash from disposals, net of cash disposed	377	–	–	–

There were no material controlled entities disposed of during the year ended 30 September 2006.

19: Deferred Tax Assets

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Deferred tax assets recognised in profit and loss				
Collective provision for impaired loans and advances	600	596	429	417
Deferred fee revenue	73	92	55	70
Provision for employee entitlements	119	107	86	75
Other provisions	277	270	198	182
Other	126	247	9	56
	1,195	1,312	777	800
Deferred tax assets recognised directly in equity				
Defined benefit obligations	19	67	21	66
Available-for-sale revaluation reserve	–	2	–	1
Foreign currency translation reserve	–	3	–	–
	19	72	21	67
Set-off of deferred tax assets pursant to set-off provisions[1]	(1,101)	(1,131)	(711)	(732)
Net deferred tax assets	113	253	87	135
Movements				
Restated balance 1 October	1,384	1,389	867	806
Change on adoption of AIFRS	–	64	–	41
Movements in temporary differences during the year	(170)	(69)	(69)	20
Balance prior to set-off of deferred tax assets pursuant to set-off provisions[1]	1,214	1,384	798	867
Set-off of deferred tax assets pursuant to set-off provisions[1]	(1,101)	(1,131)	(711)	(732)
Closing balance at 30 September	113	253	87	135
Deferred tax assets by geography				
Australia	2	4	9	–
New Zealand	6	85	–	–
Overseas Markets	105	164	78	135
Net deferred tax assets	113	253	87	135

Unrecognised deferred tax assets

The following deferred tax assets will only be recognised if:

- assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Unused realised tax losses (on revenue account)	17	20	7	9
Unused realised capital losses	–	63	–	63
Total unrecognised deferred tax assets	17	83	7	72

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

20: Goodwill and Other Intangible Assets

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Goodwill				
Gross carrying amount				
Balance at start of year	2,900	3,015	–	–
Additions through business combinations	282	2	–	–
Derecognised on disposal	(6)	–	–	–
Foreign currency exchange differences	(50)	(117)	–	–
Balance at end of year[1]	3,126	2,900	–	–
Software and other intangible assets				
Gross carrying amount				
Balance at start of year	987	898	888	808
Impact of adoption of AIFRS: AASB139	–	(38)	–	(38)
Additions	2	2	2	2
Additions from internal developments	202	135	188	128
Additions through business combinations	55	–	33	–
Foreign currency exchange differences	(1)	(3)	(1)	–
Impairment	(23)	(7)	(23)	(12)
Balance at end of year	1,222	987	1,087	888
Accumulated amortisation and impairment				
Balance at start of year	550	455	469	386
Impact of adoption of AIFRS: AASB139	–	(23)	–	(23)
Amortisation expense[2] (refer note 4)	128	117	113	103
Foreign currency exchange differences	(1)	(1)	–	–
Impairment	(6)	2	(6)	3
Balance at end of year	671	550	576	469
Net book value				
Balance at start of year	437	443	419	422
Balance at end of year	551	437	511	419
Goodwill, software and other intangible assets				
Net book value				
Balance at start of the year	3,337	3,458	419	422
Balance at end of the year[1]	3,677	3,337	511	419

1 Excludes notional goodwill in equity accounted entities.
2 Comprises software amortisation expense of $122 million (September 2006: $114 million) and amortisation of other intangible assets $6 million (September 2006: $3 million). The Company comprises software amortisation expense of $109 million (September 2006: $100 million) and amortisation of other intangible assets $4 million (September 2006: $3 million).

Goodwill allocated to cash-generating units

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003. Discussion of the goodwill and impairment testing for the cash generating unit containing this goodwill is discussed in note 2(iv).

21: Other Assets

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Accrued interest/prepaid discounts	1,626	1,569	1,052	1,088
Accrued commission	124	102	111	74
Defined benefit superannuation plan surplus (see note 46)	7	5	–	–
Prepaid expenses	97	69	41	30
Issued securities settlements	671	1,377	550	1,074
Operating leases residual value	201	799	–	3
Capitalised expenses	31	31	31	31
Other	1,089	547	351	258
Total other assets	3,846	4,499	2,136	2,558

22: Premises and Equipment

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Freehold and leasehold land and buildings				
At cost	838	632	95	80
Depreciation	(204)	(195)	(37)	(36)
	634	437	58	44
Leasehold improvements				
At cost	318	253	195	159
Amortisation	(193)	(158)	(106)	(93)
	125	95	89	66
Furniture and equipment				
At cost	843	734	641	538
Depreciation	(503)	(467)	(361)	(332)
	340	267	280	206
Computer equipment				
At cost	949	906	711	674
Depreciation	(720)	(688)	(540)	(505)
	229	218	171	169
Capital works in progress				
At cost	165	92	141	42
Total premises and equipment	1,493	1,109	739	527

22: Premises and Equipment (continued)

Reconciliations of the carrying amounts for each class of premises and equipment are set out below:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Freehold and leasehold land and buildings[1]				
Carrying amount at beginning of year	437	438	44	43
Additions	45	21	21	4
Acquisitions	208	–	–	–
Disposals	(29)	(5)	(1)	–
Depreciation	(22)	(15)	(4)	(2)
Foreign currency exchange difference	(5)	(2)	(2)	(1)
Carrying amount at end of year	634	437	58	44
Leasehold improvements				
Carrying amount at beginning of year	95	90	66	63
Additions	57	26	40	16
Acquisitions	1	–	–	–
Disposals	(4)	(5)	(1)	(5)
Amortisation	(22)	(18)	(16)	(12)
Foreign currency exchange difference	(2)	2	–	4
Carrying amount at end of year	125	95	89	66
Furniture and equipment				
Carrying amount at beginning of year	267	246	206	191
Additions	138	72	121	53
Acquisitions	4	–	4	–
Disposals	(10)	(3)	(7)	(2)
Depreciation	(57)	(48)	(44)	(36)
Foreign currency exchange difference	(2)	–	–	–
Carrying amount at end of year	340	267	280	206
Computer equipment				
Carrying amount at beginning of year	218	224	169	171
Additions	100	95	66	73
Acquisitions	4	–	4	–
Disposals	(4)	(6)	(3)	(5)
Depreciation	(86)	(94)	(65)	(70)
Foreign currency exchange difference	(3)	(1)	–	–
Carrying amount at end of year	229	218	171	169
Capital works in progress				
Carrying amount at beginning of year	92	56	42	27
Net additions	73	36	99	15
Carrying amount at end of year	165	92	141	42
Total premises and equipment	1,493	1,109	739	527

1 Includes integrals.

23: Due to Other Financial Institutions

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia	6,970	6,656	4,980	6,654
New Zealand	1,744	2,448	–	–
Overseas Markets	9,272	5,014	9,130	4,998
Total due to other financial institutions	17,986	14,118	14,110	11,652

24: Deposits and Other Borrowings

Deposits and other borrowings are classified between Australia, New Zealand and Overseas Markets based on the location of the deposit taking point.

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia				
Certificates of deposit	23,807	16,650	23,807	16,650
Term deposits	32,417	26,219	33,530	27,206
Other deposits bearing interest	76,141	61,245	76,141	61,245
Deposits not bearing interest	4,825	4,749	4,825	4,749
Commercial paper	8,912	8,092	5,647	3,842
Borrowing corporations' debt[1]	8,575	8,843	–	–
Other borrowings	537	458	511	458
	155,214	126,256	144,461	114,150
New Zealand				
Certificates of deposit	3,819	3,428	–	–
Term deposits	24,906	22,812	–	–
Other deposits bearing interest	17,793	17,467	–	–
Deposits not bearing interest	4,092	3,605	–	–
Commercial paper	8,002	6,028	–	–
Borrowing corporations' debt[2]	1,534	1,813	–	–
	60,146	55,153	–	–
Overseas Markets				
Certificates of deposit	4,277	3,170	4,142	3,117
Term deposits	12,277	10,329	10,906	9,165
Other deposits bearing interest	1,604	1,538	915	1,062
Deposits not bearing interest	1,226	1,182	737	788
Commercial paper	–	6,630	–	–
Other borrowings	129	536	34	39
	19,513	23,385	16,734	14,171
Total deposits and other borrowings	234,873	204,794	161,195	128,321

1 Included in this balance is debenture stock of controlled entities. $8 billion of debenture stock of the consolidated subsidiary company Esanda Finance Corporation Limited (Esanda), together with accrued interest thereon, is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entity other than land and buildings ($13.6 billion). All controlled entities of Esanda (except for some controlled entities which have been placed or are expected to be placed in voluntary de-registration and have minimal book value) have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda. The only loans pledged as collateral are those in Esanda and its subsidiaries.

2 This balance represents NZD1.8 billion of secured debenture stock of the consolidated subsidiary UDC Finance Limited (UDC) and the accrued interest thereon which are secured by a floating charge over all tangible assets of UDC and its subsidiaries (NZD2.1 billion).

25: Income Tax Liabilities

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Australia				
Current tax payable	615	700	610	698
Deferred tax liabilities	20	155	–	180
	635	855	610	878
New Zealand				
Current tax payable	(160)	(163)	–	–
Deferred tax liabilities	–	–	–	–
	(160)	(163)	–	–
Overseas Markets				
Current tax payable	13	32	(23)	3
Deferred tax liabilities	115	98	103	87
	128	130	80	90
Total current and deferred income tax liability	603	822	690	968
Total current tax payable	468	569	587	701
Deferred tax liabilities recognised in profit and loss				
Lease Finance	217	252	80	82
Treasury instruments	148	385	157	388
Capitalised expenses	130	131	46	44
Other	609	576	452	465
	1,104	1,344	735	979
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	66	40	34	20
Foreign currency translation reserve	21	–	–	–
Available-for-sale revaluation reserve	45	–	45	–
	132	40	79	20
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	(1,101)	(1,131)	(711)	(732)
Net deferred tax liability	135	253	103	267
Movements				
Restated balance at 1 October	1,384	1,602	999	1,211
Change on adoption of AIFRS	–	25	–	(49)
Movements in temporary differences during the year	(148)	(243)	(185)	(163)
Balance prior to set-off of deferred tax liabilities pursuant to set-off provisions[1]	1,236	1,384	814	999
Set-off of deferred tax liabilities pursuant to set-off provisions[1]	(1,101)	(1,131)	(711)	(732)
Closing Balance at 30 September	135	253	103	267
Unrecognised deferred tax liabilities[2]				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences	46	33	–	–
Total unrecognised deferred tax liabilities	46	33	–	–

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.
2 Represents additional potential foreign tax costs should all retained earnings in offshore subsidiaries be repatriated.

26: Payables and Other Liabilities

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Creditors	5,021	4,282	4,431	4,030
Accrued interest and unearned discounts	2,809	2,488	2,001	1,832
Defined benefit plan obligations (see note 46)	75	229	75	229
Accrued charges	619	604	413	392
Security settlements	590	1,236	588	1,104
Other liabilities	1,393	1,840	879	1,236
Total payables and other liabilities	10,507	10,679	8,387	8,823

27: Provisions

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Employee entitlements[1]	400	366	299	267
Restructuring costs and surplus leased space[2]	37	74	32	61
Non-lending losses, frauds and forgeries[3]	186	187	138	125
Other[4]	398	330	241	235
Total provisions	1,021	957	710	688

Reconciliations of the carrying amounts of each class of provision, except for employee entitlements, are set out below:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Restructuring costs and surplus leased space[2]				
Carrying amount at beginning of the year	74	77	61	57
Provision made during the year	43	51	40	41
Payments made during the year	(44)	(43)	(34)	(33)
Transfer/release of provision	(36)	(10)	(35)	(4)
Adjustment for exchange rate fluctuations	–	(1)	–	–
Carrying amount at the end of the year	37	74	32	61
Non-lending losses, frauds and forgeries[3]				
Carrying amount at beginning of the year	187	184	125	136
Provision made during the year	79	52	69	17
Transfer of provision	(14)	(19)	(16)	(3)
Release of provision	(66)	(30)	(40)	(25)
Carrying amount at the end of the year	186	187	138	125
Other provisions[4]				
Carrying amount at beginning of the year	330	293	235	197
Provision made during the year	335	235	253	197
Payments made during the year	(204)	(161)	(197)	(137)
Transfer/release of provision	(63)	(37)	(50)	(23)
Adjustment for exchange rate fluctuations	–	–	–	1
Carrying amount at the end of the year	398	330	241	235

1 The aggregate liability for employee benefits largely comprises employee entitlements provisions for annual leave and long service leave.
2 Restructuring costs and surplus leased space provisions arise from exit activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and includes termination benefits. Costs related to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated.
3 Non-lending losses, frauds and forgeries provisions arise from inadequate or failed internal processes and systems, or from external events.
4 Other provisions comprise various other provisions including loyalty programs, workers' compensation and make-good provisions on leased premises.

28: Bonds and Notes

		Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Bonds and notes by currency					
USD	United States dollars	20,306	16,957	14,570	11,004
GBP	Great British pounds	7,963	6,528	6,264	5,423
AUD	Australian dollars	1,300	1,371	1,300	1,371
NZD	New Zealand dollars	1,546	1,350	379	303
JPY	Japanese yen	1,395	787	1,307	685
EUR	Euro	13,664	14,821	11,816	13,337
HKD	Hong Kong dollars	3,301	3,153	2,921	2,633
CHF	Swiss francs	2,562	2,216	2,562	2,216
CAD	Canadian dollars	1,911	2,631	1,911	2,631
NOK	Norwegian krone	-	85	-	85
SGD	Singapore dollars	51	73	51	73
CZK	Czech koruna	76	78	76	78
Total bonds and notes		54,075	50,050	43,157	39,839

29: Loan Capital

			Interest rate %	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Hybrid loan capital (subordinated)							
ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)[1]			BBSW + 1.00	1,000	1,000	1,000	1,000
US Trust Securities							
USD 350m non-cumulative trust securities due 2053			4.484	397	468	397	468
USD 750m non-cumulative trust securities due 2053			5.36	851	1,003	851	1,003
UK Stapled Securities			6.54	1,033	–	1,033	–
				3,281	2,471	3,281	2,471
Perpetual subordinated notes							
USD	300m	floating rate notes	LIBOR + 0.15	340	401	340	401
AUD	350m	floating rate notes	BBSW + floating margin	350	–	350	–
				690	401	690	401
Subordinated notes[4]							
USD	1.8m	floating rate notes due 2007	LIBOR + 0.50	2	6	2	6
JPY	192.8m	floating rate notes due 2007	LIBOR + 0.50	2	3	2	3
USD	4.1m	floating rate notes due 2008	LIBOR + 0.50	5	8	5	8
JPY	236.2m	floating rate notes due 2008	LIBOR + 0.55	2	5	2	5
USD	79m	floating rate notes due 2008	LIBOR + 0.53	90	106	90	106
AUD	400m	floating rate notes due 2010	BBSW + 0.29	400	400	400	400
AUD	400m	fixed notes due 2012[3]	6.75	–	400	–	400
AUD	100m	floating rate notes due 2012[2]	BBSW + 0.57	–	100	–	100
NZD	300m	fixed notes due 2012[2]	7.04	–	263	–	–
NZD	125m	fixed notes due 2012[2]	7.61	–	109	–	–
NZD	125m	fixed notes due 2012[2]	7.40	–	109	–	–
USD	550m	floating rate notes due 2013[2]	LIBOR + 0.55	624	735	624	735
NZD	100m	fixed notes due 2013[2]	6.46	86	88	–	–
EUR	300m	floating rate notes due 2013[2]	EURIBOR + 0.375	482	510	482	510
AUD	380m	floating rate notes due 2014[2]	BBSW + 0.41	380	380	380	380
AUD	350m	fixed notes due 2014[3]	6.50	350	350	350	350
USD	400m	floating rate notes due 2015[2]	LIBOR + 0.20	454	535	454	535
AUD	300m	fixed notes due 2015[3]	6.00	289	295	289	295
GBP	200m	fixed notes due 2015[2]	5.625	452	506	452	506
EUR	500m	fixed notes due 2015[3]	4.45	798	861	798	861
USD	250m	floating rate notes due 2016	LIBOR + 0.21	283	–	283	–
AUD	300m	fixed notes due 2016[3]	6.25	298	298	298	298
AUD	300m	floating rate notes due 2016[2]	BBSW + 0.22	300	300	300	300
GBP	250m	fixed notes due 2016[3]	4.75	552	613	552	613
NZD	350m	fixed notes due 2016[3]	7.16	299	306	–	–
AUD	350m	fixed notes due 2017	6.50	349	–	349	–
AUD	350m	floating rate notes due 2017	BBSW + 0.24	350	–	350	–
AUD	100m	fixed notes due 2017	7.30	100	–	100	–
AUD	100m	floating rate notes due 2017	BBSW + 0.4	100	–	100	–
GBP	175m	fixed notes due 2017	6.38	400	–	400	–
NZD	250m	fixed notes due 2017	7.60	214	–	–	–
NZD	350m	fixed notes due 2017	8.23	299	–	–	–
GBP	400m	fixed notes due 2018[3]	4.75	853	968	853	968
				8,813	8,254	7,915	7,379
Total loan capital				12,784	11,126	11,886	10,251
Loan capital by currency							
AUD	Australian dollars			4,266	3,523	4,266	3,523
NZD	New Zealand dollars			898	875	–	–
USD	United States dollars			3,046	3,262	3,046	3,262
GBP	Great British pounds			3,290	2,087	3,290	2,087
EUR	Euro			1,280	1,371	1,280	1,371
JPY	Japanese yen			4	8	4	8
				12,784	11,126	11,886	10,251

1 On 23 September 2008 the margin of 1.00% can be reduced if the security is not redeemed or converted.
2 Callable five years prior to maturity.
3 Callable five years prior to maturity and reverts to floating rate if not called.
4 Included within the carrying amount are, where appropriate, revaluations of the loan capital associated with fair value hedge accounting or an election to fair value the note through the income statement.

Loan capital is subordinated in right of payment to the claims of depositors and all other creditors of the Company and its controlled entities which have issued the notes. The loan capital, except for the ANZ StEPS, US Trust Securities and UK Stapled Securities constitutes Tier 2 capital as defined by APRA for capital adequacy purposes. ANZ StEPS and US Trust Securities constitute Tier 1 capital, as defined by APRA, for capital adequacy purposes. UK Stapled Securities constitutes non-innovative Tier 1 capital, as defined by APRA, for capital adequacy purposes.

29: Loan Capital (continued)

ANZ STAPLED EXCHANGEABLE PREFERRED SECURITIES (ANZ STEPS)

On 23 September 2003, the Company issued 10 million ANZ StEPS at $100 each pursuant to a prospectus dated 14 August 2003 raising $1 billion (excluding issue costs of $13 million: net raising $987 million). ANZ StEPS comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Holdings (New Zealand) Limited, a New Zealand subsidiary of the Company) stapled to a fully paid $100 preference share (issued by the Company).

Distributions on ANZ StEPS are non-cumulative and are payable quarterly in arrears based upon a floating distribution rate equal to the 90 day bank bill rate plus a 100 basis point margin. At each payment date the 90 day bank bill rate is reset for the next quarter. Distributions are subject to certain payment tests (i.e. APRA requirements and distributable profits being available) and the basis for their calculation may change on any reset date. Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on ANZ StEPS, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

On any reset date, ANZ may change certain terms (subject to certain restrictions) including the next reset date, market reset (from floating rate to a fixed rate, or vice versa), margin and the frequency and timing of the distribution payment dates. The first reset date is 15 September 2008. Holders of ANZ StEPS can require exchange on any reset date or earlier if certain specified events occur. On exchange, a holder will receive (at the Company's discretion) either $100 cash for each ANZ StEPS exchanged or a variable number of ordinary shares calculated in accordance with a conversion ratio based on $100 divided by the market price of ordinary shares at the date of conversion less 2.5%. In certain circumstances, the Company may also require exchange other than on a reset date.

Upon the occurrence of an assignment event, ANZ StEPS becomes unstapled. In this case, the note will be assigned to a subsidiary of the company, however, the holder will retain the preference share and the rights to exchange the preference share.

The preference shares forming part of ANZ StEPS rank equally with the preference shares issued in connection with US Trust Securities, UK Stapled Securities and Euro Trust Securities in all respects. Except in certain limited circumstances, holders of ANZ StEPS do not have any right to vote in general meetings of the Company.

On a winding up of the Company, the rights of ANZ StEPS holders will be determined by the preference share component of ANZ StEPS. Those preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

ANZ StEPS qualify as Innovative Tier 1 capital as defined by APRA.

US TRUST SECURITIES

On 27 November 2003, the Company issued 1.1 million USD non-cumulative Trust Securities ("US Trust Securities") at USD1000 each pursuant to offering memorandum dated 19 November 2003 raising USD1.1 billion. US Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by Samson Funding Limited, a wholly owned NZ subsidiary of the Company) and a fully paid USD1,000 preference share (issued by the Company), which are stapled together and issued as a US Trust Security by ANZ Capital Trust I or ANZ Capital Trust II (the "Trusts"). Investors have the option to redeem the US Trust Security from the Trusts and hold the underlying stapled security.

The issue was made in two tranches:

- USD350 million tranche with a coupon of 4.48% and was issued through ANZ Capital Trust I. After 15 January 2010 and at any coupon date thereafter, ANZ has the discretion to redeem the US Trust Security for cash. If it does not exercise this discretion, the investor is entitled to require ANZ to exchange the US Trust Security into a number of ordinary shares based on the formula in the offering memorandum.
- USD750 million tranche with a coupon of 5.36% and was issued through ANZ Capital Trust II. It has the same conversion features as the USD350 million tranche but from 15 December 2013.

Distributions on US Trust Securities are non-cumulative and are payable half yearly in arrears and are funded by payments received by the respective Trusts on the underlying note. Distributions are subject to certain payment tests (i.e. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on the US Trust Securities, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company's discretion or upon the occurrence of certain other "conversion events", such as the failure of the respective Trust to pay in full a distribution within seven business days of the relevant distribution payment date, the notes that are represented by the relevant US Trust Securities will be automatically assigned to a subsidiary of the Company and the preference shares that are represented by the relevant US Trust Securities will be distributed to investors in redemption of such US Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the US Trust Securities for which the preference shares were distributed. If the US Trust Securities are not redeemed or bought back prior to the 15 December 2053, they will be converted into preference shares, which in turn will be mandatorily converted into a variable number of ordinary shares based upon the formula in the offering memorandum.

The preference shares forming part of the US Trust Securities rank equal to the preference shares issued in connection with the ANZ StEPS, UK Stapled Securities and Euro Trust Securities in all respects. Except in limited circumstances, holders of US Trust Securities do not have any right to vote in general meetings of the Company.

On winding up of the Company, the rights of US Trust Security holders will be determined by the preference share component of US Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The US Trust Securities qualify as Innovative Tier 1 capital as defined by APRA.

29: Loan Capital (continued)

UK STAPLED SECURITIES

On 15 June 2007, the Company issued 9,000 non-cumulative, mandatory convertible stapled securities ("UK Stapled Securities") at £50,000 each pursuant to a prospectus dated 12 June 2007 raising £450 million. UK Stapled Securities comprise two fully paid securities – an interest paying unsecured subordinated £50,000 note issued by the Company through its New York Branch and a £50,000 preference share issued by the Company, which are stapled together.

Distributions on UK Stapled Securities are non-cumulative and are payable half yearly in arrears at a fixed rate of 6.54% (until converted into ordinary shares or the rate is reset as provided in the prospectus). Distributions are subject to certain payment tests (including APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on a preference share while it is stapled to a note. If distributions are not paid on UK Stapled Securities, the Group may not pay dividends or distributions, or return capital, on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company's discretion or upon the occurrence of certain other events, such as the commencement of proceedings for the winding up of the Company, the note component of the UK Stapled Security will be assigned to the Company and the holder will retain only the preference share component of the UK Stapled Security.

On 15 June 2012 ("conversion date"), or an earlier date under certain circumstances, UK Stapled Securities will mandatorily convert into a variable number of ordinary shares in the Company determined in accordance with the formula in the prospectus. The mandatory conversion to ordinary shares is however deferred for five years if the conversion tests set out in the prospectus are not met.

The preference shares forming part of the UK Stapled Securities rank equally with the preference shares issued in connection with ANZ StEPS, US Trust Securities and Euro Trust Securities. Except in limited circumstances, holders of UK Stapled Securities do not have any right to vote in general meetings of the Company.

