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tomorrow  
today



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**Statements of Financial Performance for the year ended 30 September 2002**

|  | Note | 2002<br>\$m | Consolidated<br>2001 | 2000<br>\$m | The Company |             |
|--|------|-------------|----------------------|-------------|-------------|-------------|
|  |      |             |                      |             | 2002<br>\$m | 2001<br>\$m |
| <b>Total Income</b>  | 2    | 12,007      | 12,824               | 14,031      | 9,061       | 10,140      |
| Interest income  | 2    | 9,037       | 10,251               | 10,241      | 6,426       | 7,479       |
| Interest expense   | 3    | (5,019)     | (6,418)              | (6,440)     | (3,813)     | (4,828)     |
| Net interest income  |      | 4,018       | 3,833                | 3,801       | 2,613       | 2,651       |
| Proceeds, net of costs, on disposal of investments   |      | 566         | –                    | –           | 780         | –           |
| Carrying amount of assets given up   |      | (392)       | –                    | –           | (588)       | –           |
| Profit from disposal of investments  |      | 174         | –                    | –           | 192         | –           |
| Other operating income   | 2    | 2,796       | 2,573                | 2,583       | 2,443       | 2,661       |
| Prior period abnormal income   | 6    | –           | –                    | 1,207       | –           | –           |
| Operating income   |      | 6,988       | 6,406                | 7,591       | 5,248       | 5,312       |
| Operating expenses   | 3    | (2,905)     | (3,092)              | (3,314)     | (2,388)     | (2,641)     |
| Prior period abnormal expenses   | 6    | –           | –                    | (986)       | –           | –           |
| Profit before debt provision   |      | 4,083       | 3,314                | 3,291       | 2,860       | 2,671       |
| Provision for doubtful debts   | 16   | (860)       | (531)                | (502)       | (710)       | (414)       |
| <b>Profit before income tax</b>  |      | 3,223       | 2,783                | 2,789       | 2,150       | 2,257       |
| Income tax expense   |      | (898)       | (911)                | (863)       | (643)       | (647)       |
| Prior period abnormal tax  | 6    | –           | –                    | (177)       | –           | –           |
| Total income tax expense   | 7    | (898)       | (911)                | (1,040)     | (643)       | (647)       |
| Profit after income tax  |      | 2,325       | 1,872                | 1,749       | 1,507       | 1,610       |
| Net profit attributable to outside equity interests  |      | (3)         | (2)                  | (2)         | –           | –           |
| <b>Net profit attributable to shareholders of the Company<sup>1</sup></b>                        |      | 2,322       | 1,870                | 1,747       | 1,507       | 1,610       |
| Currency translation adjustments, net of hedges after tax  |      | (98)        | 197                  | 170         | (214)       | 195         |
| Revaluation of properties  |      | –           | –                    | 31          | –           | –           |
| Total adjustments attributable to shareholders of the company recognised directly into equity    |      | (98)        | 197                  | 201         | (214)       | 195         |
| Total changes in equity other than those resulting from transactions with shareholders as owners |      | 2,224       | 2,067                | 1,948       | 1,293       | 1,805       |
| <b>Earnings per ordinary share (cents)</b>   | 9    |             |                      |             |             |             |
| Basic  |      | 147.3       | 117.4                | 106.8       | n/a         | n/a         |
| Diluted  |      | 146.6       | 117.0                | 106.0       | n/a         | n/a         |

The notes appearing on pages 6 to 76 form an integral part of these financial statements

- 1 The results of 2002 include the impact of these significant transactions:
- The sale of businesses to ING joint venture (profit after tax of \$170 million);
  - National Housing Bank recovery (\$159 million profit after tax); and
  - Special general provision for doubtful debts (\$175 million charge after tax)

Further details on these transactions are shown in notes 2, 3 and 16

|   | Note | Consolidated<br>2002<br>\$m | 2001<br>\$m    | The Company    |                |
|---|------|-----------------------------|----------------|----------------|----------------|
|   |      |                             |                | 2002<br>\$m    | 2001<br>\$m    |
| <b>Assets</b>   |      |                             |                |                |                |
| Liquid assets   | 10   | 7,410                       | 7,794          | 5,994          | 5,981          |
| Due from other financial institutions                                     | 11   | 3,815                       | 4,829          | 2,649          | 4,234          |
| Trading securities <sup>1</sup>   | 12   | 5,873                       | 4,827          | 5,219          | 4,438          |
| Investment securities   | 13   | 3,609                       | 3,487          | 2,593          | 2,400          |
| Net loans and advances  | 14   | 132,060                     | 123,657        | 99,900         | 92,393         |
| Customers' liabilities for acceptances                                    | 17   | 13,796                      | 14,324         | 13,796         | 14,324         |
| Due from controlled entities  |      | –                           | –              | 6,495          | 5,031          |
| Life insurance investment assets  |      | –                           | 4,774          | –              | –              |
| Regulatory deposits   | 18   | 178                         | 133            | 138            | 98             |
| Shares in controlled entities, associates<br>and joint venture entities   | 19   | 1,692                       | 64             | 6,256          | 6,101          |
| Deferred tax assets   | 20   | 1,218                       | 1,200          | 835            | 866            |
| Goodwill  | 21   | 180                         | 137            | 94             | 87             |
| Other assets  | 22   | 11,810                      | 18,906         | 9,603          | 16,774         |
| Premises and equipment  | 23   | 1,464                       | 1,361          | 866            | 731            |
| <b>Total assets</b>   |      | <b>183,105</b>              | <b>185,493</b> | <b>154,438</b> | <b>153,458</b> |
| <b>Liabilities</b>  |      |                             |                |                |                |
| Due to other financial institutions                                       | 24   | 10,860                      | 12,690         | 10,372         | 11,961         |
| Deposits and other borrowings   | 25   | 113,297                     | 104,874        | 85,258         | 76,552         |
| Liability for acceptances   |      | 13,796                      | 14,324         | 13,796         | 14,324         |
| Due to controlled entities  |      | –                           | –              | 3,895          | 5,052          |
| Income tax liabilities  | 26   | 1,340                       | 1,335          | 921            | 899            |
| Payables and other liabilities  | 27   | 12,450                      | 15,948         | 10,703         | 13,874         |
| Provisions  | 28   | 1,744                       | 2,142          | 1,611          | 1,981          |
| Life insurance policy liabilities   |      | –                           | 4,458          | –              | –              |
| Bonds and notes   | 29   | 14,708                      | 15,340         | 14,536         | 15,175         |
| Loan capital  | 30   | 3,445                       | 3,831          | 3,186          | 3,576          |
| <b>Total liabilities</b>  |      | <b>171,640</b>              | <b>174,942</b> | <b>144,278</b> | <b>143,394</b> |
| <b>Net assets</b>   |      | <b>11,465</b>               | <b>10,551</b>  | <b>10,160</b>  | <b>10,064</b>  |
| <b>Shareholders' equity</b>   |      |                             |                |                |                |
| Ordinary share capital  | 31   | 3,939                       | 3,733          | 3,939          | 3,733          |
| Preference share capital  | 31   | 1,375                       | 1,526          | 1,375          | 1,526          |
| Reserves  |      | 534                         | 717            | 875            | 1,089          |
| Retained profits  |      | 5,600                       | 4,562          | 3,971          | 3,716          |
| Share capital and reserves attributable to shareholders<br>of the Company |      | 11,448                      | 10,538         | 10,160         | 10,064         |
| Outside equity interests  | 32   | 17                          | 13             | –              | –              |
| <b>Total shareholders' equity</b>   |      | <b>11,465</b>               | <b>10,551</b>  | <b>10,160</b>  | <b>10,064</b>  |
| Derivative financial instruments  | 39   |                             |                |                |                |
| Commitments   | 47   |                             |                |                |                |
| Contingent liabilities and credit related commitments                     | 48   |                             |                |                |                |

The notes appearing on pages 6 to 76 form an integral part of these financial statements