As noted above, in a winding up of the Company, the note component of the UK Stapled Security will be assigned to the Company and the holder will retain only the preference share component of the UK Stapled Security. Accordingly, the rights of investors in UK Stapled Securities in a winding up of the Company are the rights conferred by the preference share component of UK Stapled Securities. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The UK Stapled Securities qualify as Non-Innovative Tier 1 capital as defined by APRA.

30: Share Capital

Number of issued shares	The Company 2007	The Company 2006
Ordinary shares each fully paid	1,864,678,820	1,836,572,115
Preference shares each fully paid	500,000	500,000
Total number of issued shares	1,865,178,820	1,837,072,115

ORDINARY SHARES

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of the shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

Number of issued shares	The Company 2007	The Company 2006
Balance at start of year	1,836,572,115	1,826,449,480
Bonus option plan[1]	1,729,427	1,384,144
Dividend reinvestment plan[1]	15,234,694	6,585,302
ANZ employee share acquisition plan[2]	–	1,590,457
ANZ share option plan[2]	7,840,564	6,654,818
Consideration for purchase of ETrade Australia	3,302,020	–
Share capital buyback	–	(6,092,086)
Balance at end of year	1,864,678,820	1,836,572,115

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Ordinary share capital				
Balance at start of year	8,271	8,053	8,271	8,053
Dividend reinvestment plan[1]	442	165	442	165
ANZ employee share acquisition plan[2]	57	90	57	90
Consideration for purchase of ETrade Australia	99	–	99	–
ANZ share option plan[2]	132	109	132	109
Treasury shares[3]	(55)	–	(55)	–
Share Capital buyback	–	(146)	–	(146)
Balance at end of year	8,946	8,271	8,946	8,271

1 Refer to note 7 for details of plan.
2 Refer to note 47 for details of plan.
3 As at 30 September 2007, there were 1,313,392 treasury shares outstanding.

30: Share Capital (continued)

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, the Company issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1000 each pursuant to the offering circular dated 9 December 2004, raising $871 million (at the spot rate at the date of issue, net of issue costs). Euro Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Jackson Funding PLC, a United Kingdom subsidiary of the Company) and a fully paid, €1000 preference share (issued by the Company), which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III (the Trust). Investors have the option to redeem the Euro Trust Security from the Trust and hold the underlying stapled security.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears and are funded by payments received by the Trust on the underlying note and/or preference share. The distribution is based upon a floating distribution rate equal to the 3 month EURIBOR rate plus a 66 basis point margin up until 15 December 2014, after which date the distribution rate is the 3 month EURIBOR rate plus a 166 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Distributions are subject to certain payment tests (i.e. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference shares while they are stapled to the note, except for the period after 15 December 2014 when the preference share will pay 100 basis points to fund the increase in the margin. If distributions are not paid on Euro Trust Securities, the Group may not pay dividends or distributions, or return capital on ANZ ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time at ANZ's discretion or upon the occurrence of certain other "conversion events", such as the failure of the Trust to pay in full a distribution within seven business days of the relevant distribution payment date or the business day prior to 15 December 2053, the notes that are represented by the relevant Euro Trust Securities will be automatically assigned to a Branch of the Company and the fixed number of preference shares that are represented by the relevant Euro Trust Securities will be distributed to investors in redemption of such Euro Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the Euro Trust Securities for which the preference shares were distributed.

The preference shares forming part of the Euro Trust Security rank equal to the preference shares issued in connection with the ANZ StEPS, US Trust Securities and UK Stapled Securities in all respects. Except in limited circumstances, holders of Euro Trust Securities do not have any right to vote in general meetings of the Company.

On winding up of the Company, the rights of Euro Trust Security holders will be determined by the preference share component of the Euro Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The transaction costs arising on the issue of these instruments were recognised directly in equity as a reduction to the proceeds of the equity instruments to which the costs relate.

Euro Trust Securities qualify as Innovative Tier 1 Capital as defined by APRA.

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Preference share balance at start of year				
- Euro Trust Securities	871	871	871	871
- ANZ StEPS[1]	–	987	–	987
	871	1,858	871	1,858
Less ANZ StEPS securities reclassified under AIFRS[1]	–	(987)	–	(987)
Adjusted preference share balance at start of year	871	871	871	871
Preference share balance at end of year				
- Euro Trust Securities	871	871	871	871

1 Under AIFRS, ANZ StEPS securities are now classified as loan capital (refer note 29).

31: Reserves and Retained Earnings

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
a) Foreign currency translation reserve				
Balance at beginning of year	(646)	(443)	(116)	(213)
Currency translation adjustments, net of hedges after tax	(563)	(203)	(291)	97
Total foreign currency translation reserve	(1,209)	(646)	(407)	(116)
b) Share option reserve[1]				
Balance at beginning of year	63	67	63	67
Share-based payments	7	(3)	7	(3)
Transfer (to) retained earnings[3]	–	(1)	–	(1)
Total share option reserve	70	63	70	63
c) Available-for-sale revaluation reserve				
Balance at start of year	2	n/a	(3)	n/a
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139	–	(10)	–	(11)
Restated balance at beginning of year	2	(10)	(3)	(11)
Valuation gain recognised after tax	109	20	100	15
Cumulative (gain) transferred to the income statement on sale of financial assets	(14)	(8)	(4)	(7)
Total available-for-sale revaluation reserve	97	2	93	(3)
d) Hedging reserve				
Balance at start of year	227	n/a	40	n/a
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139	–	162	–	11
Adjustment on adoption of AASB 2005-1[2]	(141)	–	–	–
Restated balance at beginning of year	86	162	40	11
Gain/(loss) recognised after tax	74	121	40	36
Transfer (to) income statement	(7)	(56)	–	(7)
Total hedging reserve	153	227	80	40
e) General reserve				
Balance at start of year	–	181	–	11
Transfer (to) retained earnings[3]	–	(181)	–	(11)
Total general reserve	–	–	–	–
f) Capital reserve				
Balance at start of year	–	149	–	–
Transfer (to) retained earnings[3]	–	(149)	–	–
Total capital reserve	–	–	–	–
Total reserves	(889)	(354)	(164)	(16)

1 Further information about share based payments to employees is disclosed in note 47 to the financial statements.
2 Under the provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges, effective 1 October 2006 (refer note 1(viii)).
3 The transfer of balances from the share option, general and capital reserves to retained earnings represent items of a distributable nature.

31: Reserves and Retained Earnings (continued)

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Retained earnings				
Restated balance at start of year	11,084	9,646	8,173	7,310
Adjustment on adoption of accounting policies specified by AASB 4, AASB 132 and AASB 139[4]	–	(431)	–	(201)
Adjustment on adoption of AASB 2005-1[2]	141	–	–	–
Restated balance at beginning of year	11,225	9,215	8,173	7,109
Profit attributable to shareholders of the Company	4,180	3,688	3,551	3,174
Transfers from reserves	–	331	–	12
Actuarial gain/(loss) on defined benefit plans after tax[5]	77	(55)	75	(54)
Ordinary share dividends paid	(2,363)	(2,068)	(2,363)	(2,068)
Preference share dividends paid	(37)	(27)	–	–
Retained earnings at end of year	13,082	11,084	9,436	8,173
Total reserves and retained earnings	12,193	10,730	9,272	8,157

1 Further information about share based payments to employees is disclosed in note 47 to the financial statements.
2 Under the provisions of AASB 2005-1, hedge accounting is not available for the NZ revenue hedges, effective 1 October 2006 (refer note 1(viii)).
3 The transfer of balances from the share option, general and capital reserves to retained earnings represent items of a distributable nature.
4 Comprises:
- Remeasurement of the carrying value of the Group's investment in INGA as at 1 October 2005
- Adjustment in respect of hedging derivative financial instruments as at 1 October 2005
- Recognition of the fair value of derivatives relating to securitisation and structured finance transactions as at 1 October 2005
- Deferral of previously recognised fees now treated as an adjustment to yield on 1 October 2005
- Restatement of credit loss provisions to an AIFRS basis.

5 ANZ has taken the option available under AASB 119 to recognise actuarial gains/losses on defined benefit superannuation plans directly in retained profits (refer note 1(xx) and note 46).

a) Foreign currency translation reserve

The translation reserve comprises exchange differences, net of hedges, arising on translation of the financial statements of foreign operations, as described in note 1(iii). When a foreign operation is sold, attributable exchange differences are recognised in the Income Statement.

b) Share option reserve

The share option reserve arises on the grant of share options to selected employees under the ANZ share option plan. Amounts are transferred out of the reserve and into share capital when the options are exercised. Refer to note 1(xx).

c) Available-for-sale revaluation reserve

Changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets are taken to the available-for-sale revaluation reserve. Where a revalued available-for-sale financial asset is sold, that portion of the reserve which relates to that financial asset, is realised and recognised in the Income Statement. Where the available-for-sale financial asset is impaired, that portion of the reserve which relates to that asset is recognised in the Income Statement. Refer to note 1(ix).

d) Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cashflow hedges. The cumulative deferred gain or loss on the hedge is recognised in the Income Statement when the hedged transaction impacts the Income Statement. Refer to note 1(viii).

e) General reserve and f) Capital reserve

The transfer of balances from the general and capital reserves to retained earnings represent items of a distributable nature.

32: Minority Interests

	Consolidated 2007 $m	Consolidated 2006 $m
Share capital	16	14
Retained profits	22	20
Total minority interests	38	34

33: Average Balance Sheet and Related Interest

Averages used in the following table are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Impaired loans are included under the interest earning asset category 'loans and advances'. Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

	2007 Average balance $m	2007 Interest $m	2007 Average rate %	2006 Average balance $m	2006 Interest $m	2006 Average rate %
Interest earning assets						
Due from other financial institutions						
Australia	2,011	113	5.6	1,442	71	4.9
New Zealand	1,598	111	6.9	2,236	146	6.5
Overseas Markets	4,987	264	5.3	4,061	190	4.7
Trading and available-for-sale assets						
Australia	18,164	1,157	6.4	15,957	946	5.9
New Zealand	2,701	212	7.8	2,459	182	7.4
Overseas Markets	3,904	215	5.5	2,883	134	4.6
Loans and advances						
Australia	188,582	14,752	7.8	170,576	12,478	7.3
New Zealand	73,426	6,536	8.9	65,203	5,653	8.7
Overseas Markets	10,387	761	7.3	9,538	671	7.0
Customers' liability for acceptances						
Australia	13,852	1,054	7.6	13,786	958	6.9
Overseas Markets	293	18	6.1	216	11	5.1
Other assets						
Australia	4,794	355	7.4	3,833	317	8.3
New Zealand	5,054	404	8.0	4,361	283	6.5
Overseas Markets	3,608	258	7.2	4,155	261	6.3
Intragroup assets						
Australia	2,910	232	8.0	–	–	–
Overseas Markets	4,043	228	5.6	11,501	559	4.9
	340,314	26,670		312,207	22,860	
Intragroup elimination	(6,953)	(460)		(11,501)	(559)	
	333,361	26,210	7.9	300,706	22,301	7.4
Non-interest earning assets						
Derivative financial instruments						
Australia	12,708			9,600		
New Zealand	3,227			2,593		
Overseas Markets	667			(579)		
Premises and equipment	1,318			1,074		
Other assets	14,319			12,696		
Provision for credit impairment						
Australia	(1,688)			(1,567)		
New Zealand	(412)			(419)		
Overseas Markets	(167)			(191)		
	29,972			23,207		
Total average assets	363,333			323,913		
Total average assets						
Australia	249,686			220,710		
New Zealand	89,969			81,072		
Overseas Markets	30,631			33,632		
	370,286			335,414		
Intragroup elimination	(6,953)			(11,501)		
	363,333			323,913		
% of total average assets attributable to overseas activities	32.1%			31.9%		

33: Average Balance Sheet and Related Interest (continued)

	2007 Average balance $m	2007 Interest $m	2007 Average rate %	2006 Average balance $m	2006 Interest $m	2006 Average rate %
Interest bearing liabilities						
Time deposits						
Australia	49,000	3,071	6.3	42,907	2,445	5.7
New Zealand	28,279	2,096	7.4	26,064	1,822	7.0
Overseas Markets	15,122	781	5.2	13,699	646	4.7
Savings deposits						
Australia	16,536	597	3.6	15,087	480	3.2
New Zealand	2,520	82	3.3	2,981	124	4.2
Overseas Markets	504	4	0.8	566	10	1.8
Other demand deposits						
Australia	47,837	2,466	5.2	38,935	1,751	4.5
New Zealand	15,938	997	6.3	12,452	700	5.6
Overseas Markets	1,166	29	2.5	1,003	22	2.2
Due to other financial institutions						
Australia	6,787	410	6.0	4,151	223	5.4
New Zealand	1,838	105	5.7	1,961	107	5.5
Overseas Markets	6,724	357	5.3	5,965	306	5.1
Commercial paper						
Australia	9,981	636	6.4	10,858	637	5.9
New Zealand	6,566	525	8.0	6,315	470	7.4
Overseas Markets	926	49	5.3	7,373	333	4.5
Borrowing corporations' debt						
Australia	8,752	544	6.2	9,117	522	5.7
New Zealand	1,722	127	7.4	1,863	130	7.0
Liability for acceptances						
Australia	13,852	898	6.5	13,786	799	5.8
Overseas Markets	293	17	5.8	216	10	4.6
Loan capital, bonds and notes						
Australia	55,577	3,651	6.6	45,244	2,677	5.9
New Zealand	11,841	958	8.1	9,293	703	7.6
Overseas Markets	311	19	6.1	135	7	5.2
Other liabilities[1]						
Australia	5,234	355	n/a	5,122	304	n/a
New Zealand	132	96	n/a	149	94	n/a
Overseas Markets	421	38	n/a	510	36	n/a
Intragroup liabilities						
Australia	–	–	–	5,146	169	3.3
New Zealand	6,953	460	6.6	6,355	390	6.1
	314,812	19,368		287,253	15,917	
Intragroup elimination	(6,953)	(460)		(11,501)	(559)	
	307,859	18,908	6.1	275,752	15,358	5.6

1 Includes foreign exchange swap costs.

33: Average Balance Sheet and Related Interest (continued)

	2007 Average balance $m	2006 Average balance $m
Non-interest bearing liabilities		
Deposits		
Australia	4,734	4,412
New Zealand	3,829	3,883
Overseas Markets	1,220	1,123
Derivative financial instruments		
Australia	11,719	8,642
New Zealand	2,882	2,663
Overseas Markets	(494)	(635)
Other liabilities	10,855	9,457
	34,745	29,545
Total average liabilities	342,604	305,297
Total average liabilities		
Australia	237,762	210,364
New Zealand	84,176	75,331
Overseas Markets	27,619	31,103
	349,557	316,798
Intragroup elimination	(6,953)	(11,501)
	342,604	305,297
% of total average liabilities attributable to overseas activities	30.6%	32.8%
Total average shareholders' equity		
Ordinary share capital[1]	19,858	17,745
Preference share capital	871	871
	20,729	18,616
Total average liabilities and shareholders' equity	363,333	323,913

1 Includes reserves and retained earnings.

34: Interest Spreads and Net Interest Average Margins

	2007 $m	2006 $m
Net interest income[1]		
Australia	5,036	4,763
New Zealand	1,817	1,724
Overseas Markets	449	456
	7,302	6,943
Average interest earning assets		
Australia	230,313	205,594
New Zealand	82,779	74,259
Overseas Markets	27,222	32,354
Intragroup elimination	(6,953)	(11,501)
	333,361	300,706
	%	%
Gross earnings rate[2]		
Australia	7.67	7.18
New Zealand	8.77	8.44
Overseas Markets	6.41	5.64
Group	7.86	7.43
Interest spreads and net interest average margins may be analysed as follows		
Australia		
Gross interest spread	1.77	1.94
Interest foregone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.76	1.93
Interest attributable to net non-interest bearing items	0.43	0.39
Net interest average margin – Australia	2.19	2.32
New Zealand		
Gross interest spread	1.60	1.72
Interest foregone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.59	1.71
Interest attributable to net non-interest bearing items	0.61	0.61
Net interest average margin – New Zealand	2.20	2.32
Overseas Markets		
Gross interest spread	1.35	1.02
Interest foregone on impaired assets[3]	(0.03)	(0.02)
Net interest spread	1.32	1.00
Interest attributable to net non-interest bearing items	0.33	0.41
Net interest average margin – Overseas Markets	1.65	1.41
Group		
Gross interest spread	1.73	1.87
Interest foregone on impaired assets[3]	(0.01)	(0.01)
Net interest spread	1.72	1.86
Interest attributable to net non-interest bearing items	0.47	0.45
Net interest average margin – Group	2.19	2.31

1 On a tax equivalent basis.
2 Average interest rate received on interest earning assets. Overseas Markets includes intragroup assets.
3 Refer note 15.

35: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Group's balance sheet. These risks and the Group's policies and objectives for managing such risks are outlined below. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses derivative financial instruments such as foreign exchange contracts, credit contracts and interest rate contracts to hedge certain risk exposures (refer note 12).

CREDIT RISK

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual loan or credit equivalent obligations.

The Group has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

The Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. The credit risks arise not only from traditional lending to Retail, Corporate and Institutional customers, but also from lending for Government, inter-bank, treasury, international trade and capital market activities around the world.

CREDIT RISK MANAGEMENT

The credit risk management framework is in place across the Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objective set by the Board. The framework focuses on policies, people, skills, vision, values, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and asset-writing strategies which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

The Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations, (i.e. interest and capital repayments). Obtaining collateral supports this.

An independent Risk Management function, at Group, Divisional and Business Unit levels, is staffed by risk specialists. In regards to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions and to provide strong support to front line staff in the application of sound credit practices.

In addition to providing independent credit assessment on lending decisions, Risk Management also perform key roles in portfolio management, credit risk measurement system development and validation, loan asset quality reporting, and development of credit standards and policies.

All credit decisions greater than predetermined thresholds require approval from both business writers and independent risk personnel. These credit approval discretions (CADs) are delegated to individuals, at progressively diminishing levels, thus forming a credit approval hierarchy that ensures larger and more complex credits are given greater scrutiny.

CREDIT RISK GOVERNANCE

The authority to make credit decisions is delegated by the Board through the Board Risk Committee to the Credit and Trading Risk Committee (CTC) and Executive Management.

The CTC ensures that the necessary Group Executive judgment and experience is applied to critical credit decisions relating to the Group's larger and higher risk customers.

The CTC is able to make decisions on credit-related submissions (including proposals for new and increased credit limits for customers, annual reviews of existing limits, and new and increased provisions for impaired assets) within the discretions delegated by the Board Risk Committee.

Submissions requiring decisions above these discretion thresholds are recommended for approval by the CTC to the Board Risk Committee.

The CTC comprises senior Risk Executives, senior Executives and Business Unit Managing Directors, and is chaired by the Chief Risk Officer.

The CTC's scope also includes delegated authority for the approval of credit, trading risk and non-traded market risk controls, including portfolio management, risk concentration limits, changes to credit policy, Value-at-Risk (VaR) limits, new products and regulatory compliance.

CREDIT RISK MEASUREMENT

A core component of the Group's credit risk management capability is the risk grading framework used across all major Business Units and geographic areas.

A set of risk grading principles and policies are supported by a complementary risk grading methodology. Pronouncements by the Basel Committee on Banking Supervision have been encapsulated in these principles and policies including governance, validation and modelling requirements.

The Group's risk grade profiles change dynamically through new counterparty acquisitions and/or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

ANZ uses a two-dimensional risk grading system, which measures both the customer's ability to repay (probability of default) and the loss in the event of default (a factor of the security taken to support the facilities). ANZ uses financial and statistical tools to assist in the risk grading of customers. Customer risk grades are reviewed periodically (typically at least annually for large customers) to ensure the risk grade reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed regularly to ensure the tools maintain statistical validity.

To measure the probability of default, ANZ applies a risk grading scale of 0 to 10 to its lending - with ratings 0 through 8 representing productive ratings and ratings of 9 and 10 representing impaired assets. The Institutional Division and the corporate portfolios in New Zealand risk grades of 1 to 8 are further refined by the application of + and - modifiers, making a total of 27 separate risk grades.

35: Financial Risk Management (continued)

To measure the loss in event of default, a scale ranging from A to G is applied. Security Indicator A represents more than 130% security coverage, while Security Indicator G is applied to unsecured customer borrowings. The Institutional Division has four additional security indicators: K - Cash Cover, M - Mezzanine, S – Sovereign and I – Intragroup.

COUNTRY RISK MEASUREMENT

Some customer credit risks involve Country Risk whereby actions or events at a national or international level could disrupt servicing of commitments. Country Risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where ANZ incurs country risk and have a direct bearing on ANZ's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in ANZ's capital pricing model for cross border flows.

The recording of country limits provides the Group with a means to identify and control Country Risk.

Country limits ensure that there is a country-by-country ceiling on exposures that involve Country Risk. They are recorded by time to maturity and purpose of exposure e.g. trade, markets, project finance.

Country limits are managed centrally for the ANZ Group, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its portfolio, largely comprising net loans and advances, customers' liability for acceptances, derivatives and available-for-sale loan assets, to assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management and Business Unit Executives monitor large exposure concentrations. Senior Management is provided each month with a list of ANZ's top Corporate exposures. The CTC (six monthly) and Board Risk Committee (annually) review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

PORTFOLIO STRESS TESTING

Stress testing is integral to strengthening the predictive approach to risk management and is a key component to managing risk appetite, asset writing strategies and business strategies. It creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

ANZ has a dedicated stress testing team within Risk Management that models and reports periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

IMPAIRED ASSETS

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 credit exposures where there is doubt as to whether the full contractual amount (including interest) will be received, and/or where a material credit obligation is 90 days past due but not well secured, or where concessional terms have been provided due to the financial difficulties of the customer.

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 judgement.

In line with accounting standards, credit exposures, including loans and advances and off-balance sheet items, such as commitments and guarantees, are reviewed at least at each reporting date for impairment. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that a loss event or events has (or have) had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated. When ANZ recognises an impairment loss in an individual asset or portfolio of assets, ANZ is recognising that future economic benefits (previously assessed as being available to the entity) are no longer probable.

ANZ's methodology for determining the total provision for loan losses establishes both an individual component for assets that are individually significant (or on a portfolio basis for small value loans) and then a collective component for those exposures not individually known to be impaired. The individual provision represents the results of analysis of individual loans within ANZ's portfolio. ANZ reviews its loan portfolios and monitors adherence to terms, conditions and lending covenants. The reviews undertaken employ a variety of statistical measures and experienced judgement to determine the continuing collectability of credit facilities. When objective evidence arises as to the collectability of a credit facility, the exposure is classified and reported as individually impaired and an individual provision for credit impairment is allocated against it.

Exposures that are assessed collectively are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not yet identified. The collective provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. Historical loss experience is determined using loan and portfolio risk gradings, associated default and loss expectancy rates and an assessment of the emergence period. The historical loss experience may be refined based on current observed default data.

The collective provision is also reviewed to ensure it is adequate for the term of the portfolio.

PORTFOLIO ANALYSIS AND REPORTING

Global credit portfolios are analysed by the Risk Committees, and Senior Business and Board Risk Management. A central risk reporting area produces credit portfolio analysis which is distributed to senior Risk and Business Executives through monthly, half yearly and ad hoc reporting, or as set agenda reports to the various Risk Committees. This area provides an independent mechanism to ensure that significant and emerging credit risks are proactively identified and communicated

35: Financial Risk Management (continued)

to Group, Risk and Business Executives, including the Executive Management and Board Risk Committee.

CREDIT RISK ASSURANCE

The credit risk objectives of the Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations. The integrity of the credit risk function is maintained by the independence of the credit chain and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

ANZ manages its credit risk within a framework by dealing with creditworthy counterparties, setting credit limits on exposures to counterparties, and obtaining collateral where appropriate.

To provide specialist management of problem loans, Portfolio Management departments perform a role as workout specialists for identified sub-standard assets.

The credit risk review function within Group Audit also provides further independent checks and balances as to the quality of credit decisions. This includes providing an independent periodic check on asset quality and compliance with agreed standards and policies across the Group.

COLLATERAL MANAGEMENT

ANZ credit principles specify to only lend what the counterparty has the capacity and ability to repay. Obtaining collateral is used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured. ANZ policy sets out the types of acceptable collateral, including:

- cash;
- mortgages over property;
- charges over business assets, e.g. premises, stock and debtors;
- charges over financial instruments, e.g. debt securities and equities in support of trading facilities; and
- financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession and therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security.

ANZ uses ISDA Master Agreements to document derivatives activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is ANZ's preferred practice to include all products covered by the ISDA in the Credit Support Annex ("CSA"), in order to achieve the objective of further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivatives trades between the two entities, to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

35: Financial Risk Management (continued)

Concentrations of credit risk by industry and geographic analysis:
Based on carrying amount at 30 September 2007 and 30 September 2006

	Net loans and advances		Customers' liabilities		Available-for-sale loans and advances[1]		Total	
Consolidated	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m
Australia								
Agriculture, forestry, fishing and mining	7,618	7,079	1,294	1,116	163	1,030	9,075	9,225
Business service	5,488	4,882	876	687	–	12	6,364	5,581
Construction	4,215	3,757	245	202	110	146	4,570	4,105
Entertainment, leisure and tourism	4,357	4,408	1,041	1,186	98	243	5,496	5,837
Financial, investment and insurance	8,148	4,795	1,079	970	184	132	9,411	5,897
Government and official institutions	67	52	5	7	–	–	72	59
Lease finance	1,813	2,378	–	–	–	–	1,813	2,378
Manufacturing	7,259	7,050	1,547	1,508	22	113	8,828	8,671
Personal[2]	18,377	15,579	332	239	–	–	18,709	15,818
Real estate – commercial[3]	13,718	10,229	4,519	4,108	–	–	18,237	14,337
Real estate – mortgage[4]	112,279	100,362	–	–	–	–	112,279	100,362
Retail and wholesale trade	11,293	10,106	2,053	2,155	–	–	13,346	12,261
Other	10,216	9,923	1,216	1,060	127	270	11,559	11,253
	204,848	180,600	14,207	13,238	704	1,946	219,759	195,784
New Zealand								
Agriculture, forestry, fishing and mining	12,401	11,180	–	–	–	–	12,401	11,180
Business service	1,008	627	–	–	–	–	1,008	627
Construction	656	554	–	–	–	–	656	554
Entertainment, leisure and tourism	780	756	–	–	–	–	780	756
Financial, investment and insurance	2,094	2,573	–	–	–	–	2,094	2,573
Government and official institutions	468	656	–	–	–	–	468	656
Lease finance	215	421	–	–	–	–	215	421
Manufacturing	2,539	1,991	–	–	–	–	2,539	1,991
Personal[2]	2,538	3,041	–	–	–	–	2,538	3,041
Real estate – commercial[3]	6,383	6,368	–	–	–	–	6,383	6,368
Real estate – mortgage[4]	40,389	35,766	–	–	–	–	40,389	35,766
Retail and wholesale trade	2,317	1,540	–	–	–	–	2,317	1,540
Other	4,204	3,456	–	–	–	–	4,204	3,456
	75,992	68,929	–	–	–	–	75,992	68,929
Overseas Markets								
Agriculture, forestry, fishing and mining	879	718	2	9	–	–	881	727
Business service	442	209	–	–	–	–	442	209
Construction	67	73	–	–	–	–	67	73
Entertainment, leisure and tourism	550	681	–	4	–	–	550	685
Financial, investment and insurance	588	536	139	68	–	–	727	604
Government and official institutions	398	237	–	–	–	–	398	237
Lease finance	186	179	–	–	–	–	186	179
Manufacturing	3,566	2,562	78	86	–	–	3,644	2,648
Personal[2]	629	651	–	–	–	–	629	651
Real estate – commercial[3]	422	205	–	–	–	–	422	205
Real estate – mortgage[4]	1,042	881	–	–	–	–	1,042	881
Retail and wholesale trade	1,479	1,137	92	30	–	–	1,571	1,167
Other	1,760	2,133	18	–	–	–	1,778	2,133
	12,008	10,202	329	197	–	–	12,337	10,399
Gross total	292,848	259,731	14,536	13,435	704	1,946	308,088	275,112
Individual provision for credit impairment	(302)	(286)	–	–	–	–	(302)	(286)
Collective provision for credit impairment	(1,992)	(1,940)	–	–	–	–	(1,992)	(1,940)
	(2,294)	(2,226)	–	–	–	–	(2,294)	(2,226)
Income yet to mature	(2,278)	(2,122)	–	–	–	–	(2,278)	(2,122)
Capitalised brokerage/mortgage origination fees	570	539	–	–	–	–	570	539
Net total	288,846	255,922	14,536	13,435	704	1,946	304,086	271,303

1 Available-for-sale loans and advances only includes loan products originated by the Group. Capital Markets products and equity investments are excluded.
2 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
3 Real estate - commercial includes all business lending relating to commercial property.
4 Real estate - mortgage includes all consumer lending secured by a mortgage.

35: Financial Risk Management (continued)

Aggregate concentrations of credit risk by industry analysis[1]

Consolidated	2007 $m	2006 $m
Agriculture, forestry, fishing and mining	22,357	21,132
Business service	7,814	6,417
Construction	5,293	4,732
Entertainment, leisure and tourism	6,826	7,278
Financial, investment and insurance	12,232	9,074
Government and official institutions	938	952
Lease finance	2,214	2,978
Manufacturing	15,011	13,310
Personal[2]	21,876	19,510
Real estate – commercial[3]	25,042	20,910
Real estate – mortgage[4]	153,710	137,009
Retail and wholesale trade	17,234	14,968
Other	17,541	16,842
	308,088	275,112

1 Calculated prior to deduction for provisions and unearned income.
2 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
3 Real Estate commercial includes all business lending relating to commercial property.
4 Real Estate mortgage includes all consumer lending secured by a mortgage.

MARKET RISK

Market risk is the risk to the Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices.

Market risk management and control responsibilities

To facilitate the management, control, measurement and reporting of market risk, ANZ has grouped market risk into two broad categories:

a) Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where ANZ acts as principal with clients or with the market.

The principal risk categories monitored are:

- *Currency risk* is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- *Interest rate risk* is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- *Credit spread risk* is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

b) Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to the Australian dollar denominated value of the Group's capital and earnings as a result of foreign exchange rate movements.

The Board of Directors through the Risk Committee has responsibility for oversight of market risk within the Group. Routine management of market risk is delegated to two senior management committees. The CTC, chaired by the Chief Risk Officer, is responsible for traded market risk, while the Group Asset and Liability Committee (GALCO), chaired by the Chief Financial Officer, is responsible for non-traded market risk (or balance sheet risk).

CTC monitors traded market risk exposures (including Value at Risk and Stress Testing) and is responsible for authorising the trading risk limit framework. In addition, GALCO delegates to CTC responsibility for the monthly monitoring of non-traded market risk exposures. GALCO reviews balance sheet based risk measures and strategies quarterly, or more frequently if required.

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Value at Risk (VaR) measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is 97.5% or 99% probability that the loss will not exceed the VaR estimate on any given day. The 99% confidence level encompasses a wider range of potential outcomes.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (eg. stress testing) and associated detailed control limits to measure and manage market risk.

Traded and non-traded market risks are considered separately below.

Traded Market Risks

Trading activities are focused on customer trading, distribution and underwriting of a range of securities and derivative instruments. The principal activities include foreign exchange, interest rate and debt markets. These activities are managed on a global product basis.

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the Group's principal trading centres.

	As at Sep 2007 $m	High for year Sep 2007 $m	Low for year Sep 2007 $m	Average for year Sep 2007 $m	As at Sep 2006 $m	High for year Sep 2006 $m	Low for year Sep 2006 $m	Average for year Sep 2006 $m
Value at risk at 97.5% confidence								
Foreign exchange	1.2	1.5	0.2	0.6	0.5	1.6	0.3	0.7
Interest rate	1.6	7.6	1.2	2.6	1.7	3.2	0.8	1.8
Credit spread	1.0	1.9	0.7	1.2	1.1	1.7	0.7	1.1
Diversification benefit	(2.1)	n/a	n/a	(1.6)	(1.4)	n/a	n/a	(1.5)
Total VaR	1.7	8.1	1.4	2.8	1.9	3.6	0.9	2.1
Value at risk at 99% confidence								
Foreign exchange	1.8	2.2	0.3	0.8	0.6	2.0	0.3	0.8
Interest rate	2.3	9.8	1.7	3.4	2.0	4.4	1.3	2.4
Credit spread	1.6	3.2	1.1	2.1	2.8	3.6	1.1	2.3
Diversification benefit	(3.0)	n/a	n/a	(2.4)	(2.9)	n/a	n/a	(2.6)
Total VaR	2.7	9.9	1.7	3.9	2.5	4.9	1.2	2.9

VaR is calculated separately for Foreign Exchange/Commodities and for Interest Rate/Debt Markets businesses as well as for the Group. The diversification benefit reflects the historical correlation between Foreign Exchange, Commodity, Interest Rate and Debt Markets.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at a Group level. ANZ's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ.

Non-Traded Market Risks (Balance Sheet Risk)

The principal objectives of balance sheet management are to manage interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Group's capital. Liquidity risk is dealt with in the next section.

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap (refer note 36).

35: Financial Risk Management (continued)

a) VaR Non-Traded Interest Rate Risk

Below are aggregate VaR figures covering non-traded interest rate risk.

	As at Sep 2007 $m	High for year Sep 2007 $m	Low for year Sep 2007 $m	Average year Sep 2007 $m	As at Sep 2006 $m	High for year Sep 2006 $m	Low for year Sep 2006 $m	Average year Sep 2006 $m
Value at risk at 97.5% confidence								
Australia	18.1	19.6	14.0	16.1	12.3	14.8	8.7	11.5
New Zealand	9.3	9.6	5.7	7.5	6.3	7.6	5.7	6.5
Overseas Markets	2.8	3.4	0.9	1.6	1.5	1.7	1.1	1.5
Diversification Benefit	(4.5)	n/a	n/a	(3.4)	(2.4)	n/a	n/a	(3.3)
Total	25.7	26.7	19.0	21.8	17.7	19.3	13.7	16.2

VaR is calculated separately for Australia, New Zealand and Overseas Markets, as well as for the Group.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at Group level. ANZ's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ.

b) Scenario Analysis – A 1% Shock on the Next 12 Months' Net Interest Income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	Consolidated 2007	Consolidated 2006
Impact of 1% Rate Shock		
As at 30 September	0.19%	1.50%
Maximum exposure	1.78%	1.85%
Minimum exposure	0.19%	0.81%
Average exposure (in absolute terms)	1.22%	1.51%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing. For example, when wholesale market rates are anticipating an official rate increase the Group does not reprice certain customer business until the first repricing date after the official rate rise.

The majority of the Group's non-traded interest exposure exists in Australia and New Zealand. In these centres, a separate balance sheet simulation process supplements this static gap information. This allows the net interest income outcomes of a number of different scenarios – with different market interest rate environments and future balance sheet structures – to be identified. This better enables the Group to quantify the interest rate risks associated with the balance sheet and to formulate strategies to manage current and future risk profiles.

Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

The Group's investment of capital in non-Australian operations generates an exposure to changes in the relative value of individual currencies against the Australian Dollar. Variations in the value of these foreign currency investments are reflected in the foreign currency translation reserve.

The Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from non-Australian business units. This risk is routinely monitored and economic hedging is conducted in accordance with policy and where it is likely to add shareholder value.

35: Financial Risk Management (continued)

LIQUIDITY RISK

Liquidity risk is the risk that the Group has insufficient capacity to fund increases in assets, or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt.

The timing mismatch of cashflows and the related liquidity risk is inherent in all banking operations, and may result from internal and/or external events, including: credit or operational risks; bank-specific rumours; market disruptions; or systemic shocks. The following outlines the Group's approach to liquidity and funding risk management. Principles include:

- Ensuring the liquidity management framework is compatible with local regulatory requirements.
- Daily liquidity reporting and scenario analysis to quantify the Group's positions.
- Monitoring wholesale and customer liability composition (via funding metrics).
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against short-term adverse conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Supervision and Regulation

APRA supervises prudential standards for managing liquidity risk and has adopted guidelines based on the 'Basel Committee' "Sound Practices for Managing Liquidity in Banking Organisations": APS 210 - Liquidity.

APRA supervises liquidity through individual agreements with Authorised Deposit-taking Institutions (ADIs), taking into consideration the specific risk characteristics of each organisations operation. APRA requires ADIs to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This must include a formal contingency plan for dealing with a liquidity crisis.

The Group has implemented an APRA Compliance Plan for APS 210 - Liquidity. The Plan documents methods, processes, controls and monitoring activities required to support compliance with the Standard and assigns responsibilities for these activities.

Scenario Modelling

A key component of the Group's liquidity management framework is scenario modelling. APRA requires ADIs to assess liquidity under at least two specific scenarios

- 'Going-concern': the normal behaviour of cash flows in the ordinary course of business. APRA requires that the Group must be able to meet all commitments and obligations under a going concern scenario, within the ADIs normal funding capacity, over at least the next 30 calendar days. In estimating the funding requirement, the Group models expected cashflows by reference to historical behaviour and contractual maturity data.
- 'Name crisis': refers to a potential name-specific liquidity crisis in which the ADI may have significant difficulty rolling over or replacing liabilities. APRA requires the Group to be cashflow positive over a 5 business day period under a name crisis scenario. The Group models expected cashflow behaviour under such a scenario based on the type of customer and their level of sophistication, and the type of asset/liability.

In addition, the Group models a number of other stress tests and liquidity scenarios over a variety of time horizons, including the impact of credit rating downgrades, and reduced access to wholesale debt in domestic and offshore markets.

Generally, it would take an extreme event to challenge the Group's continued solvency. A more likely outcome is a period of tight liquidity, resulting in increased funding costs. To assess these risks, the Group models and continually monitors the probability and earnings impact of changes in the Group's credit margin. These changes may be caused by general market factors and/or credit rating downgrades.

Customer and Wholesale Funding Composition

The Group employs actual cashflow based funding metrics to determine appropriate balance sheet liquidity and funding risk strategies. These metrics are used to measure and manage the proportion of the Group's external assets which are funded by customer liabilities, wholesale debt, equity and loan capital.

Managing these metrics assist in ensuring that an appropriate proportion of the Group's assets are funded by either 'sticky' customer liabilities; or long-term wholesale debt funding (with a remaining term exceeding 1 year). This approach recognises that long-term wholesale debt and other sticky liabilities have favourable liquidity characteristics thereby assisting in reducing any adverse impact or volatility caused by short-term funding, and in monitoring the impact of deposit-gathering strategies.

35: Financial Risk Management (continued)

Funding Composition	Consolidated 2007 $m	Consolidated 2006 $m
Customer deposits[1]		
Personal	68,119	60,135
Institutional	70,099	55,314
New Zealand	38,334	35,940
Other	6,127	5,371
Total customer deposits	**182,679**	**156,760**
Wholesale funding		
Bonds and notes	54,075	50,050
Loan capital	12,784	11,126
Certificates of deposit (wholesale)	31,903	23,248
Commercial paper	16,914	20,750
Liability for acceptances	14,536	13,435
Due to other financial institutions	17,986	14,118
Other wholesale borrowings[2]	1,570	213
Total wholesale funding	**149,768**	**132,940**
Total customer deposits	182,679	156,760
Total wholesale funding	149,768	132,940
	332,447	**289,700**

1 Represents: term deposits; other deposits bearing interest; deposits not bearing interest and borrowing corporations' debt. Excludes collateralised loan obligation and securitisation vehicle funding.
2 Includes net derivative balances, special purpose vehicles (SPV) balances and Euro Hybrid.

Wholesale Funding

The Group's global wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Group Treasury and local Markets operations. Long-term wholesale funding is managed and executed through Group Treasury operations in Australia and New Zealand.

Maturity concentration limits and geographic diversification limits have been established within the wholesale funding and liquidity management framework. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

35: Financial Risk Management (continued)

Funding Capacity and Debt Issuance Planning

Under APRA's going concern scenario, borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets in normal market conditions. The Group adopts a conservative approach to determine its funding capacity. Funding capacity limits are determined at the Group level and allocated to individual sites based on their requirements.

The Funding Plan is ratified by the Group's Senior Management annually. The plan is supplemented by monthly updates, and is linked to the Group's three-year strategic planning cycle. This ensures that planned volumes are sustainable, without adversely impacting market conditions.

During the 2007 financial year, the Group issued approximately $24 billion of new long-term wholesale debt from 293 transactions with a weighted average term to maturity of approximately 3.2 years. (During the 2006 financial year, the Group issued approximately $23 billion of new long-term wholesale debt from 149 transactions with weighted average term to maturity of approximately 3.6 years).

Liquidity Portfolio Management

The Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in the event of a market disruption. The Portfolio is managed globally through the Group's funding centres in Melbourne, Wellington, New York and London, and is well diversified by product, geography and currency.

The size of the Group's Liquidity Portfolio is based on the amount of liquidity required to meet: day-to-day operational requirements; potential name crisis; or potential wholesale 'funding stress' requirements.

Supplementing its liquidity position, the Group holds additional cash and liquid asset balances. Also, the Markets business holds secondary sources of liquidity in the form of highly liquid instruments in its trading portfolios.

Liquidity Crisis Contingency Planning

The Group maintains APRA-endorsed liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event at a country and Group-wide basis. The framework is compliant with APRA's key liquidity contingency crisis planning requirements and guidelines and includes:

- The establishment of crisis severity/stress levels.
- Clearly assigned crisis roles and responsibilities.
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals.
- Outlined action plans, and courses of action for altering asset and liability behaviour.
- Procedures for crisis management reporting, and making up cash-flow shortfalls.
- Guidelines determining the priority of customer relationships in the event of liquidity problems.
- Assigned responsibilities for internal and external communications.

35: Financial Risk Management (continued)

Maturity analysis of the Group's assets and liabilities

The tables below analyse the Group's assets and liabilities, as required by AASB 130 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions', into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed above.

Maturity analysis for selected assets and liabilities at 30 September 2007:

Consolidated	Less than[1] 3 months $m	3 to 12[2] months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Assets						
Due from other financial institutions	6,834	600	271	335	–	8,040
Available-for-sale assets	8,553	883	3,437	646	487	14,006
Net loans and advances	32,385	40,042	53,475	162,944	–	288,846
Customers' liabilities for acceptances	11,258	3,278	–	–	–	14,536
Liabilities						
Due to other financial institutions	15,928	1,390	344	324	–	17,986
Deposits and other borrowings	184,535	33,425	16,900	13	–	234,873
Bonds and notes	2,093	15,603	33,146	3,233	–	54,075
Loan capital	4	7	1,404	10,679	690	12,784

Maturity analysis for selected assets and liabilities at 30 September 2006:

Consolidated	Less than[1] 3 months $m	3 to 12[2] months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Assets						
Due from other financial institutions	8,420	820	372	53	–	9,665
Available-for-sale assets	5,937	1,773	2,338	540	65	10,653
Net loans and advances	24,437	36,192	48,788	146,505	–	255,922
Customers' liabilities for acceptances	13,435	–	–	–	–	13,435
Liabilities						
Due to other financial institutions	13,407	659	10	42	–	14,118
Deposits and other borrowings	165,302	27,094	12,383	15	–	204,794
Bonds and notes	662	5,633	41,984	1,771	–	50,050
Loan capital	–	–	528	10,197	401	11,126

1 Includes credit cards.
2 Includes revolving facilities.

OPERATIONAL RISK MANAGEMENT

Operational risks are the risks arising from day-to-day operational activities which may result in direct or indirect loss. These losses can result from both internal and external events and include:

- failure to comply with policies, procedures, laws and regulations;
- failure in execution, dealing and process management;
- fraud or forgery;
- a breakdown in the availability or integrity of services, systems and information; or
- damage to ANZ's reputation.

The authority for operational risk oversight is delegated by the Board to the Board Risk Committee. The Operational Risk Executive Committee (OREC) supports the Board Risk Committee in respect of operational risk oversight including compliance.

The key responsibilities of OREC include:

- endorsing the ANZ Operational Risk Framework and approving ANZ's Compliance Framework and operational risk policies;
- monitoring the state of operational risk management and instigating any necessary corrective actions;
- being notified of all material actual, potential or near miss risk events for review; and
- approving the strategy and approach for new and emerging risks and monitoring associated action plans.

35: Financial Risk Management (continued)

Membership of OREC comprises senior executives and OREC is chaired by the Chief Risk Officer.

OREC is designed to ensure that the necessary senior executive judgement and experience is applied to critical operational risk decisions relating to the Group's larger operational risk exposures. Extensive reporting is provided to OREC to assist in this decision making process. Senior executive management, risk management and technical experts may be asked to attend to advise on specific submissions or policies.

Primary responsibility for day to day management of current, new and emerging operational risks lies with ANZ divisions/Business Units. This is supported by an independent Operational Risk function which provides oversight, direction, the operational framework, policies and processes.

ANZ's Operational Risk Framework outlines the approach to managing operational risk and specifically covers the core minimum requirements that divisions/business units must undertake in the management of operational risk.

The operational risk management process adopted by ANZ consists of a staged approach involving establishing the context, identification, analysis, treatment and monitoring of current, new and emerging operational risks. This is based on the Risk Management Standard issued by Standards Australia/New Zealand (AS/NZS 4360).

ANZ's Operational Risk Framework is supported by a number of operational risk policies and procedures with the effectiveness of the framework assessed through a series of assurance reviews and processes. This is supported by an independent review program by Internal Audit.

ANZ employs the "Risk Drivers and Controls Approach" (RDCA), underpinned by a statistical quantification model to measure the level of operational risk and to determine and allocate operational risk capital.

The RDCA is effectively a system, which:

- assesses the level of ANZ's exposure to specified drivers of risk;
- assesses the scope and quality of ANZ's internal control environment, key operational processes and risk mitigants; and
- directly links these assessments to Operational Risk Capital

The approach requires completion of a set of scorecards by business units on a half yearly basis. The scorecards provide an assessment of the 'riskiness' of the business unit's activities for specific operational risk categories.

ANZ's business continuity and crisis management capabilities continue to be reviewed, tested and, where necessary, strengthened in response to new and emerging threats.

Business Continuity is viewed as a critical management responsibility within the overall operational risk framework, which seeks to minimise the likelihood of a disruption to normal operations, constrain the impact were an event to occur and achieve efficient and effective recovery.

Crisis Management planning at Group and Country levels supplements Business Continuity Plans in the event of a broader Group or Country crisis. Crisis Management plans include crisis team structures, roles, responsibilities and contact lists, and are subject to testing.

36: Interest Rate Risk

The Group has an exposure to the effects of fluctuations in market interest rates on both cashflow and fair value risks associated with its financial assets and liabilities. Interest margins are impacted as a result of such changes and there are Group strategies in place to manage these risks.

The tables following summarises the Group's exposure to interest rate risks as at 30 September 2007 and 30 September 2006.

The tables show the interest rate sensitivity (or repricing profile) of the Group's financial assets and liabilities based on the earlier of contractual maturity or repricing.

Repricing gaps are based upon the earliest of contractual repricing or maturity dates except where the contractual terms are not considered to be reflective of actual interest rate sensitivity (eg. those assets and liabilities priced at the Group's discretion). In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Repricing gaps arise from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions which have been approved by the Board.

The majority of the Group's loan/deposit business is conducted in the domestic balance sheets of Australia and New Zealand and is priced on a floating rate basis. The mix of repricing maturities in these books is influenced by the underlying financial needs of customers.

Offshore operations, which are generally wholesale in nature, are able to minimise interest rate sensitivity through closely matching the maturity of loans and deposits. Given both the size and nature of their business, the interest rate sensitivities of these balance sheets contribute little to the aggregate risk exposure, which is primarily a reflection of the positions in Australia and New Zealand.

In Australia and New Zealand, a combination of pricing initiatives and derivatives is used in the management of interest rate risk. For example, where a strong long term rate view is held, hedging and pricing strategies are used to modify the profile's rate sensitivity so that it is positioned to take advantage of the expected movement in interest rates. However, such positions are taken within the overall risk limits specified by policy.

The objectives and policies in managing the interest risks are also covered under note 35 'Financial Risk Management', under the heading 'Market Risk'.