1 Includes bills held in portfolio (September 2002: \$1,453 million; September 2001: \$1,933 million)

**Statements of Changes in Shareholders' Equity for the year ended 30 September 2002**

|   | Note | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|---|------|-------------|-----------------------------|-------------|----------------------------|-------------|
| <b>Share capital</b>  |      |             |                             |             |                            |             |
| <b>Ordinary shares</b>  |      |             |                             |             |                            |             |
| Balance at start of year  |      | 3,733       | 4,028                       | 4,770       | 3,733                      | 4,028       |
| Dividend reinvestment plan  |      | 94          | 86                          | 236         | 94                         | 86          |
| Group employee share acquisition scheme                                       |      | 55          | 65                          | 26          | 55                         | 65          |
| Group share option scheme   |      | 57          | 21                          | 10          | 57                         | 21          |
| Group share purchase scheme   |      | -           | -                           | #           | -                          | -           |
| Small shareholder voluntary top up scheme                                     |      | -           | 12                          | -           | -                          | 12          |
| New Issues  |      | -           | 16                          | -           | -                          | 16          |
| Share buyback   | 31   | -           | (495)                       | (1,014)     | -                          | (495)       |
| Balance at end of year  |      | 3,939       | 3,733                       | 4,028       | 3,939                      | 3,733       |
| <b>Preference shares</b>  |      |             |                             |             |                            |             |
| Balance at start of year  | 31   | 1,526       | 1,374                       | 1,145       | 1,526                      | 1,374       |
| Retranslation of preference share issues                                      |      | (151)       | 152                         | 229         | (151)                      | 152         |
| Balance at end of year  |      | 1,375       | 1,526                       | 1,374       | 1,375                      | 1,526       |
| <b>Total share capital</b>  |      | 5,314       | 5,259                       | 5,402       | 5,314                      | 5,259       |
| <b>Asset revaluation reserve <sup>1</sup></b>                                 |      |             |                             |             |                            |             |
| Balance at start of year  |      | 31          | 31                          | -           | 401                        | 401         |
| Revaluation of properties   |      | -           | -                           | 31          | -                          | -           |
| Total asset revaluation reserve   |      | 31          | 31                          | 31          | 401                        | 401         |
| <b>Foreign currency translation reserve <sup>2</sup></b>                      |      |             |                             |             |                            |             |
| Balance at start of year  |      | 215         | 18                          | (152)       | 633                        | 438         |
| Currency translation adjustments,<br>net of hedges after tax                  |      | (98)        | 197                         | 170         | (214)                      | 195         |
| Total foreign currency translation reserve                                    |      | 117         | 215                         | 18          | 419                        | 633         |
| <b>General reserve <sup>3</sup></b>   |      |             |                             |             |                            |             |
| Balance at start of year  |      | 322         | 588                         | 539         | 55                         | 55          |
| Transfers (to) from retained profits  |      | (85)        | (266)                       | 49          | -                          | -           |
| Total general reserve   |      | 237         | 322                         | 588         | 55                         | 55          |
| <b>Capital reserve <sup>3</sup></b>   |      |             |                             |             |                            |             |
|   |      | 149         | 149                         | 149         | -                          | -           |
| <b>Total reserves</b>   |      | 534         | 717                         | 786         | 875                        | 1,089       |
| <b>Retained profits</b>   |      |             |                             |             |                            |             |
| Balance at start of year  |      | 4,562       | 3,607                       | 2,952       | 3,716                      | 3,168       |
| Net profit attributable to shareholders of the Company                        |      | 2,322       | 1,870                       | 1,747       | 1,507                      | 1,610       |
| Total available for appropriation   |      | 6,884       | 5,477                       | 4,699       | 5,223                      | 4,778       |
| Transfers from (to) reserves  |      | 85          | 266                         | (49)        | -                          | -           |
| Ordinary share dividends provided for or paid                                 | 8    | (1,252)     | (1,062)                     | (941)       | (1,252)                    | (1,062)     |
| Preference share dividends paid   | 8    | (117)       | (119)                       | (102)       | -                          | -           |
| Retained profits at end of year   |      | 5,600       | 4,562                       | 3,607       | 3,971                      | 3,716       |
| <b>Total shareholders' equity attributable to shareholders of the Company</b> |      | 11,448      | 10,538                      | 9,795       | 10,160                     | 10,064      |

The notes appearing on pages 6 to 76 form an integral part of these financial statements

# Amounts less than \$500,000

Nature and purpose of reserves

1 Asset revaluation reserve

Prior to 1 October 2000, the asset revaluation reserve was used to record certain increments and decrements on the revaluation of non-current assets. As the Group has elected to adopt deemed cost in accordance with AASB 1041, the balance of the reserve is not available for future non-current asset write downs while the Group remains on the deemed cost basis

2 Foreign currency translation reserve

Exchange differences arising on translation of foreign self-sustaining operations are taken to the foreign currency translation reserve, as described in accounting policy note 1

3 General reserve and Capital reserve

The balance of these reserves have resulted from prior period allocations of retained profits and may be released to retained profits

|  | Note  | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company |             |
|--|-------|-------------|-----------------------------|-------------|-------------|-------------|
|  |       |             |                             |             | 2002<br>\$m | 2001<br>\$m |
| <b>Cash flows from operating activities</b>          |       |             |                             |             |             |             |
| Interest received                                    |       | 10,148      | 11,054                      | 9,916       | 6,723       | 7,683       |
| Dividends received                                   |       | 3           | 75                          | 192         | 67          | 565         |
| Fees and other income received                       |       | 2,919       | 2,783                       | 2,460       | 2,689       | 2,230       |
| Interest paid  |       | (5,367)     | (6,703)                     | (6,108)     | (4,158)     | (5,112)     |
| Personnel expenses paid                              |       | (1,900)     | (1,827)                     | (1,735)     | (1,576)     | (1,466)     |
| Premises expenses paid                               |       | (268)       | (253)                       | (283)       | (249)       | (245)       |
| Other operating expenses paid                        |       | (1,893)     | (1,775)                     | (1,199)     | (913)       | (769)       |
| Income taxes paid                                    |       | (853)       | (823)                       | (754)       | (574)       | (667)       |
| Goods and services tax (paid) received               |       | (28)        | (53)                        | 4           | (8)         | (18)        |
| Net (increase) in trading securities                 |       | (1,030)     | (629)                       | (25)        | (782)       | (987)       |
| <b>Net cash provided by operating activities</b>     | 43(a) | 1,731       | 1,849                       | 2,468       | 1,219       | 1,214       |
| <b>Cash flows from investing activities</b>          |       |             |                             |             |             |             |
| Net decrease (increase)                              |       |             |                             |             |             |             |
| Liquid assets -greater than three months             |       | (442)       | 983                         | (1,755)     | (416)       | (973)       |
| Due from other financial institutions                |       | 554         | 909                         | (792)       | 557         | 263         |
| Regulatory deposits                                  |       | 37          | (27)                        | (90)        | (47)        | (20)        |
| Loans and advances                                   |       | (9,441)     | (4,829)                     | (17,633)    | (9,216)     | (4,064)     |
| Shares in controlled entities and associates         |       | (1)         | (36)                        | (50)        | 1,023       | 251         |
| Investment securities                                |       |             |                             |             |             |             |
| Purchases  |       | (2,851)     | (4,005)                     | (8,109)     | (1,480)     | (2,319)     |
| Proceeds from sale or maturity                       |       | 2,436       | 3,630                       | 8,553       | 977         | 1,802       |
| Controlled entities and associates                   |       |             |                             |             |             |             |
| Purchased (net of cash acquired)                     | 43(c) | (1,050)     | (36)                        | (43)        | (893)       | –           |
| Proceeds from sale (net of cash disposed)            |       | –           | –                           | 1,510       | –           | –           |
| Premises and equipment                               |       |             |                             |             |             |             |
| Purchases  |       | (385)       | (452)                       | (275)       | (309)       | (218)       |
| Proceeds from sale                                   |       | 101         | 127                         | 249         | 51          | 43          |
| Recovery from NHB litigation                         |       | 248         | –                           | –           | 248         | –           |
| Other  |       | 201         | (454)                       | (1,405)     | 50          | 794         |
| <b>Net cash (used in) investing activities</b>       |       | (10,593)    | (4,190)                     | (19,840)    | (9,455)     | (4,441)     |
| <b>Cash flows from financing activities</b>          |       |             |                             |             |             |             |
| Net (decrease) increase                              |       |             |                             |             |             |             |
| Due to other financial institutions                  |       | (1,211)     | (826)                       | 3,111       | (917)       | (1,228)     |
| Deposits and other borrowings                        |       | 9,152       | 890                         | 12,763      | 9,888       | 463         |
| Due from/to controlled entities                      |       | –           | –                           | –           | (2,907)     | 1,159       |
| Payables and other liabilities                       |       | 362         | 581                         | (843)       | 875         | 225         |
| Bonds and notes                                      |       |             |                             |             |             |             |
| Issue proceeds                                       |       | 4,538       | 7,542                       | 5,555       | 4,538       | 7,542       |
| Redemptions  |       | (3,519)     | (2,878)                     | (1,341)     | (3,519)     | (2,878)     |
| Loan capital   |       |             |                             |             |             |             |
| Issue proceeds                                       |       | 759         | –                           | 152         | 500         | –           |
| Redemptions  |       | (589)       | (244)                       | (147)       | (398)       | (164)       |
| Decrease in outside equity interests                 |       | 1           | (1)                         | (19)        | –           | –           |
| Dividends paid                                       |       | (1,178)     | (1,028)                     | (749)       | (1,061)     | (909)       |
| Share capital issues                                 |       | 112         | 114                         | 36          | 112         | 114         |
| Share buyback  |       | –           | (495)                       | (1,014)     | –           | (495)       |
| <b>Net cash provided by financing activities</b>     |       | 8,427       | 3,655                       | 17,504      | 7,111       | 3,829       |
| Net cash provided by operating activities            |       | 1,731       | 1,849                       | 2,468       | 1,219       | 1,214       |
| Net cash (used in) investing activities              |       | (10,593)    | (4,190)                     | (19,840)    | (9,455)     | (4,441)     |
| Net cash provided by financing activities            |       | 8,427       | 3,655                       | 17,504      | 7,111       | 3,829       |
| Net (decrease) increase in cash and cash equivalents |       | (435)       | 1,314                       | 132         | (1,125)     | 602         |
| Cash and cash equivalents at beginning of year       |       | 9,071       | 6,462                       | 6,634       | 6,747       | 4,724       |
| Foreign currency translation on opening balances     |       | (711)       | 1,295                       | (304)       | (169)       | 1,421       |
| <b>Cash and cash equivalents at end of year</b>      | 43(b) | 7,925       | 9,071                       | 6,462       | 5,453       | 6,747       |