At 30 September 2007	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	Between 1 year and 5 years $m	After 5 years $m	Not bearing interest $m	Total $m
Liquid assets and due from other financial institutions	21,609	1,905	59	157	72	1,225	25,027
Trading and available-for-sale assets	20,110	2,823	330	3,918	1,703	289	29,173
Derivative financial instruments	–	–	–	–	–	22,237	22,237
Net loans and advances	197,220	10,323	16,894	63,417	992	–	288,846
Other assets[1]	14,387	22	86	167	96	12,572	27,330
Total assets	253,326	15,073	17,369	67,659	2,863	36,323	392,613
Certificates of deposit and term deposits	71,968	14,291	9,925	5,287	24	8	101,503
Other deposits	86,899	1,022	1,633	5,335	–	10,792	105,681
Other borrowings and due to other financial institutions	31,128	3,991	3,823	4,518	884	1,331	45,675
Derivative financial instruments	–	–	–	–	–	24,180	24,180
Other liabilities[1]	17,869	67	6	254	97	8,374	26,667
Bonds, notes and loan capital	39,128	534	2,075	21,532	3,590	–	66,859
Total liabilities	246,992	19,905	17,462	36,926	4,595	44,685	370,565
Total equity	–	–	–	–	–	22,048	22,048
Derivative items affecting interest rate sensitivity	(40,805)	52,111	276	(13,800)	2,218	–	–
Interest sensitivity gap							
– net	(34,471)	47,279	183	16,933	486	(30,410)	–
– cumulative	(34,471)	12,808	12,991	29,924	30,410	–	–

1 Customers' liability for acceptances are classified as interest earning assets in line with AAS.

36: Interest Rate Risk (continued)

At 30 September 2006	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	Between 1 years and 5 years $m	After 5 years $m	Not bearing interest $m	Total $m
Liquid assets and due from other financial institutions	21,572	1,121	175	200	–	1,616	24,684
Trading securities and available-for-sale assets	11,493	1,874	697	4,051	1,697	20	19,832
Derivative financial instruments	–	–	–	–	–	9,164	9,164
Net loans and advances	177,049	9,248	14,325	54,223	1,077	–	255,922
Other assets[1]	13,891	34	57	357	50	10,649	25,038
Total assets	224,005	12,277	15,254	58,831	2,824	21,449	334,640
Certificates of deposit and term deposits	58,227	11,209	6,985	6,142	25	20	82,608
Other deposits	71,710	776	1,556	5,025	1	10,718	89,786
Other borrowings and due to other financial institutions	31,808	4,994	3,874	3,996	875	971	46,518
Derivative financial instruments	–	–	–	–	–	8,753	8,753
Other liabilities	17,230	3	3	658	291	7,708	25,893
Bonds, notes and loan capital	35,858	1,961	1,014	19,850	2,493	–	61,176
Total liabilities	214,833	18,943	13,432	35,671	3,685	28,170	314,734
Total equity	–	–	–	–	–	19,906	19,906
Derivative items affecting interest rate sensitivity	(563)	8,896	596	(10,789)	1,860	–	–
Interest sensitivity gap							
– net	8,609	2,230	2,418	12,371	999	(26,627)	–
– cumulative	8,609	10,839	13,257	25,628	26,627	–	–

1 Customers' liability for acceptances are classified as interest earning assets in line with AAS.

37: Fair Value of Financial Assets and Financial Liabilities

All financial instruments are recognised initially at fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of a financial instrument on initial recognition is normally the transaction price, however, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. For the majority of short-term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the fair value was assumed to equate to the carrying amount in the Group's balance sheet.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair values are based on present value estimates or other market accepted valuation techniques which include data from observable markets wherever possible.

For certain instruments the fair value cannot be determined in whole with reference to current market transactions or valuation techniques whose variables only include data from observable markets. In respect of the valuation component where market observable data is not available, the fair value is determined using valuation techniques based on data derived and extrapolated from market data. Where fair value is determined based on a valuation technique whose valuation is dependant on unobservable data that may have a significant impact on the valuation of the instrument any difference between the transaction price and the amount determined based on the valuation technique (day one gain or loss) arising on initial recognition of the financial instrument is deferred on the balance sheet. The day one gain or loss is recognised in the income statement only to the extent that it arises from a change in factors (including time) that a market participant would consider in setting the price for the instrument.

The fair value recorded in the financial statements for these instruments is the sum of:

- the value given by application of a valuation model, based on the best estimate of the most appropriate model inputs which market participants would use in setting prices for the instrument;
- any fair value adjustments to account for any market features not included within the valuation model (for example, bid-mid spreads, counterparty credit spreads and/or market data uncertainty); and
- unamortised day one gain or loss not recognised immediately in the income statement.

The fair values are based on relevant information available as at the respective balance sheet dates. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement and changes in underlying assumptions could significantly affect these estimates.

The fair value amounts have not been updated for the purposes of these financial statements since 30 September 2007, and therefore the fair value of the financial instruments subsequent to 30 September 2007 may be different from the amounts reported.

37: Fair Value of Financial Assets and Financial Liabilities (continued)

In the tables below, classes of financial assets have been allocated into the following groups: amortised cost, financial assets at fair value through profit or loss, derivatives in effective hedging relationships and available-for-sale financial assets. Similarly, each class of financial liability has been allocated into three groups: amortised cost, financial liabilities at fair value through profit and loss and derivatives in effective hedging relationships.

The significant accounting policies in note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised. The carrying amount and fair value of the Group's financial assets and financial liabilities are set out below.

A significant number of financial instruments are carried at fair value in the balance sheet. Additional disclosure of the fair value of those financial instruments not carried at fair value has been provided below. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income tax and intangible assets. The aggregate fair value amounts do not represent the underlying value of the Group.

	Carrying amount								
	At amortised cost			At fair value through profit or loss			Hedging	Available- for-sale assets	
Consolidated at 30 September 2007	Loans and receivables $m	Other financial assets at amortised cost $m	Sub-total $m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m	Total $m
Financial assets									
Liquid assets	–	16,987	16,987	–	–	–	–	–	16,987
Due from other financial institutions	8,040	–	8,040	–	–	–	–	–	8,040
Trading securities	–	–	–	–	15,167	15,167	–	–	15,167
Derivative financial instruments[1]	–	–	–	–	20,896	20,896	1,341	–	22,237
Available-for-sale assets	–	–	–	–	–	–	–	14,006	14,006
Loans and advances[2]	288,721	–	288,721	125	–	125	–	–	288,846
Customers' liability for acceptances	14,536	–	14,536	–	–	–	–	–	14,536
Other financial assets	3,510	–	3,510	–	–	–	–	–	3,510
Total financial assets	314,807	16,987	331,794	125	36,063	36,188	1,341	14,006	383,329

	Fair value								
	At amortised cost			At fair value through profit or loss			Hedging	Available-for-sale assets	
Consolidated at 30 September 2007	Loans and receivables $m	Other financial assets at amortised cost $m	Sub-total $m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m	Total $m
Financial assets									
Liquid assets	–	16,987	16,987	–	–	–	–	–	16,987
Due from other financial institutions	8,040	–	8,040	–	–	–	–	–	8,040
Trading securities	–	–	–	–	15,167	15,167	–	–	15,167
Derivative financial instruments[1]	–	–	–	–	20,896	20,896	1,341	–	22,237
Available-for-sale assets	–	–	–	–	–	–	–	14,006	14,006
Loans and advances[2]	288,066	–	288,066	125	–	125	–	–	288,191
Customers' liability for acceptances	14,536	–	14,536	–	–	–	–	–	14,536
Other financial assets	3,510	–	3,510	–	–	–	–	–	3,510
Total financial assets	314,152	16,987	331,139	125	36,063	36,188	1,341	14,006	382,674

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

37: Fair Value of Financial Assets and Financial Liabilities (continued)

Consolidated at 30 September 2006	Carrying amount: At amortised cost – Loans and receivables $m	At amortised cost – Other financial assets at amortised cost $m	At amortised cost – Sub-total $m	At fair value through profit or loss – Held for Trading $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Liquid assets	–	15,019	15,019	–	–	–	15,019
Due from other financial institutions	9,665	–	9,665	–	–	–	9,665
Trading securities	–	–	–	9,179	–	–	9,179
Derivative financial instruments[1]	–	–	–	8,624	540	–	9,164
Available-for-sale assets	–	–	–	–	–	10,653	10,653
Loans and advances[2]	255,922	–	255,922	–	–	–	255,922
Customers' liability for acceptances	13,435	–	13,435	–	–	–	13,435
Other financial assets	3,596	–	3,596	–	–	–	3,596
Total financial assets	282,618	15,019	297,637	17,803	540	10,653	326,633

Consolidated at 30 September 2006	Fair value: At amortised cost – Loans and receivables $m	At amortised cost – Other financial assets at amortised cost $m	At amortised cost – Sub-total $m	At fair value through profit or loss – Held for Trading $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Liquid assets	–	15,019	15,019	–	–	–	15,019
Due from other financial institutions	9,665	–	9,665	–	–	–	9,665
Trading securities	–	–	–	9,179	–	–	9,179
Derivative financial instruments[1]	–	–	–	8,624	540	–	9,164
Available-for-sale assets	–	–	–	–	–	10,653	10,653
Loans and advances[2]	255,688	–	255,688	–	–	–	255,688
Customers' liability for acceptances	13,435	–	13,435	–	–	–	13,435
Other financial assets	3,596	–	3,596	–	–	–	3,596
Total financial assets	282,384	15,019	297,403	17,803	540	10,653	326,399

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

LIQUID ASSETS AND DUE FROM/TO OTHER FINANCIAL INSTITUTIONS

The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand.

TRADING SECURITIES

Trading securities are carried at fair value. Fair value is generally based on quoted market prices, broker or dealer price quotations, or prices for securities with similar credit risk, maturity and yield characteristics.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are determined using market prices and market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument

AVAILABLE-FOR-SALE ASSETS

Fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument.

37: Fair Value of Financial Assets and Financial Liabilities (continued)

NET LOANS AND ADVANCES AND ACCEPTANCES

The carrying value of loans and advances and acceptances includes deferred fees and expenses, and is net of provision for credit impairment and income yet to mature. The estimated fair value of loans, advances and acceptances is based on the discounted amount of estimated future cash flows and accordingly has not been adjusted for provision for credit impairment. Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate, which includes a premium for the uncertainty of the flows.

The difference between estimated fair values for loans and advances and acceptances and their carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

OTHER FINANCIAL ASSETS

Included in this category are accrued interest and fees receivable. The carrying values of accrued interest and fees receivable are considered to approximate their net fair values as they are short term in nature or are receivable on demand.

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The category loans and advances includes certain loans designated at fair value through profit or loss. At balance date, the credit exposure on these assets was $125 million (2006: nil). Of this, $68 million (2006: nil) was mitigated by collateral held.

The cumulative change in fair value attributable to change in credit risk was a reduction to the assets of $1 million (2006: nil). The amount recognised in the income statement attributable to changes in credit risk was a loss of $1 million (2006: nil).

The change in fair value of the designated financial assets attributable to changes in credit risk has been calculated by determining the change in credit rating and credit spread implicit in the loans and advances issued by entities with similar credit characteristics.

Consolidated at 30 September 2007	Carrying Amount					
	At amortised cost	At fair value through profit or loss			Hedging	Total
	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m
Financial liabilities						
Due to other financial institutions	17,986	–	–	–	–	17,986
Derivative financial instruments[1]	–	–	23,186	23,186	994	24,180
Deposits and other borrowings	226,738	8,135	–	8,135	–	234,873
Liability for acceptances	14,536	–	–	–	–	14,536
Bonds and notes[2]	49,079	4,996	–	4,996	–	54,075
Loan capital[2]	10,524	2,260	–	2,260	–	12,784
Payables and other liabilities	10,079	–	–	–	–	10,079
Total financial liabilities	328,942	15,391	23,186	38,577	994	368,513

Consolidated at 30 September 2007	Fair value					
	At amortised cost	At fair value through profit or loss			Hedging	Total
	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m
Financial liabilities						
Due to other financial institutions	17,986	–	–	–	–	17,986
Derivative financial instruments[1]	–	–	23,186	23,186	994	24,180
Deposits and other borrowings	226,692	8,135	–	8,135	–	234,827
Liability for acceptances	14,536	–	–	–	–	14,536
Bonds and notes[2]	49,061	4,996	–	4,996	–	54,057
Loan capital[2]	10,506	2,260	–	2,260	–	12,766
Payables and other liabilities	10,079	–	–	–	–	10,079
Total financial liabilities	328,860	15,391	23,186	38,577	994	368,431

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial liabilities within bonds and notes and loan capital. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

37: Fair Value of Financial Assets and Financial Liabilities (continued)

Consolidated at 30 September 2006	Carrying Amount					
	At amortised cost	At fair value through profit or loss			Hedging	Total
	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m
Financial liabilities						
Due to other financial institutions	14,118	–	–	–	–	14,118
Derivative financial instruments[1]	–	–	8,329	8,329	424	8,753
Deposits and other borrowings	198,779	6,015	–	6,015	–	204,794
Liability for acceptances	13,435	–	–	–	–	13,435
Bonds and notes[2]	46,439	3,611	–	3,611	–	50,050
Loan capital[2]	8,348	2,778	–	2,778	–	11,126
Payables and other liabilities	10,108	–	–	–	–	10,108
Total financial liabilities	291,227	12,404	8,329	20,733	424	312,384

Consolidated at 30 September 2006	Fair value					
	At amortised cost	At fair value through profit or loss			Hedging	Total
	$m	Designated on initial recognition $m	Held for Trading $m	Sub-total $m	$m	$m
Financial liabilities						
Due to other financial institutions	14,118	–	–	–	–	14,118
Derivative financial instruments[1]	–	–	8,329	8,329	424	8,753
Deposits and other borrowings	198,776	6,015	–	6,015	–	204,791
Liability for acceptances	13,435	–	–	–	–	13,435
Bonds and notes[2]	46,440	3,611	–	3,611	–	50,051
Loan capital[2]	8,344	2,778	–	2,778	–	11,122
Payables and other liabilities	10,108	–	–	–	–	10,108
Total financial liabilities	291,221	12,404	8,329	20,733	424	312,378

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial liabilities within bonds and notes and loan capital. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

37: Fair Value of Financial Assets and Financial Liabilities (continued)

DEPOSITS AND OTHER BORROWINGS

The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

For interest bearing fixed maturity deposits and other borrowings and acceptances without quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows.

BONDS AND NOTES AND LOAN CAPITAL

The aggregate fair value of bonds and notes and loan capital is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument is used.

PAYABLES AND OTHER FINANCIAL LIABILITIES

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate the fair value.

COMMITMENTS AND CONTINGENCIES

As outlined in note 45, the Group has various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Parts of loan capital, bonds and notes and deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the liabilities were otherwise carried at amortised cost.

Deposits and other borrowings

At balance date, the carrying amount of deposits and other borrowings designated at fair value through profit or loss was $8,135 million (2006: $6,015 million). This is $74 million (2006: $92 million) lower than the contractual amount payable to the holder at maturity. The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was less than $1 million (2006: less than $1 million).

Bonds and notes

At balance date, the carrying amount of bonds and notes designated at fair value through profit or loss was $4,996 million (2006: $3,611 million). This is $2 million (2006: $43 million) higher than the contractual amount payable to the holder at maturity. The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was a decrease in the liability of $31 million (2006: a decrease in the liability of $2 million). During the year a gain of $29 million (2006: loss of $1 million) was recognised from the change in credit risk associated with bonds and notes.

Loan capital

At balance date, the carrying amount of loan capital designated at fair value through profit or loss was $2,260 million (2006: $2,778 million). This is $5 million (2006: $67 million) higher than the contractual amount payable to the holder at maturity. The accumulated amount of the change in fair value attributable to changes in credit risk on these liabilities was an increase in the liability of $12 million (2006: an increase in the liability of $29 million). During the year a gain of $17 million (2006: gain of $4 million) was recognised from the change in credit risk associated with loan capital.

For each of loan capital, bonds and notes and deposits and other borrowings, the change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate, and foreign exchange rates).

38: Segment Analysis

For management purposes the Group is organised into three major business segments being Personal, Institutional and New Zealand Business. An expanded description of the principal activities for each of the business segments is contained in the Glossary on pages 170 to 171.

A summarised description of each business segment is shown below:

Personal	Provides:	■ Rural Commercial & Agribusiness Products, Small Business Banking Products, Banking Products, Consumer Finance, Investment and Insurance Products, Mortgages and other (including the branch network) in Australia; ■ Retail banking services in the Pacific region; and ■ Vehicle and equipment finance, rental services and fixed and at call investments.
Institutional	Provides:	■ A full range of financial services to the Group's business banking, corporate and institutional customers including Corporate Finance, Business Banking, Markets and Working Capital.
New Zealand Businesses	Provides:	■ A full range of banking services for personal, small business and corporate customers in New Zealand. ■ Including ANZ Retail, NBNZ Retail, Corporate and Commercial Banking, Investment Insurance Products, Private Banking, Rural Banking and Central Support.

As the composition of segments was amended during the year, September 2006 comparatives have been adjusted to be consistent with the 2007 segment definitions.

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated Year ended 30 September 2007	Personal $m	Institutional $m	New Zealand Businesses $m	Other[3] $m	Consolidated total $m
External interest income	11,047	8,982	5,879	302	26,210
External interest expense	(3,275)	(6,396)	(3,539)	(5,698)	(18,908)
Adjust for intersegment interest	(4,490)	(611)	(674)	5,775	–
Net interest income	3,282	1,975	1,666	379	7,302
Other external operating income	1,407	1,511	487	419	3,824
Share of net profit of equity accounted investments	4	16	20	219	259
Segment revenue	4,693	3,502	2,173	1,017	11,385
Other external expenses	(1,894)	(1,070)	(1,023)	(966)	(4,953)
Net intersegment (income)/expenses	(346)	(308)	(11)	665	–
Operating expenses	(2,240)	(1,378)	(1,034)	(301)	(4,953)
Provision for credit impairment	(393)	(69)	(69)	(36)	(567)
Segment result	2,060	2,055	1,070	680	5,865
Income tax expense	(616)	(604)	(344)	(114)	(1,678)
Minority interests	(2)	(3)	–	(2)	(7)
Profit after income tax attributable to shareholders of the company	1,442	1,448	726	564	4,180
Capital expenditure	60	32	36	285	413
Non-Cash Expenses					
Depreciation & amortisation	(132)	(37)	(39)	(107)	(315)
Equity-settled share-based payment expenses	(21)	(25)	(11)	(5)	(62)
Provision for credit impairment	(393)	(69)	(69)	(36)	(567)
Provisions for employee entitlements	(25)	(17)	(55)	(24)	(121)
Provision for restructuring	(10)	(9)	(2)	(22)	(43)
Financial Position					
Total external assets[4]	153,488	156,516	71,284	11,212	392,500
Share of associate and joint venture companies	16	177	181	3,056	3,430
Total external liabilities[5]	74,942	143,623	58,506	92,891	369,962
Goodwill	307	4	20	2,795	3,126
Intangibles	319	136	22	74	551

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes INGA & Private Bank, Treasury, Operations, Technology & Shared Services, Corporate Centre, Group Risk Management, Group Financial Management and significant items. Also includes the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.
4 Excludes deferred tax assets.
5 Excludes income tax liabilities.

38: Segment Analysis (continued)

The following analysis details financial information by business segment.

BUSINESS SEGMENT ANALYSIS[1, 2]

Consolidated Year ended 30 September 2006	Personal $m	Institutional $m	New Zealand Business $m	Other[3] $m	Consolidated total $m
External interest income	9,344	7,595	5,070	292	22,301
External interest expense	(2,669)	(4,894)	(3,122)	(4,673)	(15,358)
Adjust for intersegment interest	(3,658)	(686)	(441)	4,785	–
Net interest income	3,017	2,015	1,507	404	6,943
Other external operating income	1,159	1,226	461	169	3,015
Share of net profit of equity accounted investments	7	15	20	152	194
Segment revenue	4,183	3,256	1,988	725	10,152
Other external expenses	(1,766)	(955)	(982)	(828)	(4,531)
Net intersegment expenses	(315)	(301)	(5)	621	–
Operating expenses	(2,081)	(1,256)	(987)	(207)	(4,531)
Provision for credit impairment	(336)	(58)	(4)	(9)	(407)
Segment result	1,766	1,942	997	509	5,214
Income tax expense	(526)	(576)	(322)	(98)	(1,522)
Minority interests	(1)	(3)	–	–	(4)
Profit after income tax attributable to the shareholders of the Company	1,239	1,363	675	411	3,688
Capital expenditure	57	10	47	136	250
Non-Cash Expenses					
Depreciation & amortisation	(126)	(23)	(43)	(100)	(292)
Equity-settled share-based payment expenses	(25)	(28)	(9)	(14)	(76)
Provision for credit impairment	(336)	(58)	(4)	(9)	(407)
Provisions for employee entitlements	(22)	(13)	(51)	(9)	(95)
Provision for restructuring	(15)	(23)	(1)	(12)	(51)
Financial Position					
Total external assets[4]	136,915	118,996	63,717	14,759	334,387
Share of associate and joint venture entities	22	152	164	1,862	2,200
Total external liabilities[5]	67,151	107,913	52,330	86,518	313,912
Goodwill	33	–	20	2,847	2,900
Intangibles	269	92	19	57	437

1 Results are equity standardised.
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
3 Includes Partnerships & Private Bank, Treasury, Operations, Technology & Shared Services, Corporate Centre, Group Risk Management and Group Financial Management and significant items. Also includes the London headquartered project finance and certain structured finance transactions that ANZ has exited as part of its de-risking strategy.
4 Excludes deferred tax assets.
5 Excludes income tax liabilities.

38: Segment Analysis (continued)

The following analysis details financial information by geographic location.

GEOGRAPHIC SEGMENT ANALYSIS[1, 2]

Consolidated	2007 $m	2007 %	2006 $m	2006 %
Income				
Australia	20,180	66%	16,861	66%
New Zealand	8,092	27%	6,962	27%
Overseas Markets	2,021	7%	1,687	7%
	30,293	100%	25,510	100%
Total assets[3]				
Australia	272,968	70%	229,973	69%
New Zealand	91,033	23%	82,772	25%
Overseas Markets	28,499	7%	21,642	6%
	392,500	100%	334,387	100%
Capital Expenditure				
Australia	326	79%	171	68%
New Zealand	36	9%	47	19%
Overseas Markets	51	12%	32	13%
	413	100%	250	100%

1 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
2 The geographic segments represent the locations in which the transaction was booked.
3 Excludes deferred tax assets.

39: Notes to the Cash Flow Statements

a) Reconciliation of net profit after income tax to net cash provided by operating activities

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Operating profit after income tax attributable to shareholders of the Company	4,180	3,688	3,551	3,174
Adjustments to reconcile operating profit after income tax to net cash provided by/(used in) operating activities				
Provision for credit impairment	567	407	388	278
Depreciation and amortisation	309	292	242	223
Profit on sale of Businesses	(234)	–	(39)	–
Provision for employee entitlements, restructuring and other provisions	336	250	286	106
Payments from provisions	(307)	(223)	(245)	(83)
(Profit)/loss on sale of premises and equipment	(33)	4	4	5
(Profit)/loss on sale of available-for-sale assets	(14)	(8)	(4)	(7)
Share based payments	7	31	7	31
Net (increase)/decrease in operating assets				
Trading securities	(7,325)	(1,681)	(6,894)	(182)
Liquid assets greater than three months	(1,641)	(1,300)	(1,865)	(441)
Due from other banks-more than 90 days	(410)	1,318	(195)	177
Loans and advances	(37,403)	(26,848)	(27,739)	(18,732)
Net intra-group loans and advances	–	–	(10,305)	66
Regulatory deposits	(54)	(42)	(31)	(17)
Interest receivable	(56)	(119)	(3)	4
Accrued income	(23)	(24)	(38)	(27)
Net tax assets	(203)	297	(565)	32
Amortisation of discounts/premiums included in investing activities	(80)	(151)	–	–
Net (decrease)/increase in operating liabilities				
Deposits and other borrowings	33,964	16,129	34,585	14,736
Due to other financial institutions	4,326	1,859	3,050	2,462
Payables and other liabilities	(91)	541	(11)	1,221
Interest payable	367	482	206	830
Accrued expenses	23	10	25	13
Other	(242)	(67)	(144)	563
Total adjustments	(8,217)	(8,843)	(9,285)	1,258
Net cash (used in)/provided by operating activities	(4,037)	(5,155)	(5,734)	4,432

b) Reconciliation of cash and cash equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions with an original term to maturity of less than 90 days. Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the statements of financial position as follows:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Liquid assets – less than 90 days (refer note 9)	12,307	11,633	6,701	8,050
Due from other financial institutions – less than 90 days (refer note 10)	6,767	8,711	5,339	5,520
Cash and cash equivalents in the statement of cashflows	19,074	20,344	12,040	13,570

39: Notes to the Cash Flow Statements (continued)

c) Acquisitions and disposals

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Cash outflows from acquisitions				
Purchases of controlled entities (note 18)	203	–	177	–
Purchases of interest in associates and joint ventures	1,247	289	372	230
	1,450	289	549	230
Cash inflows from disposals				
Disposals of controlled entities (note 18)	377	–	–	–
Disposals of associates and joint ventures	67	14	67	10
	444	14	67	10

No material acquisitions and disposals have occured in 2006.

d) Non-cash financing and investing activities

Share capital issues				
Dividend reinvestment plans	442	165	442	165

e) Financing arrangements

	2007 Available $m	2007 Unused $m	2006 Available $m	2006 Unused $m
Credit standby arrangements				
Standby Lines	192	184	827	821
Other financing arrangements				
Overdraft and other financing arrangements	3,429	727	3,466	985
Total finance available	3,621	911	4,293	1,806

40: Controlled Entities

	Incorporated in	Nature of Business
Ultimate parent of the Group		
Australia and New Zealand Banking Group Limited	Australia	Banking

All controlled entities are 100% owned unless otherwise noted.
The material controlled entities of the Group are:

	Incorporated in	Nature of Business
Amerika Samoa Bank	American Samoa	Banking
ANZ Capel Court Limited	Australia	Investment Banking
ANZ Capital Funding Pty Ltd	Australia	Funding
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZcover Insurance Pty Ltd	Australia	Captive-Insurance
ANZ Trustees Limited	Australia	Trustee/Nominee
ANZ Funds Pty Ltd	Australia	Investment
ANZ Bank (Europe) Limited*	England	Banking
ANZ Bank (Samoa) Limited*	Samoa	Banking
ANZ Holdings (New Zealand) Limited*	New Zealand	Holding Company
ANZ National Bank Limited*	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited*	New Zealand	Fund Manager
ANZ National (Int'l) Limited*	New Zealand	Finance
Arawata Finance Limited*	New Zealand	Finance
Arawata Holdings Limited*	New Zealand	Holding Company
Harcourt Corporation Limited*	New Zealand	Investment
Airlie Investments Limited*	New Zealand	Investment
Nerine Finance No. 2[1]	New Zealand	Finance
Arawata Trust Company*	New Zealand	Finance
Arawata Trust*	New Zealand	Finance
Endeavour Finance Limited*	New Zealand	Finance
Tui Endeavour Limited*	New Zealand	Finance
National Bank of New Zealand Custodians Limited*	New Zealand	Custodians
Alos Holdings Limited*	New Zealand	Finance
NBNZ Holdings Ltd*	New Zealand	Holding Company
Private Nominees Limited*	New Zealand	Nominee
UDC Finance Limited*	New Zealand	Finance
ANZ International (Hong Kong) Limited*	Hong Kong	Holding Company
ANZ Asia Limited*	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited*	Vanuatu	Banking
ANZ International Private Limited*	Singapore	Holding Company
ANZ Singapore Limited*	Singapore	Merchant Banking
ANZ Online Holdings Pty Ltd	Australia	Holding Company
ETRADE Australia Limited	Australia	Online Stockbroking
ANZ Royal Bank (Cambodia) Limited*[1]	Cambodia	Banking
Bank of Kiribati Ltd*[1]	Kiribati	Banking
LFD Limited	Australia	Holding Company
Minerva Holdings Limited*	England	Holding Company
Upspring Limited*	England	Finance
ANZ Investment Holdings Pty Ltd	Australia	Holding Company
530 Collins Street Property Trust	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Limited	Australia	Mortgage Insurance
ANZ Nominees Limited	Australia	Nominee
ANZ Orchard Investments Pty Ltd	Australia	Holding Company
Australia and New Zealand Banking Group (PNG) Limited*	Papua New Guinea	Banking
Citizens Bancorp Inc	Guam	Holding Company
Citizens Security Bank (Guam) Inc	Guam	Banking
Coral Finance Limited[1]	England	Securitisation
Esanda Finance Corporation Limited	Australia	General Finance
Kingfisher Trust 2004-1G[1]	Australia	Securitisation
Omeros II Trust[1]	Australia	Securitisation
PT ANZ Panin Bank*[1]	Indonesia	Banking
ANZ Vientiane Commercial Bank Limited*[1]	Laos	Banking

* Audited by overseas KPMG firms.

1 Minority interests hold ordinary shares or units in the controlled entities listed above as follows: Bank of Kiribati Ltd - 150,000 $1 ordinary shares (25%) (2006 : 150,000 $1 ordinary shares (25%); PT ANZ Panin Bank – 7,500 IDR 1 million shares (15%) (2006: 7,500 IDR 1 million shares (15%); Nerine Finance No. 2 – 3,650 NZD100,000 redeemable preference shares and 35 NZD1 Class 'A' shares (42%) (2006: 3,650 NZD100,000 redeemable preference shares and 35 NZD1 Class 'A' shares (42%)); ANZ Royal Bank (Cambodia) Limited – 180,000 USD100 ordinary shares (45%) (2006: 99,000 USD100 ordinary shares (45%)); Coral Finance Limited – GBP 1 ordinary share (67%) (2006: GBP 1 ordinary share (67%)); Kingfisher Trust 2004 – 1G residual capital unitholder (2006: residual capital unitholder); ANZ Vientiane Commercial Bank – 4,000,000 $1 ordinary shares (40%) (2006: n/a); Omeros II Trust – residual capital unitholder (2006: residual capital unitholder).

41: Associates

Significant associates of the Group are as follows:

	Ownership interest held	Voting interest	Incorporated in	Carrying value[6] $m	Fair value[7] $m	Reporting date	Principal activity
P.T. Bank Pan Indonesia[1]	30%	30%	Indonesia	252	527	31 December	Banking
Bank of Tianjin (formerly Tianjin City Commercial Bank)[2]	20%	20%	Peoples Republic of China	164	n/a	31 December	Banking
Metrobank Card Corporation Inc[3]	40%	40%	Philippines	28	n/a	31 December	Cards Issuing
AMMB Holdings Berhad[4]	19%	14%[8]	Malaysia	804	873	31 March	Banking
Shanghai Rural Commercial Bank[5]	20%	20%	Peoples Republic of China	307	n/a	31 December	Banking
Other associates				194	n/a		
Total carrying value of associates				1,749			

1 An associate from 1 April 2001.
2 An associate from 13 June 2006.
3 An associate from 9 October 2003.
4 An associate from 18 May 2007.
5 An associate from 20 September 2007.
6 2006 carrying values as follows: P.T. Bank Pan Indonesia $222 million, Bank of Tianjin $164 million, Metrobank Card Corporation Inc $28 million, and Other associates $178 million. Total $592 million.
7 Applicable to those investments in associates where there are published price quotations.
8 The investment in AMMB Holdings Berhad comprises ordinary shares, preference shares mandatorily converting into ordinary shares, and bonds exchangeable into ordinary shares. The terms of the preference shares allow ANZ to convert the preference shares into ordinary shares any time, and they will mandatorily convert after 5 years on issue. The terms of the exchangeable bonds allow ANZ to convert the exchangeable bonds into ordinary shares at any time within the 10 year period to maturity. Currently held ordinary shares provide ANZ a voting interest of 14%. The other instruments could increase ANZ's voting interest and ownership interest up to 25%, when converted or exchanged in full. An increase above 20% would require regulatory approval.

	2007 $m	2006 $m
Aggregate assets of significant associates	64,649	16,784
Aggregate liabilities of significant associates	60,081	15,356
Aggregate revenue of significant associates	4,737	586

	Consolidated 2007 $m	Consolidated 2006 $m
Results of Associates		
Share of associates profit before income tax	131	70
Share of income tax expense	(37)	(17)
Share of associates net profit – as disclosed by associates	94	53
Adjustments		
- withholding tax	(4)	(2)
- provisioning	(2)	4
- other	(1)	1
Share of associates net profit accounted for using the equity method	87	56

42: Interests in Joint Venture Entities

The Group has interests in joint venture entities as follows:

	Ownership interest held	Voting interest held	Incorporated in	Carrying value[6] $m	Reporting dates	Principal activity
ING Australia Limited[1, 5]	49%[2]	49%[2]	Australia	1,519	31 December	Funds Management and Insurance
ING (NZ) Holdings Limited[3,5]	49%[4]	50%[4]	New Zealand	162	31 December	Funds Management and Insurance
Total interests in Joint Venture entities				1,681		

1 A joint venture entity from 1 May 2002.
2 This represents the Group's 49% share of the assets and liabilities of ING Australia Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING Australia Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (i.e. require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key issues (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Accounting Estimate item (ii) for details regarding valuation of investment in ING Australia Limited.

The Joint Venture includes the majority of the Group's and ING's funds management and insurance activities in Australia.
3 A joint venture entity from 30 September 2005.
4 This represents the Group's 49% share of assets and liabilities of ING (NZ) Holdings Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING (NZ) Holdings Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (i.e. require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key decisions (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Estimates and Judgements used in Applying Accounting Policies item (iii) for details regarding valuation of investment in ING (NZ) Holdings Limited

The joint venture includes the majority of the Group's and ING's funds management and insurance activities in New Zealand.
5 ING Australia Limited and ING (NZ) Holdings Limited have different reporting dates than the Consolidated Group to align with the ING Group parent entity.
6 2006 carrying values as follows: ING Australia Limited $1,462 million; and ING (NZ) Holdings Limited $146 million.

42: Interests in Joint Venture Entities (continued)

	ING Australia Limited		ING (NZ) Holdings Limited		Consolidated Total	
	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m
Retained profits attributable to the joint venture entity						
At the beginning of the year	256	183	19	–	275	183
At the end of the year	313	256	39	19	352	275
Movement in the carrying amount of the joint venture entity						
Carrying amount at the commencement of the year	1,462	1,530	146	131	1,608	1,661
IFRS opening balance sheet adjustments	–	(138)	–	–	–	(138)
Share of net profit	152	119	20	19	172	138
Dividend received	(95)	(46)	–	–	(95)	(46)
Movement in reserves	–	(3)	–	–	–	(3)
Adjustment for exchange rate fluctuations	–	–	(4)	(4)	(4)	(4)
Carrying amount at the end of the year	1,519	1,462	162	146	1,681	1,608
Share of assets and liabilities[1]						
Investments	14,712	12,493	70	70	14,782	12,563
Other assets	1,817	1,570	137	154	1,954	1,724
Share of total assets	16,529	14,063	207	224	16,736	14,287
Policy holder liabilities	14,881	12,430	19	45	14,900	12,475
Other liabilities	698	735	9	16	707	751
Share of total liabilities	15,579	13,165	28	61	15,607	13,226
Share of net assets	950	898	179	163	1,129	1,061
Share of revenues, expenses and results						
Revenues	433	372	69	59	502	431
Expenses	(233)	(216)	(49)	(39)	(282)	(255)
Profit before income tax	200	156	20	20	220	176
Income tax expense	(48)	(37)	–	(1)	(48)	(38)
Profit after income tax	152	119	20	19	172	138
Net equity accounted profit	152	119	20	19	172	138
Share of commitments						
Lease commitments	150	154	3	3	153	157
Other commitments	19	18	–	–	19	18
Share of total expenditure commitments	169	172	3	3	172	175
Share of contingent liabilities						
In relation to ANZ's interest in the joint venture entity[2]	27	65	–	–	27	65
	27	65	–	–	27	65

1 This represents the Group's share of the assets and liabilities of ING Australia Limited and ING (NZ) Holdings Limited, less minority interests and including goodwill on acquisition of ANZ Funds Management entities.
2 This represents Deeds of Subordination with ASIC and buyer of last resort.

43: Fiduciary Activities

The Group conducts various fiduciary activities as follows:

Investment fiduciary activities for trusts

The Group conducts investment fiduciary activities for trusts, including deceased estates. These trusts have not been consolidated as the Group does not have direct or indirect control.

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, where the primary obligation is incurred in an agency capacity as trustee of the trust rather than on the Group's own account, a right of indemnity exists against the assets of the applicable funds or trusts. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Company or its controlled entities will be required to settle the liabilities, the liabilities are not included in the financial statements.

43: Fiduciary Activities (continued)

The aggregate amounts of funds concerned are as follows:

	Consolidated 2007 $m	Consolidated 2006 $m
Trusteeships	2,651	2,080

Funds management activities

Funds management activities are conducted through the ING Australia Limited and ING (NZ) Holdings Limited joint ventures and certain subsidiaries of the Group. As stated in note 1 (ii), shares in joint venture entities are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition earnings. Funds under management on behalf of customers are not consolidated because these funds invest in specified investments on behalf of clients.

The Group controlled or jointly controlled fund management companies with funds under management as follows:

	2007 $m	2006 $m
ING Australia Limited Joint Venture	49,461	42,783
ING (NZ) Holdings Limited Joint Venture	7,220	7,256
Controlled entities – New Zealand	3,895	3,721
Controlled entities – Australia	798	150
	61,374	53,910

Custodian services activities

Custodian services are conducted through ANZ Custodian Services. ANZ Custodian Services holds investment assets under custody on behalf of external customers and as a consequence the assets are not consolidated in the Group's accounts. As at 30 September 2007, ANZ Custodian Services had funds under custody of $148.2 billion (30 September 2006: $120.2 billion).

44: Commitments

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Property				
Contracts for construction of new office building in Docklands area, Melbourne Australia				
Not later than 1 year	171	–	171	–
Later than one year but not later than 5 years	212	–	212	–
Aquisitions[2]				
Not later than 1 year	9	–	9	–
Capital expenditure				
Contracts for outstanding capital expenditure				
Not later than 1 year	101	55	83	16
Total capital expenditure commitments[1]	493	55	475	16
Lease rentals				
Land and buildings				
Not later than 1 year	232	227	159	151
Later than 1 year but not later than 5 years	512	567	373	399
Later than 5 years	384	433	356	399
	1,128	1,227	888	949
Furniture and equipment				
Not later than 1 year	29	24	16	17
Later than 1 year but not later than 5 years	29	19	16	10
Later than 5 years	–	1	–	–
	58	44	32	27
Total lease rental commitments	1,186	1,271	920	976
Total commitments	1,679	1,326	1,395	992

1 Relates to premises and equipment.
2 At 30 September 2007, the Group had entered into conditional contracts, subject to regulatory and shareholder approval, to acquire a 40% equity interest in Sacom Cards for $9 million.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments

CUSTOMER RELATED CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

Facilities provided

	Consolidated		The Company	
	2007 Contract amount $m	2006 Contract amount $m	2007 Contract amount $m	2006 Contract amount $m
Undrawn facilities[1]	107,269	98,554	86,124	77,720
Australia	70,692	62,746	69,999	61,741
New Zealand	18,765	18,840	–	–
Overseas Markets	17,812	16,968	16,125	15,979
Total	107,269	98,554	86,124	77,720

1 The credit risk of the undrawn facilities may be less than the contract amount, however the credit risk has been taken to be the contract amount. The majority of undrawn facilities are subject to customers maintaining specific credit standards. The amount does not necessarily represent future cash requirements as many of these facilities are expected to be partially used or to expire unused.

Contingent liabilities

Details of the estimated maximum amount of contingent liabilities that may become payable are disclosed on the following pages. These contingent liabilities relate to transactions that the Group has entered into as principal. By contrast, the quantitative tabular presentation below relates to customer contingent liabilities, i.e. direct credit substitutes and trade and performance related items.

Guarantees, Standby letters of credit, Bill endorsements and Other are classified by APRA as direct credit substitutes and exhibit the same credit risk characteristics as a direct extension of credit. The maximum potential amount of future payments represents the contract amount that could be lost if the counterparty fails to meet its financial obligations.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

The Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The credit risk of these facilities may be less than the contract amount, however the credit risk has been taken to be the contract amount.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

	Consolidated 2007 Contract amount $m	Consolidated 2006 Contract amount $m	The Company 2007 Contract amount $m	The Company 2006 Contract amount $m
Guarantees	5,410	4,690	5,194	4,611
Standby letters of credit	1,476	1,468	1,474	1,296
Bill endorsements	28	100	28	100
Documentary letters of credit	3,238	3,078	3,080	2,939
Performance related contingencies	12,671	11,710	12,091	11,265
Other	993	1,009	307	628
Total customer contingent liabilities	23,816	22,055	22,174	20,839
Australia	10,535	9,473	10,525	9,462
New Zealand	1,253	1,011	–	–
Overseas Markets	12,028	11,571	11,649	11,377
Total customer contingent liabilities	23,816	22,055	22,174	20,839

ASSETS PLEDGED AS SECURITY AND SECURED LIABILITIES

The following assets are pledged as collateral:

- mandatory reserve deposits held with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations; and
- debenture undertakings covering the assets of Esanda Finance Corporation Limited (Esanda) and its subsidiaries and UDC Finance Limited. The debenture stock of Esanda and its subsidiaries and UDC Finance Limited is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking of all the tangible assets of the entity, other than land and buildings. All controlled entities of Esanda and UDC Finance Limited have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda and UDC Finance Limited respectively. Note that the only loans pledged are those in Esanda and UDC Finance Limited.

The value of assets pledged as security is as follows:

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Regulatory deposits	235	205	148	132
Assets pledged as collateral under debenture undertakings[1]	15,347	16,028	–	–
	15,582	16,233	148	132

1 Related liabilities is $9,539 million (2006: $9,757 million).

The Group has accepted collateral that it is permitted to sell or repledge in connection with its stock-lending activities. The fair value of the collateral accepted is $3.5 billion (2006: $3.3 billion) and this equates to our obligation to our counterparties.

OTHER BANK RELATED CONTINGENT LIABILITIES

The details and estimated maximum amount of contingent liabilities that may become payable are set out below.

i) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution; and
- in the Austraclear System Regulations and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution.

For HVCS and Austraclear, the obligation arises only in limited circumstances.

ii) Nominee activities

The Group will indemnify each customer of controlled entities engaged in nominee activities against loss suffered by reason of such entities failing to perform any obligation undertaken by them to a customer.

iii) Interbank deposit agreement

ANZ has entered into an Interbank Deposit Agreement with the major banks in the payments system. This agreement is a payment system support facility certified by the Australian Prudential Regulation Authority, where the terms are such that if any bank is experiencing liquidity problems, the other participants are required to deposit equal amounts of up to $2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

iv) Contingent tax liability

The Australian Taxation Office is reviewing the taxation treatment of certain transactions, including legacy structured finance transactions, undertaken by the Group in the course of normal business activities.

The Inland Revenue Department (IRD) in New Zealand is reviewing a number of conduit-relieved structured finance transactions as part of normal revenue authority audit procedures. This is part of an industry-wide review by the IRD of these transactions undertaken in New Zealand. The IRD has issued Notices of Proposed Adjustment (the 'Notices') in respect of some of those structured finance transactions. The Notices are not tax assessments and do not establish a tax liability, but are the first step in a formal dispute process. In addition, the IRD has issued some tax assessments as a follow up to the Notices in some cases. Should the same position be adopted by the IRD on the remaining transactions of that kind as reflected in the Notices and in the tax assessments received, the maximum potential tax liability would be approximately NZD506 million (including interest tax effected) for the period to 30 September 2007. Of that maximum potential liability, approximately NZD142 million is subject to tax indemnities provided by Lloyds TSB Bank PLC under the agreement by which ANZ acquired the National Bank of New Zealand and which relate to transactions undertaken by the National Bank of New Zealand before December 2003. All of these conduit-relieved transactions have now either matured or been terminated.

Additional issue-specific audits and other investigations are being undertaken by the New Zealand IRD, and by revenue authorities in other jurisdictions as part of normal revenue authority activity in those countries.

The Company has assessed these and other taxation claims arising in Australia, New Zealand and elsewhere, including seeking independent advice where appropriate, and considers that it holds appropriate provisions.

v) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issues below have not impacted adversely the reported results. All settlements, penalties and costs have been covered within the provisions established at the time.

FERA

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities have served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

Tax Indemnity

ANZ provided an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities were not provided for in the Grindlays accounts as at 31 July 2000. Claims have been made under this indemnity also, with no material impact on the Group expected.

vi) Trade Sanctions

On 1 February 2007, following a review of its compliance with United States (US) economic sanctions and discussions with US regulators, the Group announced that it had curtailed financial transactions with US sanctioned countries and had taken further action to ensure compliance with US sanction regulations. A small number of transactions, 42 in total, involved parties from US sanctioned countries. The Group has made voluntary disclosures to US financial regulators and remains in discussion with US regulators regarding the transactions. The Group has also briefed Australian and New Zealand regulators. The US sanctions regime includes the possibility of fines. Based on current knowledge, it is difficult to predict the level of fines. Nonetheless, the Group considers that it holds appropriate provisions for these issues.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

vii) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and publication of individual financial statements. The results of these companies are included in the consolidated Group results. The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- Alliance Holdings Pty Ltd[1]
- ANZ Orchard Investments Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.

It is the condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee under the class order was executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The consolidated income statement and consolidated balance sheet of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee are:

	Consolidated	
	2007 $m	2006 $m
Profit before tax	4,835	4,161
Income tax expense	(916)	(922)
Profit after income tax	3,919	3,239
Retained profits at start of year	8,240	7,103
Adjustment on adoption of accounting policies specified by AASB 4, AASB 132 and AASB 139	–	(29)
Adjustment on adoption of AASB 2005–1	141	–
Total available for appropriation	12,300	10,313
Ordinary share dividends provided for or paid	(2,363)	(2,068)
Transfer from reserves	–	49
Actuarial gains/(losses) on defined benefit plans after tax	75	(54)
Retained profits at end of year	10,012	8,240
Assets		
Liquid assets	10,618	10,428
Available-for-sale assets	11,383	8,657
Net loans and advances	198,610	172,155
Other assets	78,242	50,532
Premises and equipment	802	603
Total assets	299,655	242,375
Liabilities		
Deposits and other borrowings	161,195	128,321
Income tax liability	669	1,067
Payables and other liabilities	117,992	95,000
Provisions	710	688
Total liabilities	280,566	225,076
Net assets	19,089	17,299
Shareholders' equity[1]	19,089	17,299

1 Shareholders' equity excludes retained profits and reserves of controlled entities within the class order.

45: Contingent Liabilities, Contingent Assets and Credit Related Commitments (continued)

viii) Underpinning agreement – ANZ National Bank Limited

The Company is party to an underpinning agreement with ANZ National Bank Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by ANZ National Bank Limited to individual customers which exceed 35% of ANZ National Bank Limited's capital base.

ix) Underpinning agreement – Australia and New Zealand Banking Group (PNG) Limited

The Company is party to an underpinning agreement with Australia and New Zealand Banking Group (PNG) Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by Australia and New Zealand Banking Group (PNG) Limited to individual customers which exceed 25% of Australia and New Zealand Banking Group (PNG) Limited's capital base.

x) New Zealand Commerce Commission

In November 2006, the New Zealand Commerce Commission brought proceedings under the Commerce Act 1986 against Visa, MasterCard and all New Zealand issuers of Visa and MasterCard credit cards, including ANZ National Bank Limited. The Commission alleges price fixing and substantially lessening competition in relation to the setting of credit card interchange fees and is seeking penalties and orders under the Commerce Act.

Subsequently, several major New Zealand retailers have issued proceedings against ANZ National Bank and the other above mentioned defendants seeking unquantified damages, based on allegations similar to those contained in the Commerce Commission proceedings. ANZ National Bank is defending the proceedings. At this stage, the risks and any potential liabilities cannot be assesed.

GENERAL

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. The gross amounts of provisions made for material litigation contingencies as at 30 September 2007 is $440 million (2006: $405 million).

CONTINGENT ASSETS

National Housing Bank

In 1992, Grindlays received a claim aggregating to approximately Indian Rupees 5.06 billion from the National Housing Bank (NHB) in India. The claim arose out of cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited to the account of a Grindlays customer.