The notes appearing on pages 6 to 76 form an integral part of these financial statements



## Notes to the Financial Statements

Our critical accounting policies are described on page 79.

### 1: Accounting Policies

#### (i) Basis of preparation

This general purpose financial report complies with the accounts provisions of the Banking Act, applicable Australian Accounting Standards, the accounts provisions of the Corporations Act 2001, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The accounting policies are consistent with those of the previous year.

Certain disclosures required by the United States Securities and Exchange Commission in respect of foreign registrants have also been included in this report.

The financial report has been prepared in accordance with the historical cost convention as modified by the revaluation of trading instruments, life insurance assets and liabilities and the deemed cost of properties. The preparation of the financial report requires the use of management estimates. Such estimates may require review in future periods.

The Company is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100, dated 10 July 1998. Consequently, amounts in the financial report have been rounded to the nearest million dollars except where otherwise indicated.

All amounts are expressed in Australian dollars, unless otherwise stated. Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

#### (ii) Consolidation

The financial statements consolidate the financial statements of Australia and New Zealand Banking Group Limited (the Company) and its controlled entities.

Shares in controlled entities are stated at deemed cost in the statement of financial position.

Where controlled entities and associates 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.

The Group adopts the equity method of accounting for associates and the Group's interest in joint venture entities. Shares in associates and joint venture entities are stated in the consolidated statement of financial position at cost plus the Group's share of post acquisition net assets. The Group's share of results of associates and joint venture entities is included in the consolidated statement of financial performance.

The Group may invest in or establish special purpose companies, or vehicles, to enable it to undertake specific types of transactions. Where the Group controls such vehicles, they are consolidated into the Group financial results.

#### (iii) 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 amortised on a straight line basis over the period during which the benefits are expected to arise, not exceeding 20 years.

The unamortised balance of goodwill and the period of amortisation are reviewed annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

#### (iv) Foreign currency

Assets and liabilities denominated in foreign

currencies are translated into Australian dollars at the rates of exchange ruling at balance date. Revenues and expenses of overseas branches and controlled entities are translated at average exchange rates for the year.

Net translation differences arising from the translation of overseas branches and controlled entities considered to be self-sustaining operations are included in the foreign currency translation reserve, after allowing for those positions hedged by foreign exchange contracts and related currency borrowings.

#### (v) Fee income

Fee and commission income are brought to account on an accruals basis. Yield-related front-end application fees received are deferred and accrued to income as an adjustment of yield over the period of the loan. Non yield-related application and activation lending fees received are recognised as income no later than when the loan is disbursed or the commitment to lend expires. Fees received on an ongoing basis that represent the recoupment of the costs of providing service (for example, maintaining and administering existing facilities) are taken to income when the fees are receivable.

#### (vi) Net loans and advances

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans, lease finance, hire purchase finance and commercial bills.

Overdrafts, credit cards and term loans are carried at principal balances outstanding. Interest on amounts outstanding is accounted for on an accruals basis.

Finance leases and hire purchase contracts are accounted for using the finance method whereby income is taken to account progressively over the life of the lease or the contract in proportion to the outstanding investment balance.

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

All loans are subject to regular scrutiny and graded according to the level of credit risk. Loans are classified as either productive or non-accrual. The Group has adopted the Australian Prudential Regulation Authority Impaired Assets Guidelines in assessing non-accrual loans. Non-accrual loans include loans where the accrual of interest and fees has ceased due to doubt as to full recovery, and loans that have been restructured with an effective yield below the Group's average cost of funds at the date of restructuring. A specific provision is raised to cover the expected loss, where full recovery of principal is doubtful.

Restructured loans are loans with an effective yield above the Group's cost of funds and below the yield applicable to a customer of equal credit standing.

Cash receipts on non-accrual loans are, in the absence of a contrary agreement with the customer, applied as income or fees in priority to being applied as a reduction in principal, except where the cash receipt relates to proceeds from the sale of security.

#### (vii) Bad and doubtful debts

Each month the Group recognises an expense for credit losses based on the expected long term loss ratio for each part of the loan portfolio. The monthly charge is transferred to the General Provision which is maintained to cover losses inherent within the Group's existing loan portfolio.

The method used by the Group for determining this monthly expense charge is referred to as 'economic loss provisioning' (ELP). The Group uses ELP models to calculate the expected loss by considering:

- > the history of credit loss for each type and risk grade of lending; and
- > the size, composition and risk profile of the current loan portfolio.

The Group regularly reviews the assumptions used in the ELP models. These reviews are conducted in recognition of the subjective nature of ELP methodology. Methodologies are updated as improved analysis becomes available. In addition, the robustness of outcomes is reviewed considering the Group's actual loss experience, and losses sustained by other banks operating in similar markets.

To the extent that credit losses are not consistent with previous loss patterns used to develop the assumptions within the ELP methodology, the existing General Provision may be determined to be either in excess of or insufficient to cover credit losses not yet specifically identified. As a result of the reassessments, ELP charge levels may be periodically increased or decreased.

Specific provisions are maintained to cover identified doubtful debts. All known bad debts are written off in the year in which they are identified. The specific provision requirement (representing new and increased specific provisions less specific provision releases) is transferred from the general provision to the specific provision. Recoveries, representing excess transfers to the specific provision, are credited to the general provision.

Provisions for doubtful debts are deducted from loans and advances in the statement of financial position.

#### (viii) Acceptances

Commercial bills accepted but not held in portfolio are accounted for and disclosed as a liability with a corresponding contra asset.

The Group's own acceptances discounted are held as part of either the trading securities portfolio or the loan portfolio, depending on whether, at the time of such discount, the intention was to hold the acceptances for resale or until maturity.

#### (ix) Trading securities

Securities held for trading purposes are recorded at market value. Unrealised gains and losses on revaluation are taken to the statement of financial performance.

#### (x) Investment securities

Investment securities are those which the Group intends and has the ability to hold until maturity. Such securities are recorded at cost or at cost adjusted for amortisation of premiums or discounts.

Premiums and discounts are capitalised and amortised from the date of purchase to maturity. Interest and dividend income is accrued. Changes in market values of securities are not taken into account unless there is considered to be a permanent diminution in value.

#### (xi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements and a counterparty liability is disclosed under the classifications of Due to other financial institutions or Deposits and other borrowings. The difference between the sale price and the repurchase price is amortised over the life of the repurchase agreement and charged to interest expense in the statement of financial performance.



Securities purchased under agreements to resell 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.

(xii) Derivative financial instruments

Derivative financial instruments (derivatives) are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Trading derivatives, comprising derivatives entered into for customer-related or proprietary reasons or for hedging the trading portfolio, are measured at fair value and all gains and losses are taken to the statement of financial performance. Fair value losses arising from trading derivatives are not offset against fair value gains unless a legal right of set-off exists. Derivatives designated, and effective, as hedges of underlying non-trading exposures are accounted for on the same basis as the underlying exposures. To be designated as a hedge, the fair value of the hedge must move inversely with changes in the fair value of the underlying exposure.

Gains and losses resulting from the termination of a derivative that was designated as a hedge of non-trading exposures are deferred and amortised over the remaining period of the original term covered by the terminated instrument where the underlying exposure still exists. Where the underlying exposure no longer exists, the gains and losses are recognised in the statement of financial performance.

Gains and losses on derivatives related to hedging exposures arising from anticipated transactions are deferred and recognised in the financial statements when the anticipated transaction occurs.

These gains and losses are deferred only to the extent that there is an offsetting unrecognised (unrealised) gain or loss on the exposures being hedged. Deferred gains and losses are amortised over the expected term of the hedged exposure.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur. If the forecasted transaction is no longer expected to occur, the gains and losses are recognised immediately in the statement of financial performance.

(xiii) Premises and equipment

Premises and equipment (including computer equipment) are carried at cost less depreciation or amortisation.

Profit 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 of the Group 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% to 33% |
| Software                    | 14% to 33%   |

Leasehold improvements are amortised on a straight line basis over the remaining period of each lease.

Costs incurred in acquiring and building software and computer systems are capitalised as fixed assets and expensed as depreciation over periods of between 3 and 5 years except for the branch front end applications where 7 years is used. Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

The carrying values of all non-current assets have been assessed and are not in excess of their recoverable amounts. The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market determined, risk adjusted discount rate. The discount rate used ranged from 9% to 15% depending on the nature of the assets.

(xiv) Income tax

The Group adopts the liability method of tax effect accounting whereby income tax expense is calculated based on accounting profit adjusted for permanent differences. Permanent differences are items of revenue and expense which are recognised in the statement of financial performance but are not part of taxable income or vice versa.

Future tax benefits and deferred tax liabilities relating to timing differences and tax losses are carried forward at tax rates applicable to future periods. These future tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future tax benefits relating to tax losses are only carried forward where realisation of the benefit is considered virtually certain.

Provision for Australian income tax is made where the earnings of overseas controlled entities are subjected to Australian tax under the attribution rules for the taxation of foreign sourced income.

Otherwise, no provision is made for overseas withholding tax or Australian income tax which may arise on repatriation of earnings from overseas controlled entities, where it is expected these earnings will be retained by those entities to finance their ongoing business.

(xv) Employee entitlements

The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at current salary rates including on-costs. Liability for long service leave is accrued in respect of all applicable employees at the present value of future amounts expected to be paid.

(xvi) Superannuation commitments

Contributions, which are determined on an actuarial basis, to superannuation schemes are charged to personnel expenses in the statement of financial performance.

Any aggregate deficiencies arising from the actuarial valuations of the Group's defined benefit schemes have been provided for in the financial statements.

The assets and liabilities of the schemes have not been consolidated as the Company does not have direct or indirect control of the schemes.

(xvii) Leasing

Leases entered into by the Group as lessee are predominantly operating leases, and the operating lease payments are included in the statement of financial performance in equal instalments over the lease term.

(xviii) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an other asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(xix) Life insurance

The Group's life insurance business was conducted through ANZ Life Assurance Company Limited until 30 April 2002 and its results consolidated until that date.

Components of life insurance margin on services operating income disclosed are premium revenue and related revenue, investment revenue, claims expense and insurance policy liabilities expense (refer note 41).

Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as "Other Assets" in the balance sheet.

Claims under investment-linked business are recognised when the policy ceases to participate in the earnings of the fund. Claims on non investment-linked business are recognised when the liability to the policyowner under the policy contract has been established or upon notification of the insured event depending on the type of claim.

Policy liabilities and other liabilities are measured at net present value of estimated future cash flows. Changes in net present values are recognised in the statement of financial performance as revenue or expenses in the financial year in which they occur.

All assets are measured at net market values as at the reporting date. Changes in the net market values are recognised in the statement of financial performance as revenue or expenses in the financial year in which they occur.

On 1 May 2002 the Group's life insurance business was transferred to a joint venture entity, (see note 46) which is accounted for in accordance with the equity method of accounting. The joint venture adopts similar accounting policies to those described here.

(xx) Capitalised expenses

Expenses related to the acquisition of interest earning assets are initially recognised as part of the cost of acquiring the asset and written-off as an adjustment to its yield over its expected life. For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the asset portfolio, taking into account prepayments.

## Notes to the Financial Statements

### 2: Income

|  | 2002<br>\$m   | Consolidated<br>2001<br>\$m | 2000<br>\$m   | The Company  |               |
|--|---------------|-----------------------------|---------------|--------------|---------------|
|  |               |                             |               | 2002<br>\$m  | 2001<br>\$m   |
| <b>Interest income</b>   |               |                             |               |              |               |
| From other financial institutions  | 121           | 214                         | 243           | 83           | 153           |
| On regulatory deposits   | 1             | 1                           | 5             | 1            | 1             |
| On trading and investment securities   | 397           | 471                         | 573           | 324          | 340           |
| On loans and advances  | 8,245         | 9,122                       | 8,930         | 5,733        | 6,613         |
| Other  | 273           | 443                         | 490           | 192          | 185           |
|  | 9,037         | 10,251                      | 10,241        | 6,333        | 7,292         |
| From controlled entities   | –             | –                           | –             | 93           | 187           |
| <b>Total interest income</b>   | <b>9,037</b>  | <b>10,251</b>               | <b>10,241</b> | <b>6,426</b> | <b>7,479</b>  |
| <b>Other operating income</b>  |               |                             |               |              |               |
| (i) Fee income   |               |                             |               |              |               |
| Lending  | 876           | 787                         | 727           | 771          | 686           |
| Other, commissions <sup>1</sup>  | 1,196         | 1,105                       | 1,133         | 861          | 794           |
|  | 2,072         | 1,892                       | 1,860         | 1,632        | 1,480         |
| From controlled entities   | –             | –                           | –             | 284          | 372           |
| <b>Total fee income</b>  | <b>2,072</b>  | <b>1,892</b>                | <b>1,860</b>  | <b>1,916</b> | <b>1,852</b>  |
| (ii) Other income  |               |                             |               |              |               |
| Significant transaction: Net profit before tax from sale of business<br>to ING Australia joint venture | 174           | –                           | –             | 192          | –             |
| Foreign exchange earnings  | 365           | 348                         | 342           | 264          | 279           |
| Profit on sale of strategic investments  | –             | 99                          | –             | –            | –             |
| Hedge of TrJEPrs <sup>2</sup> Cash Flows   | 72            | 27                          | –             | 72           | 27            |
| Life insurance margin on services operating<br>income (refer note 41)                                  | 99            | 190                         | 175           | –            | –             |
| Profit on trading instruments  | 59            | 63                          | 87            | 44           | 40            |
| Profit on sale of premises <sup>3</sup>  | 5             | 3                           | 13            | 2            | 3             |
| Rental income  | 4             | 5                           | 7             | 3            | 4             |
| Share of associates: profit from ING joint venture   | 2             | –                           | –             | –            | –             |
| Share of associates profit (net of writeoffs)  | 29            | (25)                        | 3             | –            | –             |
| Dividend income from strategic investments   | –             | 21                          | 19            | –            | –             |
| Writedown of equity investments  | –             | (84)                        | –             | –            | (41)          |
| Other  | 89            | 34                          | 77            | 142          | 497           |
| <b>Total other income</b>  | <b>898</b>    | <b>681</b>                  | <b>723</b>    | <b>719</b>   | <b>809</b>    |
| <b>Total other operating income<sup>4</sup></b>  | <b>2,970</b>  | <b>2,573</b>                | <b>2,583</b>  | <b>2,635</b> | <b>2,661</b>  |
| Items reported as abnormal in prior periods<br>(refer note 6)  | –             | –                           | 1,207         | –            | –             |
| <b>Total income<sup>5</sup></b>  | <b>12,007</b> | <b>12,824</b>               | <b>14,031</b> | <b>9,061</b> | <b>10,140</b> |