Grindlays won an arbitration award in March 1997, under which NHB paid Grindlays an award of Indian Rupees 9.12 billion. NHB subsequently won an appeal to the Special Court of Mumbai, after which Grindlays filed an appeal with the Supreme Court of India. Grindlays paid the disputed money including interest into court. Ultimately, the parties settled the matter and agreed to share the moneys paid into court which by then totalled Indian Rupees 16.45 billion ($661 million at 19 January 2002 exchange rates), with Grindlays receiving Indian Rupees 6.20 billion ($248 million at 19 January 2002 exchange rates) of the disputed monies. ANZ in turn received a payment of USD124 million (USD equivalent of the Indian Rupees received by Grindlays) from Standard Chartered Bank under the terms of an indemnity given in connection with the sale of Grindlays to Standard Chartered Bank.

ANZ recovered $114 million in 2006 from its insurers in respect of the above.

In addition, ANZ is entitled to share with NHB in the proceeds of any recovery from the estate of the customer whose account was credited with the cheques drawn by NHB. However, the Indian Taxation Department is claiming a statutory priority to all of the funds available for distribution to creditors of that customer. Proceedings are currently afoot in the Special Court of Mumbai to determine these issues. The hearing in the Special Court of Mumbai has concluded and the parties are awaiting an order from the Court.

Visa prospectus

Visa has released their prospectus as at September 2007 and as part of this prospectus ANZ will be entitled to an initial allocation of shares determined under a methodology that was agreed on among the Visa participating regions. This will result in the inflow of economic benefits, the amount and timing of which are uncertain.

46: Superannuation and Other Post Employment Benefit Schemes

Description of the Group's post employment benefit schemes

The Group has established a number of pension, superannuation and post retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and provisions of trust deeds. Legal enforceability is dependent on the terms of the legislation and trust deeds.

The major schemes with assets in excess of $25m are:

			Contribution levels	
Country	Scheme	Scheme type	Employee/participant	Employer
Australia	ANZ Australian Staff Superannuation Scheme[1,2]	Defined contribution scheme Section C[3] *or*	Optional[8]	Balance of cost[10]
		Defined contribution scheme Section A *or*	Optional	9% of salary[11]
		Defined benefit scheme Pension Section[4]	Nil	Balance of cost[12]
New Zealand	ANZ Group (New Zealand) Staff Superannuation Scheme[1,2]	Defined benefit scheme[5] *or*	Nil	Balance of cost[13]
		Defined contribution scheme	Minimum of 2.5% of salary	7.5% of salary[14]
	National Bank Staff Superannuation Fund[1,2]	Defined benefit scheme[6] *or*	5.0% of salary	Balance of cost[15]
		Defined contribution scheme[7]	Minimum of 2.0% salary	11.5% of salary[16]
UK	ANZ UK Staff Pension Scheme[1]	Defined benefit scheme[7]	5.0% of salary[9]	Balance of cost[17]

Balance of cost: the Group's contribution is assessed by the actuary after taking account of members' contributions and the value of the schemes' assets.

1 These schemes provide for pension benefits.
2 These schemes provide for lump sum benefits.
3 Closed to new members in 1997.
4 Closed to new members. Operates to make pension payments to retired members or their dependants.
5 Closed to new members on 31 March 1990. Operates to make pension payments to retired members of that section of the scheme or their dependants.
6 Closed to new members on 1 October 1991.
7 Closed to new members on 1 October 2004.
8 Optional but with minimum of 1% of salary.
9 From 1 October 2003, all members' contributions are at a rate of 5% of salary.
10 As determined by the Trustee on the recommendation of the actuary - currently 9% (2006: 9%) of members' salaries.
11 2006: 9% of salary.
12 As determined by the Trustee on the recommendation of the actuary - currently nil (2006: nil).
13 As recommended by the actuary - currently nil (2006: nil).
14 2006: 7.5% of salary.
15 As recommended by the actuary - currently 24.8% (2006: 24.7%) of members' salaries.
16 2006: 11.5% of salary.
17 As agreed by the Trustee and Group after taking the advice of the actuary - currently 26% (2006: 26%) of pensionable salaries and additional quarterly contributions of GBP 3.5 million until December 2015.

46: Superannuation and Other Post Employment Benefit Schemes (continued)

Funding and contribution information for the defined benefit sections of the schemes

The funding and contribution information for the defined benefit sections of the schemes as extracted from the schemes' most recent financial reports are set out below.

In this financial report, the net (liability)/asset arising from the defined benefit obligation recognised in the balance sheet has been determined in accordance with AASB 119 "Employee Benefits". However, the excess or deficit of the net market value of assets over accrued benefits shown below has been determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans'. The excess or deficit for funding purposes below differs from the net (liability)/asset in the balance sheet because AAS 25 prescribes a different measurement date and basis to those used for AASB 119 purposes.

2007 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[2]	36	35	(1)
ANZ UK Staff Pension Scheme[2]	1,134	967	(167)
ANZ UK Health Benefits Scheme[4]	15	–	(15)
ANZ Group (New Zealand) Staff Superannuation Scheme[1]	6	6	–
National Bank Staff Superannuation Fund[3]	168	163	(5)
Other[4, 5]	7	5	(2)
Total	1,366	1,176	(190)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'. Under AASB 119 the discount rates used are based on prevailing government and corporate bond rates at the reporting date (30 September 2007), rather than the expected return on scheme assets as at the most recent actuarial valuation date, set out below, as prescribed by AAS 25.

1 Amounts were measured at 31 December 2004.
2 Amounts were measured at 31 December 2006.
3 Amounts were measured at 31 March 2007.
4 Amounts were measured at 30 September 2007.
5 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

2006 Schemes	Accrued benefits* $m	Net market value of assets held by scheme $m	Excess/(deficit) of net market value of assets over accrued benefits $m
ANZ Australian Staff Superannuation Scheme Pension Section[2]	39	35	(4)
ANZ UK Staff Pension Scheme[2]	1,249	997	(252)
ANZ UK Health Benefits Scheme[4]	13	–	(13)
ANZ Group (New Zealand) Staff Superannuation Scheme[1]	6	6	–
National Bank Staff Superannuation Fund[3]	170	166	(4)
Other[4, 5]	7	5	(2)
Total	1,484	1,209	(275)

* Determined in accordance with AAS 25 'Financial Reporting by Superannuation Plans', which prescribes a different measurement date and basis to those applied in this financial report under AASB 119 'Employee Benefits'. Under AASB 119 the discount rates used are based on prevailing government and corporate bond rates at the reporting date (30 September 2006), rather than the expected return on scheme assets as at the most recent actuarial valuation date, set out below, as prescribed by AAS 25.

1 Amounts were measured at 31 December 2004.
2 Amounts were measured at 31 December 2005.
3 Amounts were measured at 31 March 2006.
4 Amounts were measured at 30 September 2006.
5 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan.

Employer contributions to the defined benefit schemes are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

The Group expects to make contributions of $41 million to the defined benefit sections of the schemes during the next financial year.

46: Superannuation and Other Post Employment Benefit Schemes (continued)

The current contribution recommendations for the major defined sections of the schemes are described below.

ANZ Australian Staff Superannuation Scheme Pension Section

The Pension Section of the ANZ Australian Staff Superannuation Scheme is closed to new members. A full actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2004 showed a deficit of $5 million and the actuary recommended that Group contributions to the Pension Section remain suspended. An interim actuarial valuation conducted as at 31 December 2006 showed a deficit of $1 million and the expectation is that this deficit has remained materially unchanged since that date. The next full actuarial valuation is due to be conducted as at 31 December 2007, at which time the funding position will be reassessed.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return	8% p.a.
Pension indexation rate	3% p.a.

The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund the deficit.

ANZ UK Staff Pension Scheme

A full actuarial valuation, conducted by consulting actuaries Watson Wyatt LLP, as at 31 December 2005 showed a deficit of GBP 100 million ($230 million at 30 September 2007 exchange rates).

Following the actuarial valuation as at 31 December 2005, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group also agreed to pay additional quarterly contributions of GBP 3.5 million until 31 December 2015. These contributions will be reviewed at the next actuarial valuation which is scheduled to be undertaken as at 31 December 2007.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return on existing assets	5.1% p.a.
Rate of investment return for determining ongoing contributions	6.8% p.a.
Salary increases	4.8% p.a.
Pension increases	3.0% p.a.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise if the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

On adoption of AIFRS, a net liability representing the defined benefit obligation calculated under AASB 119 was recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in note 1(xx), and on page 144.

National Bank Staff Superannuation Fund

A full actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2006 showed a deficit of NZD6 million ($5 million at 30 September 2007 exchange rates). The actuary recommended that the Group make contributions of 24.8% of salaries in respect of members of the defined benefit section.

The following economic assumptions were used in formulating the actuary's funding recommendations:

Rate of investment return (net of income tax)	5.5% p.a.
Salary increases	3.0% p.a.
Pension increases	2.5% p.a.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured under AAS 25. A contingent liability may arise if the Scheme was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Scheme an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the Scheme on an on-going basis.

On adoption of AIFRS, a net asset representing the defined benefit surplus calculated under AASB 119 was recognised on the balance sheet. The basis of calculation under AASB 119 is detailed in note 1(xx), and on page 144.

46: Superannuation and Other Post Employment Benefit Schemes (continued)

The following tables summarise the components of the expense recognised in the income statement and the amounts recognised in the balance sheet under AASB 119 for the defined benefit sections of the schemes:

	Consolidated		The Company	
	2007 $m	2006 $m	2007 $m	2006 $m
Amount recognised in income in respect of defined benefit schemes				
Current service cost	14	12	11	9
Interest cost	71	64	61	55
Expected return on assets	(77)	(70)	(67)	(61)
Past service cost	1	3	1	3
Adjustment for contributions tax	2	2	–	–
Total included in personnel expenses (refer note 4)	11	11	6	6
Amounts included in the balance sheet in respect of its defined benefit schemes				
Present value of funded defined benefit obligation	(1,267)	(1,462)	(1,112)	(1,296)
Fair value of scheme assets	1,199	1,238	1,037	1,067
Present value of net obligation	(68)	(224)	(75)	(229)
Amounts recognised in the balance sheet				
Other assets (refer note 21)	7	5	–	–
Payables and other liabilities (refer note 26)	(75)	(229)	(75)	(229)
Present value of net obligation	(68)	(224)	(75)	(229)
Amounts recognised in equity in respect of defined benefit schemes				
Actuarial (gains)/losses incurred during the year and recognised directly in retained earnings	(107)	78	(104)	77
Cumulative actuarial (gains)/losses recognised directly in retained earnings	(64)	43	(56)	48

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution. For more information about the Group's legal liability to fund deficits, refer to the earlier description of the current contribution recommendations for the schemes.

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
Movements in the present value of the defined benefit obligation in the relevant period				
Opening defined benefit obligation	1,462	1,246	1,296	1,076
Current service cost	14	12	11	9
Interest cost	72	64	62	55
Contributions from scheme participants	1	1	–	–
Actuarial (gains)/losses	(101)	126	(92)	121
Past service cost	1	3	1	3
Exchange differences on foreign schemes	(111)	84	(108)	89
Benefits paid	(71)	(74)	(58)	(57)
Closing defined benefit obligation	1,267	1,462	1,112	1,296
Movements in the fair value of scheme assets in the relevant period				
Opening fair value of scheme assets	1,238	1,099	1,067	922
Expected return on scheme assets	77	70	67	61
Actuarial gains/(losses)	6	48	12	44
Exchange differences on foreign schemes	(92)	70	(89)	77
Contributions from the employer	40	24	38	20
Contributions from scheme participants	1	1	–	–
Benefits paid	(71)	(74)	(58)	(57)
Closing fair value of scheme assets[1]	1,199	1,238	1,037	1,067
Actual return on scheme assets	82	118	79	105

1 Scheme assets include the following financial instruments issued by the Group: Cash and short term debt instruments $4.8 million (September 2006: $2.5 million), fixed interest securities $1.0 million (September 2006: $5.7 million) and equities $0.2 million (September 2006: $0.6 million).

46: Superannuation and Other Post Employment Benefit Schemes (continued)

	Consolidated Fair value of scheme assets 2007 %	Consolidated Fair value of scheme assets 2006 %	The Company Fair value of scheme assets 2007 %	The Company Fair value of scheme assets 2006 %
Analysis of the scheme assets				
Equities	48	50	48	51
Debt securities	33	33	30	30
Property	13	14	15	16
Other	6	3	7	3
Total assets	100	100	100	100

	2007 %	2006 %
Key actuarial assumptions used (expressed as weighted averages)		
Discount rate		
ANZ Australian Staff Superannuation Scheme – Pension Section	6.25	5.50
ANZ UK Staff Pension Scheme	5.90	5.00
ANZ UK Health Benefits Scheme	6.00	5.10
ANZ Group (New Zealand) Staff Superannuation Scheme	6.50	6.00
National Bank Staff Superannuation Fund	6.50	6.00
Expected rate of return on scheme assets		
ANZ Australian Staff Superannuation Scheme – Pension Section	8.50	7.50
ANZ UK Staff Pension Scheme	7.00	6.50
ANZ UK Health Benefits Scheme	n/a	n/a
ANZ Group (New Zealand) Staff Superannuation Scheme	4.50	4.50
National Bank Staff Superannuation Fund	5.50	5.50
Future salary increases		
ANZ UK Staff Pension Scheme	5.15	4.75
National Bank Staff Superannuation Fund	3.00	3.00
Future pension increases		
ANZ Australian Staff Superannuation Scheme – Pension Section	3.00	3.00
ANZ UK Staff Pension Scheme	3.35	2.95
ANZ Group (New Zealand) Staff Superannuation Scheme	2.50	2.50
National Bank Staff Superannuation Fund	2.50	2.50
Future medical cost trend – short term		
ANZ UK Health Benefits Scheme	10.00	7.30
Future medical cost trend – long term		
ANZ UK Health Benefits Scheme	5.50	4.50

To determine the expected returns of each of the asset classes held by the relevant scheme, the directors assessed historical return trends and market expectations for the asset classes. The overall expected rate of return on assets for each scheme is determined as the weighted average of the expected returns for the asset classes.

Assumed medical cost trend rates do not have a material effect on the amounts recognised as income or included in the balance sheet.

	Consolidated 2007 $m	Consolidated 2006 $m	The Company 2007 $m	The Company 2006 $m
History of experience adjustments				
Defined benefit obligation	(1,267)	(1,462)	(1,112)	(1,296)
Fair value of scheme assets	1,199	1,238	1,037	1,067
Surplus/(deficit)	(68)	(224)	(75)	(229)
Experience adjustments on scheme liabilities	9	7	10	5
Experience adjustments on scheme assets	6	48	12	44

47: Employee Share and Option Plans

ANZ operates a number of employee share and option schemes which operate under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan (ESAP) schemes that existed during the 2006 and 2007 financial years were the $1,000 Share Plan, the Restricted Share Plan, the Deferred Share Plan, the Performance Share Plan and the Employee Share Save Scheme (ESSS). Note the ESSS is an employee salary sacrifice plan and is not captured as an expense in the share based payment expense model.

$1,000 share plan

Each permanent employee (excluding senior executives) who has had continuous service for one year is eligible to participate in the $1,000 scheme enabling the grant of up to $1,000 of ANZ shares in each financial year, subject to ANZ's performance and the approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the 1 week weighted average price of ANZ shares traded on the ASX in the week leading up to and including the date of grant.

In Australia and most overseas locations, shares are granted to eligible employees for nil consideration and vest immediately when granted, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. In general, dividends received on the shares are automatically reinvested into the Dividend Reinvestment Plan.

Shares granted to eligible New Zealand employees under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. At the time of transfer, employees are required to pay NZD 1 cent per share. Shares may be forfeited in the event of dismissal for serious misconduct or resignation. Dividends are received as cash.

During the 2007 year, 901,374 shares with an issue price of $27.97 were granted under the plan to employees on 4 December 2006. (2006 year: 1,012,008 shares with an issue price of $23.81 were granted on 5 December 2005). A further 2,958 ANZ shares with an issue price of $29.37 where granted under the plan to ETRADE Australia Limited employees on 22 June 2007 (following the ANZ acquisition).

Deferred share plan

Selected employees may also be granted long-term incentive (LTI) deferred shares which vest to the employee up to three years from the date of grant. Ordinary shares granted under this LTI plan may be held in trust beyond the deferral period. Unvested LTI deferred shares are forfeited on resignation, dismissal for serious misconduct or termination on notice. In the event of death or total and permanent disablement, all shares will be released to the employee in full.

Short-term incentive (STI) three year deferred shares were granted under a historical ANZ STI program, and may be held in trust beyond the deferral period. The last grant of three year STI deferred shares was made on 11 May 2004 (with the vesting date being 11 May 2007). There were no 3 year STI deferred share grants in the 2006 or 2007 financial years. STI deferred shares with a two year deferral period are still granted under a business unit specific incentive plan (primarily as a retention tool), and may be held in trust beyond the deferral period. Unvested STI deferred shares are only forfeited on resignation or dismissal for serious misconduct.

In exceptional circumstances, sign-on two or three year deferred shares are granted to certain employees upon commencement with ANZ to compensate for equity foregone from their previous employer. Retention three year deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ. Sign-on and retention deferred shares will be forfeited on resignation, dismissal for serious misconduct or termination on notice. In the event of death or total and permanent disablement, all shares will be released to the employee in full.

The employee receives all dividends on deferred shares while held in trust (cash or dividend reinvestment plan). The issue price for deferred shares is based on the volume weighted average price of the shares traded on the ASX in the week leading up to and including the date of grant.

During the 2007 year, 1,275,132 deferred shares with a weighted average grant price of $29.13 were granted under the deferred share plan (2006 year: 269,032 shares with a weighted average grant price of $23.68 were granted).

Restricted share plan

Management level employees and eligible non-management employees may elect a pre-tax sacrifice of part or all of their annual cash bonus for ANZ shares. The shares are subject to a 12 month restriction period, however, they may be left in trust beyond the restriction period. The shares are subject to forfeiture on dismissal for serious misconduct. The shares are released to the employee on termination for any other reason. The employee receives all dividends on these restricted shares (cash or dividend reinvestment plan). The issue price is based on the volume weighted average price of the shares traded on the ASX on the week leading up to and including the date of grant.

During the 2007 year, 339,269 shares with an issue price of $29.04 were granted under the Restricted Share Plan (2006 year: 401,575 shares with an issue price of $23.49 were granted).

Performance share plan

Performance shares are essentially LTI deferred shares with a performance hurdle. They were granted to i) a small number of US based employees on 7 November 2005 to accommodate local taxation laws, and ii) to J McFarlane on 31 December 2004 (as per his employment contract).

Based on the conditions of grant, the proportion of performance shares that vest will depend upon the total shareholder return (TSR) achieved by ANZ relative to a comparator group of major financial services companies. Performance equal to the median TSR of the comparator group will result in half the performance shares vesting. Vesting will increase on a straight-line basis until all of the performance shares vest where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis.

J McFarlane (who ceased as CEO of ANZ on 30 September 2007), was granted 175,000 Performance Shares on 31 December 2004, with no dividends payable on the shares until vesting. In accordance with the terms of the grant, the Performance Shares were restricted for two years from the date of grant, with vesting subject to the achievement of the performance hurdle. Performance against the hurdle was tested monthly (from 31 December 2006) in accordance with the terms of the grant. The issue price was $15.02. ANZ agreed to acquire J MCFarlane's interest

47: Employee Share and Option Plans (continued)

in the 175,000 Performance Shares on his departure. Refer to page 23 of the Remuneration Report for further details.

Share valuations

The fair value of shares granted in the 2007 year under the $1,000 share plan, the Deferred Share Plan and the Restricted Share Plan, measured as at the date of grant of the shares, is $72.7 million based on 2,518,733 shares at a weighted average price of $28.88 (2006 year: fair value of shares granted is $40 million based on 1,682,615 shares at a weighted average price of $23.66). The volume weighted average share price of all ANZ shares sold on the Australian Securities Exchange on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options/rights, which entitle them to purchase ordinary fully paid shares in ANZ at a price fixed at the time the options/rights are granted (with the exception of index-linked options). Voting and dividend rights will be attached to the unissued ordinary shares when the options/rights have been exercised. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. The exercise price of the options, determined in accordance with the rules of the plan, is generally based on the weighted average price of the shares traded in the week leading up to and including the date of grant. For zero priced options and performance rights, the exercise price is nil. Index-linked options have a dynamic exercise price that is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ).

ANZ Share Option Plan schemes expensed in the 2006 and 2007 years are as follows:

Current Option Plans

Performance rights plan

Performance rights are granted to certain employees as part of ANZ's long-term incentive (LTI) program. The first grant of performance rights was in November 2005, and provides the right to acquire ANZ shares at nil cost, subject to a three-year vesting period and a Total Shareholder Return (TSR) performance hurdle. The proportion of LTI performance rights that become exercisable will depend upon the TSR achieved by ANZ relative to a comparator group of major financial services companies, measured over the same period (since grant) and calculated at the third anniversary of grant. Performance equal to the median TSR of the comparator group will result in half the performance rights becoming exercisable. Vesting will increase on a straight-line basis until all of the performance rights become exercisable where ANZ TSR is at or above the 75th percentile of TSRs in the comparator group. Where ANZ's performance falls between two of the comparators, TSR is measured on a pro-rata basis. The performance hurdle will only be tested once at the end of the three year vesting period. If the performance rights do not pass the hurdle on the testing date, or they are not exercised by the end of the exercise period (5 years from the date of grant), they will lapse. In the case of dismissal for serious misconduct, all unexercised performance rights will be forfeited. In the case of resignation or termination on notice, only performance rights that become exercisable (and pass the performance hurdle) by the end of the notice period may be exercised. In the case of death or total and permanent disablement, all performance rights are available for exercise (with the performance hurdle waived).

Deferred share rights (No performance hurdles)

Deferred share rights are granted instead of deferred shares to accommodate off-shore taxation implications. They provide the right to acquire ANZ shares at nil cost after a specified vesting period. In the case of resignation, only rights that become exercisable by the end of the notice period may be exercised. All other rights will lapse. In the case of termination on notice, death or total and permanent disablement, all rights will be available for exercise. The fair value of rights is adjusted for the absence of dividends during the restriction period.

Legacy Option Plans

The following legacy plans are no longer being offered to Group employees, but were expensed during the 2006 and 2007 years.

Performance option plan (No performance hurdle applies)

Performance options were granted to certain employees (below executive levels) as part of a historical LTI program. Performance options are no longer part of ANZ's current equity strategy, with 7 November 2005 being the last grant of performance options. The options can only be exercised after a three-year vesting period and before the seventh anniversary of the grant date. There are no performance conditions attached to these options as they were primarily granted as a retention tool. All unexercised options are forfeited on dismissal for serious misconduct, resignation and termination on notice. On death or total and permanent disablement, all unvested options will become available for exercise.

Zero-priced options (ZPOs)

A ZPO is a right to acquire an ANZ share at nil cost. ZPOs were granted to Sir John Anderson (former CEO of ANZ National Bank Limited NZ) as part of his employment contract, with the last grant occuring on 7th November 2005. The ZPOs had no time based vesting criteria, so were able to be exercised at any time during his employment and within six months of termination of his employment.

Deferred share rights (No performance hurdle)

Special deferred share rights were granted to a small number of New Zealand employees in December 2004. They provide the right to acquire ANZ shares at nil cost after a three year vesting period. Rights must be exercised by the seventh anniversary of the grant date. They may be forfeited at the Company's discretion if the employee ceases employment for any reason. The fair value of rights is adjusted for the absence of dividends during the restriction period.

Hurdled options

Hurdled options were granted to certain employees as part of a historical LTI program. The options can only be exercised subject to the satisfaction of time and performance based hurdles. Options may be exercised during the four year period commencing three years, and ending seven years after the grant date, subject to meeting the relevant performance hurdle. The performance hurdle will be measured during the exercise period by comparing ANZ's Total Shareholder Return (ANZ's TSR) against the comparator group relevant to the hurdled option grant.

47: Employee Share and Option Plans (continued)

Hurdled options granted in November 2004 will be tested against a comparator group consisting of major financial services companies, excluding ANZ. The options become exercisable depending on ANZ's ranking within the comparator group. ANZ must rank at the 50th percentile for 50% of the options to become exercisable. For each 1% increase above the 50th percentile an additional 2% of options will become exercisable, with 100% being exercisable where ANZ ranks at or above the 75th percentile. This will be calculated as at the last trading day of any month (once the exercise period has commenced).