1 Includes commissions from funds management business (up to 30 April 2002)

2 Preference shares are issued via the TrJEPrs structure. This income is earned on a fixed receive/floating pay swap of the fixed dividend commitments

3 Gross proceeds on sale of premises is \$42 million (2001: \$98 million, 2000: \$164 million)

4 The Company's 'other income' include dividends received from controlled entities of \$65 million (2001: \$516 million)

5 Includes external dividend income of \$3 million (2001: \$75 million, 2000: \$192 million) for the Group and \$2 million (2001: \$47 million) for the Company

### 3: Expenses

#### Interest expense

|                                  |              |              |              |              |              |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| To other financial institutions  | 246          | 590          | 577          | 225          | 568          |
| On deposits                      | 3,019        | 3,597        | 4,082        | 2,371        | 2,860        |
| On borrowing corporations' debt  | 404          | 454          | 409          | –            | –            |
| On commercial paper              | 251          | 584          | 486          | 46           | 211          |
| On loan capital, bonds and notes | 801          | 797          | 596          | 793          | 768          |
| Other                            | 298          | 396          | 290          | 210          | 224          |
|                                  | 5,019        | 6,418        | 6,440        | 3,645        | 4,631        |
| To controlled entities           | –            | –            | –            | 168          | 197          |
| <b>Total interest expense</b>    | <b>5,019</b> | <b>6,418</b> | <b>6,440</b> | <b>3,813</b> | <b>4,828</b> |

## 3: Expenses (continued)

|  | 2002<br>\$m  | Consolidated<br>2001<br>\$m | 2000<br>\$m   | The Company<br>2002<br>\$m | 2001<br>\$m  |
|--|--------------|-----------------------------|---------------|----------------------------|--------------|
| <b>Operating expenses</b>  |              |                             |               |                            |              |
| <b>(i) Personnel</b>   |              |                             |               |                            |              |
| Employee taxes   |              |                             |               |                            |              |
| Payroll  | 66           | 60                          | 68            | 62                         | 57           |
| Fringe benefits tax  | 31           | 40                          | 33            | 26                         | 32           |
| Pension fund   | 103          | 93                          | 99            | 88                         | 79           |
| Provision for employee entitlements                                    | 32           | 31                          | 33            | 29                         | 30           |
| Salaries and wages   | 1,134        | 1,124                       | 1,201         | 892                        | 893          |
| Other  | 348          | 327                         | 324           | 293                        | 280          |
| <b>Total personnel expenses</b>  | <b>1,714</b> | <b>1,675</b>                | <b>1,758</b>  | <b>1,390</b>               | <b>1,371</b> |
| <b>(ii) Premises</b>   |              |                             |               |                            |              |
| Amortisation of leasehold improvements                                 | 14           | 15                          | 13            | 8                          | 8            |
| Depreciation of buildings and integrals                                | 17           | 18                          | 23            | 2                          | 3            |
| Rent   | 161          | 152                         | 145           | 131                        | 129          |
| Utilities and other outgoings  | 92           | 89                          | 101           | 70                         | 70           |
| Other  | 15           | 11                          | 12            | 11                         | 10           |
|  | 299          | 285                         | 294           | 222                        | 220          |
| To controlled entities   | –            | –                           | –             | 37                         | 34           |
| <b>Total premises expenses</b>   | <b>299</b>   | <b>285</b>                  | <b>294</b>    | <b>259</b>                 | <b>254</b>   |
| <b>(iii) Computer</b>  |              |                             |               |                            |              |
| Computer contractors   | 34           | 44                          | 34            | 29                         | 50           |
| Data communication   | 62           | 49                          | 41            | 44                         | 37           |
| Depreciation and amortisation  | 140          | 108                         | 96            | 112                        | 62           |
| Rentals and repairs  | 59           | 61                          | 71            | 49                         | 51           |
| Other  | 129          | 102                         | 101           | 99                         | 87           |
| <b>Total computer expenses</b>   | <b>424</b>   | <b>364</b>                  | <b>343</b>    | <b>333</b>                 | <b>287</b>   |
| <b>(iv) Other</b>  |              |                             |               |                            |              |
| Advertising and public relations                                       | 98           | 106                         | 103           | 71                         | 76           |
| Amortisation of goodwill <sup>1</sup>                                  | 20           | 17                          | 12            | 8                          | 8            |
| Audit fees (refer note 5)  | 3            | 3                           | 3             | 2                          | 2            |
| Depreciation of furniture and equipment                                | 35           | 42                          | 42            | 28                         | 31           |
| Freight and cartage  | 36           | 32                          | 28            | 30                         | 27           |
| Loss on sale of equipment  | 2            | 5                           | 6             | 1                          | 1            |
| Non-lending losses, frauds and forgeries                               | 51           | 45                          | 55            | 36                         | 30           |
| Postage  | 47           | 42                          | 45            | 36                         | 32           |
| Professional fees  | 97           | 114                         | 136           | 79                         | 91           |
| Stationery   | 50           | 52                          | 63            | 35                         | 33           |
| Telephone  | 53           | 70                          | 79            | 38                         | 49           |
| Travel   | 77           | 79                          | 83            | 57                         | 58           |
| Other  | 84           | 75                          | 157           | 171                        | 218          |
| <b>Total other expenses</b>  | <b>653</b>   | <b>682</b>                  | <b>812</b>    | <b>592</b>                 | <b>656</b>   |
| <b>(v) Restructuring<sup>2</sup></b>                                   | <b>63</b>    | <b>86</b>                   | <b>107</b>    | <b>62</b>                  | <b>73</b>    |
| <b>Total operating expenses</b>  | <b>3,153</b> | <b>3,092</b>                | <b>3,314</b>  | <b>2,636</b>               | <b>2,641</b> |
| Significant transaction: recovery from NHB litigation                  | (248)        | –                           | –             | (248)                      | –            |
| <b>Total operating expenses including recovery from NHB litigation</b> | <b>2,905</b> | <b>3,092</b>                | <b>3,314</b>  | <b>2,388</b>               | <b>2,641</b> |
| Items reported as abnormal in prior periods (refer note 6)             | –            | –                           | 986           | –                          | –            |
| <b>Total expenses</b>  | <b>7,924</b> | <b>9,510</b>                | <b>10,740</b> | <b>6,201</b>               | <b>7,469</b> |

1 In addition, for 2000, restructuring costs of \$361 million (Company \$276 million) have been treated as abnormal

2 In addition, there is a notional goodwill amortisation charge (2002: \$18 million; 2001: nil) included in the calculation of the share of associates income from the ING Australia joint venture

## Notes to the Financial Statements

### 4: Equity Instruments Issued to Employees

Under existing Australian Accounting Standards, equity instruments issued to employees are not required to be expensed. The impact of expensing options<sup>1</sup>, and shares issued under the \$1,000 employee share plan, have been calculated and are disclosed below.

|  | Consolidated<br>2002<br>\$m |
|--|-----------------------------|
| Net profit attributable to shareholders of the Company         | 2,322                       |
| Expenses attributable to:                                      |                             |
| Options issued to Management Board <sup>1</sup>                | (7)                         |
| Options issued to general management <sup>1</sup>              | (19)                        |
| Shares issued under \$1,000 employee share plan                | (18)                        |
| Revised net profit attributable to shareholders of the Company | 2,278                       |
| Revised earnings per share basic (cents)                       | 144.4                       |

<sup>1</sup> Based on fair values estimated at grant date using a modified Black Scholes model. Value of options amortised over vesting period

### 5: Remuneration of Auditors

|   | 2002<br>\$'000 | Consolidated<br>2001<br>\$'000 | 2000<br>\$'000 | The Company<br>2002<br>\$'000 | 2001<br>\$'000 |
|---|----------------|--------------------------------|----------------|-------------------------------|----------------|
| <b>KPMG Australia</b>   |                |                                |                |                               |                |
| Audit or review of financial reports of the Company<br>or any entity in the Group | 2,065          | 2,296                          | 2,386          | 1,586                         | 1,465          |
| Other audit-related services <sup>1,2</sup>                                       | 2,793          | 1,753                          | 1,707          | 2,685                         | 308            |
| Other assurance services <sup>3</sup>   | 8,188          | 2,811                          | 1,745          | 7,453                         | 2,811          |
|   | 13,046         | 6,860                          | 5,838          | 11,724                        | 4,584          |
| Consulting <sup>4</sup>   | –              | 10,867                         | 9,578          | –                             | 10,867         |
| Taxation  | 1,278          | 1,681                          | 4,791          | 1,256                         | 1,681          |
|   | 1,278          | 12,548                         | 14,369         | 1,256                         | 12,548         |
| <b>Total remuneration</b>   | 14,324         | 19,408                         | 20,207         | 12,980                        | 17,132         |
| <b>Overseas Related practices of KPMG Australia</b>                               |                |                                |                |                               |                |
| Audit or review of financial reports of Group entities                            | 1,305          | 1,024                          | 763            | 271                           | 343            |
| Other audit-related services <sup>1,2</sup>                                       | 1,611          | 1,755                          | 1,319          | 861                           | 1,045          |
| Other assurance services <sup>3</sup>   | 316            | 937                            | 97             | 101                           | 167            |
|   | 3,232          | 3,716                          | 2,179          | 1,233                         | 1,555          |
| Consulting <sup>4</sup>   | –              | –                              | 1,813          | –                             | –              |
| Taxation  | 200            | 452                            | 109            | 111                           | 283            |
|   | 200            | 452                            | 1,922          | 111                           | 283            |
| <b>Total remuneration</b>   | 3,432          | 4,168                          | 4,101          | 1,344                         | 1,838          |
| <b>Other auditors</b>   |                |                                |                |                               |                |
| Audit or review of financial reports of Group entities                            | n/a            | n/a                            | 12             | n/a                           | n/a            |
| Other services  | n/a            | n/a                            | 19             | n/a                           | n/a            |
| <b>Total remuneration</b>   | n/a            | n/a                            | 31             | n/a                           | n/a            |
| <b>Total remuneration of auditors</b>   | 17,756         | 23,576                         | 24,339         | 14,324                        | 18,970         |

By virtue of an Australian Securities and Investments Commission class order dated 30 September 1998, the auditors of Australia and New Zealand Banking Group Limited and its related bodies corporate, KPMG, have been exempted from compliance with the requirements of Section 324 of the Corporations Act 2001. The class order exemption applies in that partners and associates of KPMG not engaged on the audit of Australia and New Zealand Banking Group Limited and its related bodies corporate may be indebted to the Company, provided that such indebtedness arose upon ordinary commercial terms and conditions.

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. 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 ANZ Audit Committee.

<sup>1</sup> Includes completion accounts review

<sup>2</sup> Includes services for the audit or review of financial information other than financial reports including prudential supervision reviews for central banks, prospectus reviews, trust audits and other audits required for local statutory purposes

<sup>3</sup> Includes due diligence services principally related to ING joint venture. Under the policy adopted by ANZ in April 2002, due diligence services are no longer provided by the external auditor, unless specifically approved by the Board

<sup>4</sup> KPMG sold its consulting business effective 1 September 2001

## 6: Items Reported as Abnormal in Prior Periods

|   | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|---|-------------|-----------------------------|-------------|----------------------------|-------------|
| Profit before tax   |             |                             |             |                            |             |
| Revaluation of properties   | –           | –                           | 30          | –                          | –           |
| Gain on sale of investment in Colonial                            | –           | –                           | 33          | –                          | –           |
| Income from sale of Grindlays and associated businesses           | –           | –                           | 1,225       | –                          | –           |
| (Loss) before tax   |             |                             |             |                            |             |
| Provisions raised on sale of Grindlays and associated businesses  | –           | –                           | (575)       | –                          | –           |
| Restructuring provision   | –           | –                           | (361)       | –                          | –           |
| Provision for litigation  | –           | –                           | (50)        | –                          | –           |
| Writedown of investment in Panin                                  | –           | –                           | (81)        | –                          | –           |
| <b>Total prior period abnormal profit (loss) before tax</b>       | –           | –                           | 221         | –                          | –           |
| Income tax (expense) benefit applicable to                        |             |                             |             |                            |             |
| Restatement of deferred tax balances                              | –           | –                           | (64)        | –                          | –           |
| Sale of Grindlays and associated businesses and provisions raised | –           | –                           | (246)       | –                          | –           |
| Restructuring provision   | –           | –                           | 116         | –                          | –           |
| Provision for litigation  | –           | –                           | 17          | –                          | –           |
| <b>Total prior period abnormal tax (expense)</b>                  | –           | –                           | (177)       | –                          | –           |
| <b>Total prior period abnormal profit after tax</b>               | –           | –                           | 44          | –                          | –           |

## 7: Income Tax Expense

## Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the statement of financial performance

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Profit before income tax   | 3,223 | 2,783 | 2,789 | 2,150 | 2,257 |
| Prima facie income tax at 30% (2001: 34%; 2000: 36%)                 | 967   | 946   | 1,004 | 645   | 767   |
| Tax effect of permanent differences                                  |       |       |       |       |       |
| Overseas tax rate differential                                       | 24    | 2     | 10    | 15    | 12    |
| Other non-assessable income  | (39)  | (36)  | (9)   | (1)   | (1)   |
| Rebateable and non-assessable dividends                              | (11)  | (32)  | (70)  | (20)  | (191) |
| Application of available capital losses                              | –     | –     | (10)  | –     | –     |
| Life insurance accounting  | 7     | 18    | 17    | –     | –     |
| Revaluation of properties  | –     | –     | (11)  | –     | –     |
| Sale of Grindlays and associated business (net permanent difference) | –     | –     | 12    | –     | –     |
| Impact of corporate tax rate change                                  | –     | –     | 64    | –     | –     |
| Writedown of investments   | –     | 27    | 29    | –     | 12    |
| Restructuring provision (composite tax rate)                         | –     | –     | 15    | –     | –     |
| Gain on sale of strategic investment                                 | –     | –     | (12)  | –     | –     |
| NHB settlement tax rate differential                                 | 15    | –     | –     | 15    | –     |
| Sale of business to ING Australia joint venture                      | (48)  | –     | –     | (55)  | –     |
| Other  | (19)  | (18)  | 12    | 41    | 32    |
|  | 896   | 907   | 1,051 | 640   | 631   |
| Income tax under/(over) provided in prior years                      | 2     | 4     | (11)  | 3     | 16    |
| <b>Total income tax expense</b>                                      | 898   | 911   | 1,040 | 643   | 647   |
| Australia  | 683   | 716   | 782   | 578   | 591   |
| Overseas   | 215   | 195   | 258   | 65    | 56    |
|  | 898   | 911   | 1,040 | 643   | 647   |

## Notes to the Financial Statements

### 8: Dividends

|                                     | 2002<br>\$m  | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m  |
|-------------------------------------|--------------|-----------------------------|-------------|----------------------------|--------------|
| <b>Ordinary dividends</b>           |              |                             |             |                            |              |
| Interim dividend                    | 583          | 491                         | 445         | 583                        | 491          |
| Proposed final dividend             | 692          | 595                         | 528         | 692                        | 595          |
| Bonus option plan adjustment        | (23)         | (24)                        | (32)        | (23)                       | (24)         |
| <b>Dividends on ordinary shares</b> | <b>1,252</b> | <b>1,062</b>                | <b>941</b>  | <b>1,252</b>               | <b>1,062</b> |

A final dividend of 46 cents, fully franked, is proposed to be paid on each fully paid ordinary share on 13 December 2002 (2001: final dividend of 40 cents, paid 14 December 2001, fully franked; 2000: final dividend of 35 cents, paid 15 December 2000, fully franked). The 2002 interim dividend of 39 cents, paid 1 July 2002, was fully franked, (2001: interim dividend of 33 cents, paid 2 July 2001, fully franked; 2000: interim dividend of 29 cents, paid 3 July 2000, 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% (2001: 30%, 2000: 34%).

|                                | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|--------------------------------|-------------|-----------------------------|-------------|----------------------------|-------------|
| Dividends on preference shares | 117         | 119                         | 102         | –                          | –           |

The Company has issued 124,032,000 preference shares, raising USD 775 million via Trust Securities issues. The Trust Securities carry an entitlement to a distribution of 8% (USD 400 million) or 8.08% (USD 375 million). The amounts are payable quarterly in arrears. Payment dates are the fifteenth days of January, April, July and October in each year.

#### Dividend Franking Account

The amount of franking credits available to the Company for the subsequent financial year is nil (2001 and 2000: nil), after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 2002 financial year, less 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.