Other hurdled option grants will be measured against the S&P/ASX 200 Banks Accumulation Index, and the S&P/ASX 100 Accumulation Index. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced); and the other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since grant) and calculated as at the last trading day of any month (once the exercise period has commenced). The forfeiture provisions are the same as the performance option plan.

Index linked options

Index linked options have a dynamic exercise price that acts as a built-in performance hurdle, i.e. the exercise price is adjusted in line with the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ) since the grant date. As an additional constraint, the adjusted exercise price can only be set at or above the original exercise price. Index linked options are exercisable between the 3rd and 7th year after grant date, subject to the adjusted exercise price being above the prevailing share price. Unexercised options are forfeited on dismissal for serious misconduct, resignation and termination on notice. On death or total and permanent disablement, entitlements to options will be pro-rated over the three-year vesting period.

CEO options

Options were granted to J McFarlane (who ceased as CEO of ANZ on 30 September 2007) as per his employment contract and were approved by shareholders at the December 1999 and December 2001 Annual General Meetings.

Of the options granted to J McFarlane, only the 31 December 2002, 2003 and 2004 grants were expensed during the 2006 and 2007 financial years. These option grants may be exercised subject to the following: one half of the options may be exercised only if the ANZ TSR calculated over the period commencing on the date of grant and ending on the last day of any month after the second anniversary of the date of grant, exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index over that same period; and the other half of the options may be exercised only if the ANZ TSR calculated over the relevant period exceeds the percentage change in the S&P/ASX 100 Accumulation Index over that same period. J McFarlane has exercised all his vested options. Refer to the Remuneration Report on page 23 for further details.

47: Employee Share and Option Plans (continued)

Option Movements

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2007 financial year and movements during the 2007 financial year are set out below:

	Opening Balance 1 October 2006	Options Granted	Options Forfeited[1]	Options Expired	Options Exercised	Closing Balance 30 September 2007
	29,400,706	1,431,170	1,122,241	155,670	7,860,610	21,693,355
Weighted Average Exercise Price	$17.18	-	$16.55	$17.32	$16.77	$16.23

The weighted average share price during the year ended 30 September 2007 was $28.99 (2006: $25.25).

The weighted average remaining contractual life of share options outstanding at 30 September 2007 was 3.0 years (2006: 3.7 years).

The weighted average exercise price of all exercisable share options outstanding at 30 September 2007 was $16.79 (2006: $15.49).

A total of 8,876,289 exercisable share options were outstanding at 30 September 2007 (2006: 7,357,614).

Details of options over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of the 2006 financial year and movements during the 2006 financial year are set out below:

	Opening Balance 1 October 2005	Options Granted	Options Forfeited[1]	Options Expired[1]	Options Exercised	Closing Balance 30 September 2006
TOTALS	33,447,778	4,551,276	1,943,530	-	6,654,818	29,400,706
Weighted Average Exercise Price	$17.35	$15.00	$17.39	-	$16.45	$17.18

1 Numbers in the "Options Forfeited" column includes any options which may have expired due to a termination of employment whereby the employee was offered a grace period in which to exercise. The number of options to expire under these circumstances is immaterial.

47: Employee Share and Option Plans (continued)

The following options over ordinary shares have been granted since the end of the 2007 financial year up to the signing of the Directors' Report on 7 November 2007.

	Grant date	Exercise price	Earliest exercise date	Expiry date	Options granted
Performance rights	30/10/2007	$0.00	30/10/2010	30/10/2012	940,886
Total					

Details of shares issued as a result of the exercise of options during the year ended 30 September 2007 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
$0.00	22,549	–	16.33	50,000	816,500
$9.39	20,000	187,800	18.03	522,283	9,416,762
$11.09	57,000	632,130	18.03	172,600	3,111,978
$12.03	10,000	120,300	18.03	175,000	3,155,250
$13.62	126,804	1,727,070	18.55	34,575	641,366
$13.91	213,175	2,965,264	17.34	422,365	7,323,809
$13.91	148,000	2,058,680	16.69	500,000	8,345,000
$14.20	648,432	9,207,734	17.60	552,245	9,719,512
$12.98	85,200	1,105,896	17.55	968,518	16,997,491
$12.98	344,573	4,472,558	17.55	620,868	10,896,233
$12.98	6,200	80,476	18.22	646,321	11,775,969
$14.61	49,550	723,926	18.22	387,732	7,064,477
$15.77	76,000	1,198,520	20.68	102,828	2,126,483
$16.09	16,000	257,440	20.68	49,319	1,019,917
$16.33	91,700	1,497,461	20.49	250,000	5,122,500
$16.33	480,655	7,849,096	23.49	10,118	237,672

Details of shares issued as a result of the exercise of options during the year ended 30 September 2006 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	9,961	–	16.80	500,000	8,400,000
9.39	102,000	957,780	17.34	741,736	12,861,702
11.09	28,500	316,065	17.48	1,000,000	17,480,000
12.03	12,500	150,375	17.55	54,972	964,759
12.98	49,500	642,510	17.55	35,385	621,007
12.98	286,725	3,721,691	17.60	395,687	6,964,091
12.98	5,150	66,847	18.03	650,837	11,734,591
13.62	101,000	1,375,620	18.03	193,200	3,483,396
13.91	185,825	2,584,826	18.03	140,000	2,524,200
13.91	108,500	1,509,235	18.12	8,611	156,031
14.20	568,869	8,077,940	18.22	40,875	744,743
14.61	59,950	875,870	18.22	20,884	380,506
16.09	5,000	80,450	18.55	110,000	2,040,500
16.33	140,000	2,286,200	18.55	63,185	1,172,082
16.33	485,949	7,935,547	20.68	22,131	457,669
16.69	500,000	8,345,000	20.68	27,886	576,682

Details of shares issued as a result of the exercise of options since the end of the 2007 financial year up to the signing of the Directors' Report on 7 November 2007 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
13.62	18,000	245,160	18.55	3,000	55,650
13.91	24,000	333,840	17.34	31,270	542,222
13.91	20,250	281,678	17.60	32,468	571,437
14.20	70,960	1,007,632	17.55	47,910	840,821
12.98	37,813	490,813	18.22	16,866	307,299
12.98	1,150	14,927	18.22	70,012	1,275,619
14.61	6,500	94,965	20.68	4,934	102,035
16.33	35,850	585,431	20.68	43,748	904,709
18.03	37,100	668,913	23.49	8,926	209,672

47: Employee Share and Option Plans (continued)

A range of outcomes is possible given the uncertainty and assumptions in relation to option valuation. In determining the fair value below, we used standard market techniques for valuation including Monte Carlo and/or Black Scholes pricing models. The models take into account early exercise, non-transferability and market based performance hurdles.

The significant assumptions used to measure the fair value of instruments granted during the 2007 financial year are contained in the table below.

Option Type	Deferred Share Rights	Deferred Share Rights	Deferred Share Rights	Deferred Share Rights	Performance Rights
Grant Date	11-July-07	1-Nov-06	1-Nov-06	1-Nov-06	24-Oct-06
Number of Options	44,431	4,060	29,905	129,856	1,223,018
Option Fair Value (A$)	$25.94	$27.54	$25.66	$26.89	$13.08
Exercise Price (5 day VWAP)	$0.00	$0.00	$0.00	$0.00	$0.00
Share price at date of grant	$29.60	$29.54	$29.54	$29.54	$28.15
ANZ expected Volatility[1]	15%	15%	15%	15%	15%
Option Term	5 years	5 years	5 years	5 years	5 years
Vesting period	3 years	1.5 year	3 years	2 years	3 years
Expected life	3 years	1.5 year	3 years	2 years	4 years
Expected Dividend Yield	4.50%	4.80%	4.80%	4.80%	4.80%
Risk Free Interest Rate	6.37%	6.11%	6.02%	6.11%	6.00%

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

The significant assumptions used to measure the fair value of instruments granted during the 2006 financial year are contained in the table below.

Option Type	Performance Options	Deferred Share Rights	Performance Rights	Zero-priced options
Grant Date	7-Nov-05	7-Nov-05	18-Nov-05	7-Nov-05
Number of Options	2,905,812	10,845	1,624,658[2]	9,961
Option Fair Value (A$)	$3.05	$22.48	$11.64	$23.57
Exercise Price (5 day VWAP)	$23.49	$0.00	$0.00	$0.00
Share price at date of grant	$23.60	$23.60	$24.05	$23.60
ANZ expected Volatility[3]	17%	15%	15%	n/a
Option Term	7 years	7 years	5 years	1 year
Vesting period	3 years	1 year	3 years	Immediate
Expected life	n/a[1]	1 year	4 years	n/a
Expected Dividend Yield	5.41%	5.00%	5.00%	n/a
Risk Free Interest Rate	5.30%	5.54%	5.31%	n/a

1 To allow maturity/marketability a 10% pa turnover rate (post vesting has been assumed, as well as that option holders will exercise their options if the share price is greater than twice the exercise price.
2 This number includes an additional 59,400 rights allocated in May 2006, with the same terms and conditions as the 18 November 2005 grant.
3 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the options. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a defined period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the options.

48: Key Management Personnel Disclosures

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Details regarding loans outstanding at the reporting date to directors of the Company and other key management personnel of the Group including their personally related parties, where the individuals aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	Opening balance 1 October	Closing balance 30 September	Interest paid and payable in the reporting period	Highest balance in the reporting period
	$	$	$	$
Directors				
Non-executive Directors				
2007				
J P Morschel	705,489	452,374	60,641	707,342
D M Gonski[1]	18,342,000	–	105,497	18,342,000
2006				
J P Morschel	716,880	705,489	51,567	716,880
D M Gonski[1]	18,342,000	18,342,000	1,088,498	18,342,000
Executive Director				
2007				
J McFarlane[2,3]	201,686	–	243,616	6,017,051
2006				
J McFarlane[2,3]	6,264,681	201,686	335,603	25,624,811
Other key management personnel				
2007				
R J Edgar	1,453,114	560,291	122,109	2,954,530
B C Hartzer[4]	3,486,967	7,093,816	564,663	11,047,613
G K Hodges	2,986,598	3,672,905	251,450	3,893,704
P R Marriott	2,614,674	2,824,293	209,619	2,824,293
S Targett	600,000	575,000	41,431	619,902
2006				
R J Edgar	918,284	1,453,114	85,329	1,458,129
E Funke Kupper[4,5]	680,000	n/a	624	680,000
B C Hartzer[4]	2,703,626	3,486,967	209,367	3,868,314
G K Hodges	1,019,242	2,986,598	133,617	3,616,438
P R Marriott	–	2,614,674	160,485	2,614,674
S Targett	–	600,000	52,278	600,000

1 D Gonski resigned effective 30 June 2007.
2 J McFarlane resigned effective 30 September 2007.
3 The loan balances largely relate to loans for the purchase of ANZ shares, including the exercise of options.
4 Interest payments on the loan balances outstanding during the year were reduced as a result of a linked offset account.
5 E Funke Kupper resigned effective 1 February 2006.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to each group of directors and other key management personnel including related parties are as follows:

	Opening balance 1 October	Closing balance 30 September	Interest paid and payable in the reporting period	Number in group at 30 September[1]
	$	$	$	
Directors				
2007	19,249,175	452,374	409,754	1
2006	25,323,561	19,249,175	1,475,668	3
Other key management personnel				
2007	11,141,353	14,726,305	1,189,272	5
2006	5,321,152	11,141,353	641,700	5

1 Number in the Group includes directors and specified executive with loan balances greater than zero.

49: Transactions with Other Related Parties

Joint Venture Entities

During the course of the financial year the Company and the Group conducted transactions with joint venture entities on normal commercial terms and conditions as shown below:

	Consolidated		The Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Amounts receivable from joint venture entities	230,943	398,714	218,688	301,999
Interest revenue	18,922	18,093	15,253	13,607
Dividend revenue	95,500	45,570	–	–
Commissions received from joint venture entities	196,454	162,172	176,848	142,072
Costs recovered from joint venture entities	9,158	11,033	8,553	9,022

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Associates

During the course of the financial year the Company and Group conducted transactions with associates on normal terms and conditions as shown below:

	Consolidated		The Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Amounts receivable from associates	98,072	78,417	50,304	37,761
Interest revenue	9,969	9,070	5,634	5,973
Dividend revenue	8,609	5,487	3,356	5,487

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

Subsidiaries

During the course of the financial year subsidiaries conducted transactions with each other and joint ventures and associates on normal terms and conditions. They are fully eliminated on consolidation. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

50: Exchange Rates

The exchange rates used in the translation of the results and the assets and liabilities of major overseas branches and controlled entities are:

	2007		2006	
	Closing	Average	Closing	Average
Euro	0.6223	0.6072	0.5882	0.6071
Great British pound	0.4355	0.4103	0.3982	0.4150
New Zealand dollar	1.1643	1.1330	1.1455	1.1433
United States dollar	0.8816	0.8084	0.7476	0.7468

51: Events Since the End of the Financial Year

There were no significant events from 30 September 2007 to the date of this report.

DIRECTORS' DECLARATION

The directors of Australia and New Zealand Banking Group Limited declare that:

a) in the directors' opinion, the financial statements and notes of the Company and the consolidated entity have been prepared in accordance with the Corporations Act 2001, including that they:

   i) comply with applicable Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   ii) give a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2007 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and

   iii) the Annual Report of the consolidated entity complies with International Financial Reporting Standards as disclosed in note 1.

b) in the directors' opinion, the remuneration disclosures that are contained on pages 14 to 35 of the Remuneration Report comply with Australian Accounting Standard AASB 124 "Related Party Disclosures" when read in conjunction with the Corporations Act 2001; and

c) the directors have received the declarations required by section 295A of the Corporations Act 2001; and

d) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

e) the Company and certain of its wholly owned controlled entities (listed in note 45) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee to each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.

Charles Goode
Chairman

Michael R P Smith
Director

7 November 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

We have audited the accompanying financial report of Australia and New Zealand Banking Group Limited (the Company), which comprises the balance sheets as at 30 September 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 51 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration report contained in pages 14 to 35 of the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and, including those required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 14 to 35 of the directors' report and not in the financial report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT AND THE AASB 124 DISCLOSURES CONTAINED IN THE DIRECTORS' REPORT

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards but that the financial report of the Company does not comply.

The directors of the company are also responsible for the remuneration report contained in the directors' report.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration report contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration report contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report and the remuneration report contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration report contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration report is in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITOR'S OPINION ON THE FINANCIAL REPORT

In our opinion:

(a) the financial report of Australia and New Zealand Banking Group Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 September 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1 but the financial report of the Company does not comply.

AUDITOR'S OPINION ON THE REMUNERATION REPORT CONTAINED IN THE DIRECTORS' REPORT

In our opinion the remuneration report on pages 14 to 35 of the directors' report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

Melbourne, Australia
7 November 2007

Michelle Hinchliffe
Partner

FINANCIAL INFORMATION

1: Cross Border Outstandings

Cross border outstandings of the Group to countries which individually represented in excess of 0.75% of the Group's total assets are shown below.

There were no cross border outstandings to any other country exceeding 0.75% of total assets.

Cross border foreign outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk and comprise loans (including accrued interest), placements with banks, acceptances and other monetary assets denominated in currencies other than the borrower's local currency.

For certain countries, local currency obligations are also included. Cross border foreign outstandings are before individual and collective provisions.

	Governments and other official institutions $m	Banks and other financial institutions $m	Other commercial and industrial $m	Total $m	% of Group's assets
At 30 September 2007					
USA	1	3,498	1,679	5,178	1.3
United Kingdom	–	1,942	2,392	4,334	1.1
China	49	3,119	456	3,624	0.9
At 30 September 2006					
United Kingdom	19	2,231	2,685	4,935	1.5
China	4	3,166	372	3,542	1.1
USA	14	2,753	459	3,226	1.0

2: Certificates of Deposit and Term Deposit Maturities

The following table shows the maturity profile of the Group's certificates of deposit and term deposits in excess of $100,000 issued at 30 September 2007.

	Less than 3 months $m	Between 3 months and 6 months $m	Between 6 months and 12 months $m	After 1 year $m	Total $m
Australia					
Certificates of deposit	11,450	4,252	1,886	6,219	23,807
Term deposits	22,740	2,551	1,768	113	27,172
	34,190	6,803	3,654	6,332	50,979
New Zealand					
Certificates of deposit	3,213	481	104	21	3,819
Term deposits	10,615	3,539	3,374	1,446	18,974
	13,828	4,020	3,478	1,467	22,793
Overseas Markets					
Certificates of deposit	3,266	14	937	17	4,234
Term deposits	10,018	944	494	65	11,521
	13,284	958	1,431	82	15,755
Total	61,302	11,781	8,563	7,881	89,527

FINANCIAL INFORMATION

3: Volume and Rate Analysis

The following table allocates changes in interest income and interest expense between changes in volume and changes in rate for the past two years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by the change of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

	2007 over 2006 Change due to				2006 over 2005 Change due to			
	Volume $m	Rate $m	Other $m	Total $m	Volume $m	Rate $m	Other $m	Total $m
Interest earning assets								
Due from other financial institutions								
Australia	31	11	–	42	31	(2)	–	29
New Zealand	(44)	9	–	(35)	–	20	–	20
Overseas Markets	47	27	–	74	58	42	–	100
Investments in trading securities and AFS assets								
Australia	137	74	–	211	302	55	–	357
New Zealand	19	11	–	30	15	34	–	49
Overseas Markets	53	28	–	81	(4)	38	–	34
Customers' liability for acceptances								
Australia	5	91	–	96	–	–	958	958
New Zealand	–	–	–	–	–	–	–	–
Overseas Markets	4	3	–	7	–	–	11	11
Loans and advances								
Australia	1,372	902	–	2,274	1,243	564	–	1,807
New Zealand	729	154	–	883	350	232	–	582
Overseas Markets	61	29	–	90	25	185	–	210
Other interest earning assets								
Australia	74	(36)	–	38	108	99	–	207
New Zealand	49	72	–	121	91	30	–	121
Overseas Markets	(37)	34	–	(3)	51	21	–	72
Intragroup assets								
Australia	–	–	232	232	–	–	–	–
Overseas Markets	(409)	78	–	(331)	80	149	–	229
Change in interest income	2,091	1,487	232	3,810	2,350	1,467	969	4,786
Intragroup elimination	409	(78)	(232)	99	(80)	(149)	–	(229)
	2,500	1,409	–	3,909	2,270	1,318	969	4,557
Interest bearing liabilities								
Time deposits								
Australia	368	258	–	626	196	123	–	319
New Zealand	160	114	–	274	52	128	–	180
Overseas Markets	70	65	–	135	104	159	–	263
Savings deposits								
Australia	49	68	–	117	37	30	–	67
New Zealand	(17)	(25)	–	(42)	(15)	29	–	14
Overseas Markets	(1)	(5)	–	(6)	1	6	–	7
Other demand deposits								
Australia	436	279	–	715	220	99	–	319
New Zealand	212	85	–	297	27	63	–	90
Overseas Markets	4	3	–	7	4	5	–	9
Due to other financial institutions								
Australia	156	31	–	187	145	(8)	–	137
New Zealand	(7)	5	–	(2)	15	(1)	–	14
Overseas Markets	40	11	–	51	55	85	–	140
Commercial paper								
Australia	(54)	53	–	(1)	174	20	–	194
New Zealand	19	36	–	55	(101)	50	–	(51)
Overseas Markets	(333)	49	–	(284)	35	127	–	162
Borrowing Corporation debt								
Australia	(21)	43	–	22	(12)	16	–	4
New Zealand	(10)	7	–	(3)	(6)	11	–	5
Liability for acceptances								
Australia	4	95	–	99	–	–	799	799
New Zealand	–	–	–	–	–	–	–	–
Overseas Markets	4	3	–	7	–	–	10	10
Loan capital, bonds and notes								
Australia	657	317	–	974	405	134	–	539
New Zealand	203	52	–	255	341	27	–	368
Overseas Markets	11	1	–	12	–	3	–	3
Other interest bearing liabilities								
Australia	7	44	–	51	48	(195)	–	(147)
New Zealand	(11)	13	–	2	33	(40)	–	(7)
Overseas Markets	(7)	9	–	2	35	(16)	–	19
Intragroup liabilities								
Australia	–	–	(169)	(169)	(3)	186	–	183
New Zealand	38	32	–	70	32	14	–	46
Change in interest expense	1,977	1,643	(169)	3,451	1,822	1,055	809	3,686
Intragroup elimination	(38)	(32)	169	99	(29)	(200)	–	(229)
	1,939	1,611	–	3,550	1,793	855	809	3,457
Change in net interest income	561	(202)	–	359	528	412	160	1,100

4: Concentrations of Credit Risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Off balance sheet transactions of the Group are substantially with other banks.

	2007		2006	
	Loans and[1] advances $m	Individual[5] provision for credit impairment $m	Loans and[1] advances $m	Individual[5] provision for credit impairment $m
Australia				
Agriculture, forestry, fishing and mining	7,618	12	7,079	15
Business service	5,488	7	4,882	13
Construction	4,215	3	3,757	4
Entertainment, leisure and tourism	4,357	6	4,408	5
Financial, investment and insurance	8,148	3	4,795	2
Government and official institutions	67	–	52	–
Lease finance	1,813	9	2,378	12
Manufacturing	7,259	54	7,050	59
Personal[2]	18,377	41	15,579	28
Real estate – commercial[3]	13,718	3	10,229	2
Real estate – mortgage[4]	112,279	27	100,362	19
Retail and wholesale trade	11,293	21	10,106	31
Other	10,216	18	9,923	23
	204,848	204	180,600	213
Overseas				
Agriculture, forestry, fishing and mining	13,280	6	11,898	3
Business service	1,450	1	836	–
Construction	723	1	627	–
Entertainment, leisure and tourism	1,330	2	1,437	–
Financial, investment and insurance	2,682	10	3,109	8
Government and official institutions	866	–	893	–
Lease finance	401	1	600	–
Manufacturing	6,105	9	4,553	26
Personal[2]	3,167	14	3,692	21
Real estate – commercial[3]	6,805	1	6,573	–
Real estate – mortgage[4]	41,431	–	36,647	2
Retail and wholesale trade	3,796	2	2,677	–
Other	5,964	9	5,589	6
	88,000	56	79,131	66
Total portfolio	292,848	260	259,731	279

1 Loans and advances exclude acceptances.
2 Personal includes consumer lending except for lease finance facilities and those facilities secured by a mortgage.
3 Real estate commercial includes all business lending relating to commercial property.
4 Real estate mortgage includes all consumer lending secured by a mortgage.
5 Individual provision for credit impairment above relates to on balance sheet exposures. Individual provisions in respect of off balance sheet facilities were $42 million in 2007 and $7 million in 2006.

5: Provisions for Credit Impairment – Industry Analysis

	2007 $m	2006 $m
i) Total write-offs by industry		
Australia		
Agriculture, forestry, fishing and mining	(51)	(1)
Business service	(17)	(10)
Construction	(6)	(5)
Entertainment, leisure and tourism	(3)	(3)
Financial, investment and insurance	(2)	–
Lease finance	(4)	(1)
Manufacturing	(11)	(11)
Personal[1]	(337)	(264)
Real estate – commercial[2]	(1)	(1)
Real estate – mortgage[3]	(11)	(5)
Retail and wholesale trade	(22)	(10)
Other	(13)	(20)
New Zealand	(75)	(68)
Overseas	(31)	(22)
Total write-offs	(584)	(421)
ii) Total recoveries by industry		
Australia		
Agriculture, forestry, fishing and mining	1	3
Business service	1	–
Construction	1	–
Entertainment, leisure and tourism	3	–
Lease finance	1	–
Manufacturing	1	6
Personal[1]	65	53
Real estate – commercial[2]	–	1
Retail and wholesale trade	53	12
Other	3	16
New Zealand	17	19
Overseas	5	17
Total recoveries	151	127
Net write-offs	(433)	(294)
Ratio of net write-offs to average loans and acceptances	0.1%	0.1%

1 Personal includes all consumer lending except for lease finance facilities and those facilities secured by a mortgage.
2 Real estate – commercial includes all business lending relating to commercial property.
3 Real estate – mortgage includes all consumer lending secured by a mortgage.

6: Short Term Borrowings

The Group's short-term borrowings comprise commercial paper, as well as unsecured notes issued by subsidiary borrowing corporations with an original term to maturity of less than one year. The Group has commercial paper programs in the United States, Europe and Asia where it issues paper directly to investors. Prior to 27 November 2006, the Group issued commercial paper in the United States through ANZ (Delaware) Inc.

	2007 $m	2006 $m
Balance at end of year		
Commercial paper – ANZ (Delaware) Inc.	–	6,630
Commercial paper – other	16,914	14,120
Weighted average interest rate at end of year		
Commercial paper – ANZ (Delaware) Inc.	–	5.35%
Commercial paper – other	6.93%	6.16%
Maximum amount outstanding at any month end during year		
Commercial paper – ANZ (Delaware) Inc.	4,711	7,528
Commercial paper – other	19,431	19,018
Average amount outstanding during year		
Commercial paper – ANZ (Delaware) Inc.	926	7,373
Commercial paper – other	16,547	17,173
Weighted average interest rate during year		
Commercial paper – ANZ (Delaware) Inc.	5.30%	4.51%
Commercial paper – other	7.01%	6.43%

7: Capital Management

APRA adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy.

Capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements but still adds to the overall strength of the entity. Tier 1 is divided into 'Fundamental' and 'Residual' capital, and Tier 1 deductions. 'Residual' capital covers hybrid Tier 1 instruments with limits restricting the volume that can be counted as Tier 1 capital. Tier 2 capital is divided into Upper and Lower Tier 2 capital; with Lower Tier 2 capital being dated subordinated debt. Limits apply to the volume of Tier 2 and Lower Tier 2 that can be counted as capital for prudential purposes. Further, in calculating the total capital, deductions are taken for any strategic holdings of other banks' capital instruments and investments in entities engaged in life insurance, funds management and securitisation activities. APRA introduced new prudential capital standards as at 1st July 2006 which contain various transitional rules which run through to different dates in 2008 and 2010 to coincide with Basel II implementation.

The measurement of risk weighted assets is based on: a) a credit risk-based approach wherein risk weightings are applied to balance sheet assets and to credit converted off-balance sheet exposures. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and b) the recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity balance sheet positions do not attract a risk weighting under the credit risk-based approach.

APRA has recently released a number of draft proposed changes to the prudential standards which will become effective from 1 January 2008. These drafts include the following changes which will impact the capitol ratios:

- Basel II methodologies for calculating Risk Weighted Assets and Expected Losses.
- Loss of Collective Provision for credit impairment from Upper Tier 2. This amount will be replaced with either an amount in Upper Tier 2 of Eligible Provisions in excess of Expected Losses or 50% Tier 1 and 50% Tier 2 deductions of Expected Losses in excess of Eligible Provisions, net of tax.
- Total Capital deductions split between Tier 1 50% and Tier 2 50%.
- Loss of AIFRS transitional relief of $716 million from Tier 1 Capital and $17 million from Tier 2 Capital.
- Hybrid Limits become 25% of net Tier 1 capital, split between Innovative (15%) and Non-innovative (10%). ANZ has applied for transitional relief to January 2010 as to the Innovative limit.
- Additional capital requirements for the Holding Company's investments in non-banking subsidiaries.

ANZ has modelled the impact of these changes and does not expect a significant change in the level of regulatory capital requirements. The ultimate impact of these changes is subject to the final form of the prudential standards, ANZ receiving Basel II accreditation and any associated transitional arrangements.

7: Capital Management (continued)

	As at Sep 07 $m	As at Sep 06 $m
Qualifying Capital		
Tier 1		
Shareholders' equity and outside equity interests	22,048	19,906
Prudential adjustments to shareholders' equity (refer Table 1)	(2,318)	(2,333)
Fundamental Tier 1 capital	19,730	17,573
Non-innovative Tier 1 capital instruments	1,033	–
Innovative Tier 1 capital instruments	3,119	3,342
Gross Tier 1 capital	23,882	20,915
Deductions (refer Table 2)	(6,170)	(5,274)
Transitional Tier 1 capital relief	716	716
Tier 1 capital	18,428	16,357
Tier 2		
Upper Tier 2 capital (refer Table 3)	2,296	1,946
Subordinated notes (refer Table 4)	8,826	8,177
Tier 2 capital	11,122	10,123
Deductions (refer Table 5)	(1,837)	(1,073)
Total qualifying capital	27,713	25,407
Adjusted Common Equity		
Tier 1 capital	18,428	16,357
Less: Non-innovative Tier 1 capital instrument[1]	(1,033)	–
Innovative Tier 1 capital instruments (refer Table 6)[1]	(3,052)	(3,321)
Transitional Tier 1 capital relief	(716)	(716)
Deductions	(1,837)	(1,073)
Adjusted Common Equity (ACE)	11,790	11,247
Capital adequacy ratios		
Tier 1	6.7%	6.8%
Tier 2	4.1%	4.2%
	10.8%	11.0%
Deductions	-0.7%	-0.4%
Total	10.1%	10.6%
Adjusted Common Equity	4.3%	4.7%
Risk Weighted Assets	275,018	240,219

1 Converted at balance date spot rates.

7: Capital Management (continued)

	As at Sep 07 $m	As at Sep 06 $m
Table 1: Prudential adjustments to shareholders' equity		
Reclassification of preference share capital	(871)	(871)
Accumulated retained profits and reserves of insurance, funds management and securitisation entities and associates	(398)	(289)
Deferred fee revenue and expenses including fees deferred under AIFRS forming part of loan yields	306	343
Hedging reserve	(153)	(227)
Available-for-sale revaluation reserve	(97)	(2)
Dividend not provided for	(1,381)	(1,267)
Accrual for Dividend Reinvestment Plans	276	–
Other adjustments	–	(20)
Total	(2,318)	(2,333)
Table 2: Deductions from Tier 1 capital		
Unamortised goodwill & other intangibles	(4,911)	(3,996)
Capitalised software	(462)	(397)
Capitalised expenses including loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings	(602)	(569)
Applicable deferred tax assets (excluding the component relating to the general reserve for impairment of financial assets)	(57)	(290)
Investment in ANZ Lenders Mortgage Insurance	(101)	(31)
Other adjustments	(37)	9
Total	(6,170)	(5,274)
Table 3: Upper Tier 2 capital		
Eligible component of post acquisition earnings and reserves in associates and joint ventures	197	184
Perpetual subordinated notes	690	401
General reserve for impairment of financial assets net of attributable deferred tax asset	1,392	1,344
Transitional Upper Tier 2 capital relief	17	17
Total	2,296	1,946
Table 4: Subordinated notes		
For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount over the last four years to maturity and are limited to 50% of Tier 1 capital.		
Table 5: Deductions from Total capital		
Investment in Funds Management and Securitisation entities	(85)	(86)
Investment in joint ventures with ING in Australia and New Zealand	(525)	(526)
Investment in other Authorised Deposit Taking Institutions and overseas equivalents	(1,025)	(370)
Investment in other commercial operations	(124)	–
Other	(78)	(91)
Total	(1,837)	(1,073)
Table 6: Innovative Tier 1 capital instruments		
Euro hybrid (converted at current rates)	(804)	(850)
US Stapled Trust Security	(1,248)	(1,471)
ANZ StEPS	(1,000)	(1,000)
Total	(3,052)	(3,321)

7: Capital Management (continued)

	Assets		Risk Weighted Assets	
	Sep 2007 $m	Sep 2006 $m	Sep 2007 $m	Sep 2006 $m
Balance Sheet				
Zero risk weighted assets[1]	52,703	34,115	–	-
Claims on approved banks and local governments	24,190	19,584	4,838	3,917
Advances secured by mortgages and other assets eligible for 50% risk weighting	145,054	131,134	72,527	65,567
Other assets - credit risk[2]	158,731	138,119	159,518	138,119
Total statement of financial position assets - credit risk	380,678	322,952	236,883	207,603
Trading assets - market risk	11,935	11,688	n/a	n/a
Total balance sheet	392,613	334,640	236,883	207,603

	Notional Amount		Credit Equivalent		Risk Weighted Assets	
	Sep 2007 $m	Sep 2006 $m	Sep 2007 $m	Sep 2006 $m	Sep 2007 $m	Sep 2006 $m
Off-balance sheet exposures[3]						
Direct credit substitutes	8,114	7,588	8,114	7,588	5,796	5,432
Trade and performance related items	15,909	14,788	6,983	6,470	6,222	5,657
Commitments	107,269	98,554	18,445	17,030	15,791	14,611
Foreign exchange, interest rate and other market related transactions	1,692,885	1,169,553	29,019	18,010	8,379	5,240
Total off-balance sheet exposures – credit risk	1,824,177	1,290,483	62,561	49,098	36,188	30,940
Total risk weighted assets – credit risk					273,071	238,543
Risk weighted assets – market risk					1,947	1,676
Total risk weighted assets					275,018	240,219

1 Includes $2,069 million (September 2006: $1,938 million) in assets of subsidiaries consolidated on adoption of AIFRS excluded for risk weighting calculations for APRA reporting purposes.
2 In 2007, risk weighted assets includes intragroup assets with entities deconsolidated for prudential purposes.
3 Excludes off-balance sheet exposures in subsidiaries consolidated under accounting standards as required by APRA.

8: Additional Financial Instrument Risk Disclosures

The Group has not early adopted AASB 7: 'Financial Instruments: Disclosure' which is applicable for the year ending 30 September 2008. As part of ANZ's transition to AASB 7 compliance, the Group has enhanced its disclosures on market and liquidity risks in Note 35 and the fair value of financial instruments in Note 37. The following additional disclosures on credit risk associated with financial instruments are made to assist readers with the transition to AASB 7 disclosures.

Credit Risk

Equity investments classified as available-for-sale financial assets are excluded from the disclosures below.

Distribution of financial assets by credit quality

The credit quality of the portfolio is assessed by reference to the Group's risk grading principles and policies supported by a complementary risk grading methodology. As detailed in Note 35, ANZ uses a two dimensional risk grading system, which measures both the customer's ability to repay and the loss in the event of default.

Past due but not impaired	Refers to APRA 90 Days Past Due definition. This applies where contractual payments are past due greater than 90 days, or where the facility remains outside of contractual arrangements for greater than 90 consecutive days, but the Group believes that impairment has not occured on the basis of the level of security/collateral available. A facility, subject to a regular repayment schedule, is classified as 90 Days Past Due when at least 90 calendar days have elapsed since the due date of a contractual payment has not been met in full. The total amount outside of contractual arrangements has to be equivalent to at least 90 days worth of contractual payments and the facility is well secured. Facilities that do not have a regular repayment schedule are considered 90 days past due when the facility has remained continuously outside of contracted arrangements for 90 or more consecutive days and the facility is well secured.
Well secured	Well secured is when the fair value of the associated security is sufficient to ensure that ANZ will recover the entire amount owing over the life of the facility and there is reasonable assurance that collective efforts will result in payment of the amounts due in a timely manner.
Portfolio managed	Financial assets which are homogenous with similar characteristics and are assessed, approved, and controlled on a portfolio basis within a centralised environment (for example Credit Cards, Personal Loans, Home Loans). When the financial assets are managed on a portfolio basis, the assets can be held on a non impaired basis for up to 180 days.
Impaired	Impaired assets are credit exposures where there is doubt as to whether the full contractual amount will be received, and/or where a material credit obligation is more than 90 days past due where it is not well secured. In the event where the value of collateral is sufficient to repay both the principal debt and all potential interest and there is no concern of the creditworthiness of the counterparty in question, the exposure is then classified as past due but not impaired.

	Consolidated			
	2007 $m	2007 $m	2007 $m	2007 $m
	Due from other financial institutions	Gross loans and advances	Customers' liabilities for acceptances	Available-for-sale assets
Gross carrying amounts of financial assets				
Neither past due nor impaired	8,040	291,621	14,536	13,626
Past due but not impaired				
Well Secured	–	474	–	–
Portfolio Managed	–	87	–	–
Impaired	–	666	–	–
	8,040	292,848	14,536	13,626
Unproductive facilities	–	126	–	–
	8,040	292,974	14,536	13,626

8: Additional Financial Instrument Risk Disclosures (continued)

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by ANZ using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal rating	
Satisfactory risk	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. This rating broadly corresponds to ratings "Aaa" to "Ba3" and "AAA" to "BB-" of Moody's and Standard & Poor respectively.
Sub-standard but not impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings "B1" to "Caa" and "B+" to "CCC" of Moody's and Standard & Poor respectively.

	Consolidated			
	2007 $m	2007 $m	2007 $m	2007 $m
Internal rating	Due from other financial institutions	Gross loans and advances	Customers' liability for acceptances	Available-for-sale debt assets
Satisfactory risk	8,040	287,259	14,357	13,626
Sub-standard but not impaired	–	4,923	179	–
	8,040	292,182	14,536	13,626

Renegotiated facilities

The Group distinguishes between facilities renegotiated on a commercial basis, on terms similar to those offered to new clients with similar risk, and those renegotiated on non commercial terms as a result of a client's inability to meet original contractual obligations.

In the course of renegotiating facilities due to financial difficulty, the Group may consider modifying its terms to include concessions such as a reduction in the principal amount, a deferral of repayments, and/or an extension of the maturity date materially beyond those typically offered to new facilities with similar risk.

Renegotiated facilities are classified as productive and must demonstrate sound prospects of being able to adhere to the modified contractual terms. Where doubt exists as to the capacity to sustain the modified terms, the facilities remain impaired and an appropriate level of individual provision is held.

Renegotiated loans that would otherwise be due or impaired are nil (2006: nil).

Individually impaired financial assets

ANZ regularly reviews its portfolio and monitor adherence to contractual terms. When doubt arises as to the collectability of a credit facility, the financial asset is classified and reported as individually impaired and an individual provision is allocated against it.

	Consolidated		
	2007 $m	2007 $m	2007 $m
	Due from other financial institutions	Gross loans and advances	Available-for-sale debt assets
Gross carrying amount of impaired financial assets	–	666	–
Individual provision balance on impaired financial assets	–	(260)	–
	–	406	–
Unproductive facilities	–	126	–
Individual provision balance on unproductive facilities	–	(42)	–
	–	84	–

8: Additional Financial Instrument Risk Disclosures (continued)

The following table presents an analysis of gross amounts of individually impaired financial assets by type and geographic region:

	Consolidated			
	2007 $m	2007 $m	2007 $m	2007 $m
	Australia	New Zealand	Overseas Markets	Total
Due from other financial institutions	–	–	–	–
Loans and advances:				
Agricultural, Forestry, Fishing and Mining	66	12	1	79
Business Service	15	2	–	17
Construction	6	3	1	10
Entertainment, Leisure and Tourism	9	2	1	12
Finincial, Investment and Insurance	4	32	1	37
Government and Official Institutions	–	–	–	–
Lease Finance	13	1	–	14
Manufacturing	138	28	3	169
Personal	50	8	35	93
Real Estate – Commercial	27	1	1	29
Real Estate – Mortgage	63	2	–	65
Retail and Wholesale Trade	39	4	2	45
Other	84	4	8	96
	514	99	53	666
Available-for-sale assets	–	–	–	–
Unproductive facilities	121	5	–	126
	635	104	53	792

Security held in respect of individually impaired gross loans and advances in the analysis above has an estimated fair value of $214 million (security held in respect of impaired off-balance sheet facilities amounts to $6 million).

The analysis above does not have a separate category for Customers' liability for acceptances. When customers' liabilities for acceptances become impaired, the resulting balances are recorded under loans and advances.

8: Additional Financial Instrument Risk Disclosures (continued)

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. In certain circumstances, there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the table below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity investments or banknotes and coins. Other differences are determined to be insignificant.

For contingent exposures, the maximum exposure to credit risk is the maximum amount that ANZ would have to pay if the contingents are called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following table presents the maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements.

	Consolidated	
	2007 $m	2006 $m
On-balance sheet positions		
Liquid assets (other than cash and coins at bankers)	13,320	12,569
Due from other financial institutions	8,040	9,665
Trading securities (other than equity instruments)	15,120	9,179
Derivative financial instruments	22,237	9,164
Available-for-sale assets (other than equity instruments)	13,626	10,588
Net loans and advances	288,846	255,922
Customers' liability for acceptances	14,536	13,435
Other financial assets	3,510	3,596
	379,235	324,118
Off-balance sheet positions		
Undrawn facilities	107,269	98,554
Contingent facilities	23,816	22,055
	131,085	120,609
Total	510,320	444,727

GLOSSARY

AAS – Australian Accounting Standards (also known as AIFRS).

AASB – Australian Accounting Standards Board.

Adjusted Common Equity (ACE) is Tier 1 capital less preference shares and other Hybrid Capital at current exchange rates, regulatory deductions from total capital and transitional capital relief as approved by APRA.

AFS – Available-for-sale assets.

AIFRS – Australian Equivalents to International Financial Reporting Standards.

APRA – Australian Prudential Regulation Authority.

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 recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.

Credit equivalent represents the calculation of on-balance sheet equivalents for market related items.

Equity standardisation. Economic Value Added (EVA™) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

Group Centre division includes Operations, Technology and Shared Services, Treasury (funding component), Group People Capital, Group Strategic Development, Group Financial Management, Group Risk Management, Capital Funding and Group Items.

Impaired assets are those whose carrying value is greater than the amount expected to be recovered over their lives. More specifically, in relation to loans or other credit facilities, impairment may arise where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where concessional terms have been provided because of the financial difficulties of the customer.

Income includes external interest income and other external operating income.

Individual provision charge is the amount of expected credit losses on those loans and advances assessed for impairment on an individual basis. It takes into account the NPV of expected cash flow over the lives of those loans and advances.

Institutional division provides a full range of financial services principally to ANZ Australia and New Zealand corporate and institutional customers in all geographies. Institutional has a major presence in Australia and New Zealand and also operations in Europe, USA and Asia.

- Working Capital consists of Trade and Transaction Services and Relationship lending. Trade and Transaction services provides working capital solutions including lending and deposit products, cash transaction banking management, trade finance, international payments, clearing and custodian services principally to Institutional and Corporate customers. Relationship Lending manages the Institutional and Corporate balance sheets with a particular focus on credit quality, diversification and maximising risk adjusted returns.
- Markets provides risk management services to Corporate and Institutional clients globally in relation to foreign exchange, interest rates, credit and commodities. This includes the business providing 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.
- Business Banking provides a full range of banking services, including risk management, to metropolitan based small to medium sized business clients with up to $50 million turnover.
- Corporate Finance provides complex financing and advisory services, structured financial products, leasing, private equity finance, project finance, leveraged finance and infrastructure investment products to our global client set.
- Relationships & Infrastructure includes Institutional Banking, Financial Institutions and Corporate Banking. These units use our client relationship teams for our global Institutional and Financial Institutions customers and our Corporate customers in Australia.

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

Net advances include gross loans and advances and acceptances less income yet to mature and allowance for credit impairment.

Net interest average margin is net interest income as a percentage of average interest earning assets. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net interest spread is the average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

Net non-interest bearing items, which are referred to in the analysis of interest spread and net interest average margin, includes shareholders' equity, impairment of loans and advances, deposits not bearing interest and other liabilities not bearing interest, offset by premises and equipment and other non-interest earning assets. Non-performing loans are included within interest bearing loans, advances and bills discounted.

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

New Zealand Businesses includes the following businesses:

- ANZ Retail - operating under the ANZ brand in New Zealand provides a full range of banking services to personal and business banking customers.
- NBNZ Retail - operating under the National Bank brand in New Zealand, provides a full range of banking services to personal and business banking customers.
- Corporate Banking in New Zealand - incorporates the ANZ and National Bank brands and provides financial solutions through a relationship management model for medium-sized businesses with a turnover up to NZD100 million.
- Rural Banking in New Zealand - provides a full range of banking services to rural and agribusiness customers.
- Private Banking and Retail Specialist Units - includes ANZ's 49% stake in ING New Zealand, Private Banking operating under the ANZ and National brands and Bonus Bonds.

GLOSSARY

- UDC - provides motor vehicle and equipment finance, operating leases and investment products.

Non-core items are disclosed separately in the income statement to remove volatility from the underlying business result, and include significant items, ANZ National Bank incremental integration costs and non-core income arising from the use of derivatives in economic hedges on fair value through profit and loss.

Non-performing loans comprises loans where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where concessional terms have been provided because of financial difficulties of the customer.

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

Operating income in business segments includes equity standardised net interest and other operating income.

Operations, Technology & Shared Services comprises the Group's core support units responsible for operating the Group's global technology platforms, development and maintenance of business applications, information security, the Group's payments back-office processing, and the provision of other essential shared services to the Group, including property, people capital operations, procurement and outsourcing.

Overseas includes the results of all operations outside Australia, except if New Zealand is separately shown.

Overseas Markets includes all operations outside of Australia and New Zealand. The Group's geographic segments are Australia, New Zealand and Overseas Markets.

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

- INGA includes the equity accounted earnings from ANZ's 49% stake in ING Australia Ltd, a joint venture between ANZ and ING.
- International Partnerships – ANZ continues to develop a portfolio of strategic retail partnerships in Asia. ANZ currently has partnerships in Indonesia with PT Panin Bank, in the Philippines with Metrobank, in Cambodia with the Royal Group, in China with Bank of Tianjin (formerly Tianjin City Commercial Bank) and Shanghai Rural Commercial Bank, in Vietnam with Sacombank and AMMB Holdings Berhad in Malaysia. These partnerships are focused on leveraging ANZ Australia's capabilities into faster growing personal and small business banking markets via the established client bases of the local partners.
- Other includes Private Bank, Personal and Private Banking Asia and support units within the division.

Personal is a division comprising Rural Commercial & Agribusiness Products, Small Business Banking Products, Banking Products, Mortgages, Consumer Finance, Investment and Insurance Products, Esanda, Pacific Banking and a number of other areas, including the branch network and marketing in Australia.

- Mortgages – provides housing finance to consumers in Australia for both owner occupied and investment purposes.
- Banking Products – provides transaction banking and savings products, such as term deposits, V2+, and cash management accounts.
- Consumer Finance – provides consumer and commercial credit cards, ePayment products, personal loans, merchant payment facilities in Australia and ATM facilities.
- Rural Commercial & Agribusiness Products – provides a full range of banking services to personal customers across regional and rural Australia, and to small business and agribusiness customers in rural and regional Australia.
- Small Business Banking Products – provides a full range of banking services for metropolitan-based small businesses in Australia with unsecured loans up to $100,000.
- Esanda – provides motor vehicle and equipment finance, operating leases and investment products.
- Pacific – provides retail and corporate banking services to customers in the Pacific Region.
- Investments and Insurance Products – comprises ANZ Australia's Financial Planning, Margin Lending, insurance distribution, Trustees business and ETrade Australia, an online broking business.

Restructured facilities refers to customers who have been provided concessions due to their financial difficulties. In the course of restructuring facilities, the following concessions might be considered: a reduction in the principal amount; a deferral of repayments; and/or an extension of the maturity date materially beyond those typically offered to new facilities with similar risk.

Return on asset ratios include net intra group assets which are risk weighted at 0% for return on risk weighted assets calculations.

Revenue includes net interest income and other operating income.

Segment assets represents total external assets excluding deferred tax assets.

Segment result represents equity standardised profit before income tax expense.

Segment revenue includes equity standardised net interest income and other operating income.

Service transfer pricing is used to allocate services that are provided by central areas to each of their business units. The objective of service transfer pricing is to remove cross-subsidies between business units, and ensure each business accounts for the cost of the services it uses.

Service transfer pricing charges are reported in the profit and loss statement of each business unit as:

- Net inter business unit fees – includes intra-group receipts or payments for sales commissions and branch service fees. A product business will pay a distribution channel for product sales. Both the payment and receipt are shown as net inter business unit fees.
- Net inter business unit expenses – consists of the charges made to business units for the provision of support services. Both payments by business units and receipts by service providers are shown as net inter business unit expenses.

Significant items are items that have a substantial impact on profit after tax, or the earnings used in the earnings per share calculation. Significant items also do not arise in the normal course of business and are infrequent in nature. Divestments are typically defined as significant items.

Sub-standard assets are customers that have demonstrated some operational and financial instability, with variablility and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.

Total advances include gross loans and advances and acceptances less income yet to mature (for both as at and average volumes). Loans and advances classified as available-for-sale are excluded from total advances.

Unproductive facilities comprises off-balance sheet facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, guarantees to third parties, foreign currency and interest rate products) and undrawn on balance sheet facilities where the customer is defined as impaired.

ALPHABETICAL INDEX

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