From 1 July 2002 the franking credits available have been measured in accordance with the New Business Tax System (Imputation) Act 2002 as the amount of income tax paid rather than being based on after-tax profits as in previous periods.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit balances.

#### 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. In practice however, there are significant tax considerations associated with the receipt of dividends from controlled entities by a company. Payment of dividends from domestic controlled entities constitutes assessable income to a recipient Australian company. Where the dividend is received from a company within the wholly-owned group or, if the payer company is not wholly-owned, (up to 30 June 2002) to the extent that the dividend is franked, the recipient company is generally entitled to a rebate of tax otherwise payable on the assessable dividend. With effect from 1 July 2002, for franked dividends received from non wholly-owned companies a gross up and offset mechanism applies. Should the recipient company's total assessable income be less than the rebateable/grossed up dividend income, or it be in a tax loss position, the rebate/offset will reduce or be eliminated. The Group therefore acts to preserve the availability of rebates/offsets by avoiding the payment of rebateable/grossed up dividends by domestic controlled entities in this situation.

Payments of dividends from overseas controlled entities may attract withholding taxes which have not been provided for in these financial statements.

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 has advised Australian banks that a bank under its supervision must consult with it before declaring a dividend if the bank has incurred a loss, or proposes to pay dividends which exceed the level of profits earned.

#### Dividend Reinvestment Plan

During the year, 2,533,819 ordinary shares were issued at \$18.33 per share, and 2,484,694 ordinary shares at \$19.24 per share, under the Dividend Reinvestment Plan.

#### Bonus Option Plan

Dividends paid during the year have been reduced by way of certain shareholders participating in the Bonus Option Plan and forgoing all or part of their right to dividends in return for the receipt of bonus shares.

During the year, 679,408 ordinary shares were issued at \$18.33 per share, and 672,437 ordinary shares at \$19.24 per share, under the Bonus Option Plan.

|                       | Declared<br>dividend<br>\$m | Bonus options<br>exercised<br>\$m | Amount<br>paid<br>\$m |
|-----------------------|-----------------------------|-----------------------------------|-----------------------|
| Final dividend 2001   | 595                         | (12)                              | 583                   |
| Interim dividend 2002 | 583                         | (12)                              | 571                   |
|                       | <b>1,178</b>                | <b>(24)</b>                       | <b>1,154</b>          |



## 9: Earnings per Ordinary Share

|  | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m |
|--|-------------|-----------------------------|-------------|
| <b>Basic earnings per share (cents)</b>                      | 147.3       | 117.4                       | 106.8       |
| <b>Earnings reconciliation</b>                               |             |                             |             |
| Net profit   | 2,325       | 1,872                       | 1,749       |
| Less: net profit attributable to outside equity interests    | 3           | 2                           | 2           |
| Less: preference share dividend paid                         | 117         | 119                         | 102         |
| Earnings used in calculating basic earnings per share        | 2,205       | 1,751                       | 1,645       |
| <b>Weighted average number of ordinary shares (millions)</b> |             |                             |             |
| Used in calculating basic earnings per share                 | 1,496.9     | 1,492.1                     | 1,540.3     |
| <b>Diluted earnings per share (cents)</b>                    | 146.6       | 117.0                       | 106.0       |
| <b>Earnings reconciliation</b>                               |             |                             |             |
| Net profit   | 2,325       | 1,872                       | 1,749       |
| Less: net profit attributable to outside equity interests    | 3           | 2                           | 2           |
| Less: preference share dividend paid                         | 117         | 119                         | 102         |
| Earnings used in calculating diluted earnings per share      | 2,205       | 1,751                       | 1,645       |
| <b>Weighted average number of ordinary shares (millions)</b> |             |                             |             |
| Used in calculating basic earnings per share                 | 1,496.9     | 1,492.1                     | 1,540.3     |
| Add: potential conversion of options to ordinary shares      | 7.6         | 4.2                         | 12.1        |
| Used in calculating diluted earnings per share               | 1,504.5     | 1,496.3                     | 1,552.4     |

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 1.2 million.

## 10: Liquid Assets

|  | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2002<br>\$m | The Company<br>2001<br>\$m |
|--|-------------|-----------------------------|-------------|----------------------------|
| <b>Australia</b>   |             |                             |             |                            |
| Coins, notes and cash at bankers                                     | 924         | 571                         | 894         | 495                        |
| Money at call  | 112         | 191                         | 101         | 86                         |
| Securities purchased under agreement to resell less than 90 days     | 524         | 753                         | 522         | 752                        |
| Bills receivable and remittances in transit                          | 1,179       | 269                         | 1,179       | 269                        |
|  | 2,739       | 1,784                       | 2,696       | 1,602                      |
| <b>Overseas</b>  |             |                             |             |                            |
| Coins, notes and cash at bankers                                     | 293         | 231                         | 109         | 82                         |
| Money at call  | 548         | 483                         | 1           | 1                          |
| Other banks' certificates of deposit                                 | 2,725       | 3,934                       | 2,418       | 3,637                      |
| Securities purchased under agreement to resell less than 90 days     | 12          | 326                         | –           | –                          |
| Bills receivable and remittances in transit                          | 1,093       | 1,036                       | 770         | 659                        |
|  | 4,671       | 6,010                       | 3,298       | 4,379                      |
| <b>Total liquid assets</b>   | 7,410       | 7,794                       | 5,994       | 5,981                      |
| Maturity analysis based on original term to maturity at 30 September |             |                             |             |                            |
| Less than 90 days  | 4,821       | 5,504                       | 3,432       | 3,692                      |
| More than (and including) 90 days                                    | 2,589       | 2,290                       | 2,562       | 2,289                      |
| <b>Total liquid assets</b>   | 7,410       | 7,794                       | 5,994       | 5,981                      |

## Notes to the Financial Statements

### 11: Due from Other Financial Institutions

|  | 2002<br>\$m  | Consolidated<br>2001<br>\$m | 2002<br>\$m  | The Company<br>2001<br>\$m |
|--|--------------|-----------------------------|--------------|----------------------------|
| Australia  | 706          | 951                         | 695          | 946                        |
| Overseas   | 3,109        | 3,878                       | 1,954        | 3,288                      |
| <b>Total due from other financial institutions</b>                           | <b>3,815</b> | <b>4,829</b>                | <b>2,649</b> | <b>4,234</b>               |
| <b>Maturity analysis based on remaining term to maturity at 30 September</b> |              |                             |              |                            |
| Overdraft  | 275          | 794                         | 272          | 792                        |
| Less than 3 months   | 2,805        | 3,070                       | 1,657        | 2,561                      |
| Between 3 months and 12 months   | 597          | 816                         | 586          | 794                        |
| Between 1 year and 5 years   | 118          | 121                         | 116          | 65                         |
| After 5 years  | 20           | 28                          | 18           | 22                         |
| <b>Total due from other financial institutions</b>                           | <b>3,815</b> | <b>4,829</b>                | <b>2,649</b> | <b>4,234</b>               |

### 12: Trading Securities

Trading securities are allocated between Australia and Overseas based on the domicile of the issuer

#### Listed – Australia

|                                      |       |     |       |     |
|--------------------------------------|-------|-----|-------|-----|
| Commonwealth securities              | 149   | 58  | 149   | 58  |
| Local and semi-government securities | 1,692 | 805 | 1,692 | 805 |
|                                      | 1,841 | 863 | 1,841 | 863 |

#### Listed – Overseas

|                                 |       |     |       |     |
|---------------------------------|-------|-----|-------|-----|
| Equity securities               | 289   | –   | –     | –   |
| Other non-government securities | –     | 6   | –     | –   |
|                                 | 289   | 6   | –     | –   |
| Total listed                    | 2,130 | 869 | 1,841 | 863 |

#### Unlisted – Australia

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Other government securities            | 828   | 761   | 828   | 761   |
| ANZ accepted bills                     | 1,453 | 1,933 | 1,453 | 1,933 |
| Other securities and equity securities | 1,096 | 875   | 1,096 | 875   |
|  | 3,377 | 3,569 | 3,377 | 3,569 |

#### Unlisted – Overseas

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Other government securities            | 300          | 198          | 1            | 6            |
| Other securities and equity securities | 66           | 191          | –            | –            |
|  | 366          | 389          | 1            | 6            |
| Total unlisted                         | 3,743        | 3,958        | 3,378        | 3,575        |
| <b>Total trading securities</b>        | <b>5,873</b> | <b>4,827</b> | <b>5,219</b> | <b>4,438</b> |

## 13: Investment Securities

|   | Consolidated |              | The Company  |              |
|---|--------------|--------------|--------------|--------------|
|   | 2002<br>\$m  | 2001<br>\$m  | 2002<br>\$m  | 2001<br>\$m  |
| <b>Investment securities are allocated between Australia and Overseas based on the domicile of the issuer</b> |              |              |              |              |
| <b>Listed – Australia</b>   |              |              |              |              |
| Other securities and equity investments   | 23           | 15           | 18           | 13           |
|   | 23           | 15           | 18           | 13           |
| <b>Listed – Overseas</b>  |              |              |              |              |
| Other government securities   | 63           | 167          | 63           | 167          |
| Other securities and equity investments   | –            | 96           | –            | 43           |
|   | 63           | 263          | 63           | 210          |
| Total listed  | 86           | 278          | 81           | 223          |
| <b>Unlisted – Australia</b>   |              |              |              |              |
| Commonwealth government securities  | –            | –            | –            | –            |
| Local and semi-government securities  | 756          | 917          | 756          | 903          |
| Other securities and equity investments   | 252          | 60           | 252          | 46           |
|   | 1,008        | 977          | 1,008        | 949          |
| <b>Unlisted – Overseas</b>  |              |              |              |              |
| New Zealand government securities   | 488          | 425          | –            | –            |
| US government securities  | 1,322        | 1,025        | 1,322        | 1,025        |
| Other government securities   | 169          | 334          | 149          | 189          |
| Other securities and equity investments   | 536          | 448          | 33           | 14           |
|   | 2,515        | 2,232        | 1,504        | 1,228        |
| Total unlisted  | 3,523        | 3,209        | 2,512        | 2,177        |
| <b>Total investment securities</b>  | <b>3,609</b> | <b>3,487</b> | <b>2,593</b> | <b>2,400</b> |
| <b>Market value information</b>   |              |              |              |              |
| <b>Listed – Australia</b>   |              |              |              |              |
| Other securities and equity investments   | 20           | 15           | 15           | 13           |
|   | 20           | 15           | 15           | 13           |
| <b>Listed – Overseas</b>  |              |              |              |              |
| Other government securities   | 63           | 168          | 63           | 168          |
| Other securities and equity investments   | –            | 96           | –            | 43           |
|   | 63           | 264          | 63           | 211          |
| Total market value of listed investment securities  | 83           | 279          | 78           | 224          |
| <b>Unlisted – Australia</b>   |              |              |              |              |
| Commonwealth government securities  | –            | –            | –            | –            |
| Local and semi-government securities  | 756          | 917          | 756          | 903          |
| Other securities and equity investments   | 252          | 60           | 252          | 46           |
|   | 1,008        | 977          | 1,008        | 949          |
| <b>Unlisted – Overseas</b>  |              |              |              |              |
| New Zealand government securities   | 488          | 426          | –            | –            |
| US government securities  | 1,322        | 1,025        | 1,322        | 1,025        |
| Other government securities   | 169          | 334          | 149          | 189          |
| Other securities and equity investments   | 541          | 448          | 28           | 14           |
|   | 2,520        | 2,233        | 1,499        | 1,228        |
| Total market value of unlisted investment securities  | 3,528        | 3,210        | 2,507        | 2,177        |
| Total market value of investment securities   | 3,611        | 3,489        | 2,585        | 2,401        |

## Notes to the Financial Statements

### 13: Investment Securities (continued)

#### Investment Securities by Maturities and Yields

Based on remaining term to maturity at 30 September 2002

| At book value                           | Less than<br>3 months<br>\$m | Between 3<br>months and<br>12 months<br>\$m | Between<br>1 year and<br>5 years<br>\$m | Between<br>5 years and<br>10 years<br>\$m | After<br>10 years<br>\$m | No<br>maturity<br>specified<br>\$m | Total<br>\$m | Market<br>Value<br>\$m |
|---|------------------------------|---|---|---|--------------------------|------------------------------------|--------------|------------------------|
| <b>Australia</b>                        |                              |   |   |   |                          |                                    |              |                        |
| Commonwealth securities                 | –                            | –   | –                                       | –   | –                        | –                                  | –            | –                      |
| Local and semi-government securities    | 644                          | 50  | 62                                      | –   | –                        | –                                  | 756          | 756                    |
| Other securities and equity investments | 85                           | –   | 135                                     | –   | –                        | 55                                 | 275          | 275                    |
|   | 729                          | 50  | 197                                     | –   | –                        | 55                                 | 1,031        | 1,031                  |
| <b>Overseas</b>                         |                              |   |   |   |                          |                                    |              |                        |
| New Zealand government securities       | 164                          | 324   | –                                       | –   | –                        | –                                  | 488          | 488                    |
| US government securities                | 100                          | –   | 1,222                                   | –   | –                        | –                                  | 1,322        | 1,322                  |
| Other government securities             | 126                          | 68  | 38                                      | –   | –                        | –                                  | 232          | 232                    |
| Other securities and equity investments | 93                           | 21  | 414                                     | 1   | –                        | 7                                  | 536          | 538                    |
|   | 483                          | 413   | 1,674                                   | 1   | –                        | 7                                  | 2,578        | 2,580                  |
| Total book value                        | 1,212                        | 463   | 1,871                                   | 1   | –                        | 62                                 | 3,609        | n/a                    |
| Total market value                      | 1,212                        | 464   | 1,872                                   | 1   | –                        | 62                                 | n/a          | 3,611                  |

|  | Less than<br>1 year<br>% | Between<br>1 year and<br>5 years<br>% | Between<br>5 years and<br>10 years<br>% | After<br>10 years<br>% |
|--|--------------------------|---------------------------------------|---|------------------------|
| <b>Weighted average yields<sup>1</sup></b> |                          |                                       |   |                        |
| <b>Australia</b>                           |                          |                                       |   |                        |
| Commonwealth securities                    | –                        | –                                     | –                                       | –                      |
| Local and semi-government securities       | 5.03                     | 6.34                                  | –                                       | –                      |
| Other securities and equity investments    | 5.22                     | 5.05                                  | –                                       | –                      |
| <b>Overseas</b>                            |                          |                                       |   |                        |
| New Zealand government securities          | 5.89                     | –                                     | –                                       | –                      |
| US government securities                   | 2.19                     | 3.88                                  | –                                       | –                      |
| Other government securities                | 3.54                     | 3.69                                  | –                                       | –                      |
| Other securities and equity investments    | 3.96                     | 2.11                                  | 8.00                                    | –                      |

<sup>1</sup> Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2002

## 13: Investment Securities (continued)

## Investment Securities by Maturities and Yields

Based on remaining term to maturity at 30 September 2001

| At book value                           | 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 \$m | Market Value \$m |
|---|------------------------|------------------------------------|--------------------------------|----------------------------------|--------------------|---------------------------|-----------|------------------|
| <b>Australia</b>                        |                        |                                    |                                |                                  |                    |                           |           |                  |
| Commonwealth securities                 | –                      | –                                  | –                              | –                                | –                  | –                         | –         | –                |
| Local and semi-government securities    | 814                    | 1                                  | 100                            | 2                                | –                  | –                         | 917       | 917              |
| Other securities and equity investments | –                      | –                                  | 30                             | –                                | –                  | 45                        | 75        | 75               |
|   | 814                    | 1                                  | 130                            | 2                                | –                  | 45                        | 992       | 992              |
| <b>Overseas</b>                         |                        |                                    |                                |                                  |                    |                           |           |                  |
| New Zealand government securities       | 275                    | 150                                | –                              | –                                | –                  | –                         | 425       | 426              |
| US government securities                | –                      | –                                  | 1,025                          | –                                | –                  | –                         | 1,025     | 1,025            |
| Other government securities             | 354                    | 119                                | 28                             | –                                | –                  | –                         | 501       | 502              |
| Other securities and equity investments | 24                     | 48                                 | 267                            | 185                              | –                  | 20                        | 544       | 544              |
|   | 653                    | 317                                | 1,320                          | 185                              | –                  | 20                        | 2,495     | 2,497            |
| Total book value                        | 1,467                  | 318                                | 1,450                          | 187                              | –                  | 65                        | 3,487     | n/a              |
| Total market value                      | 1,467                  | 319                                | 1,451                          | 187                              | –                  | 65                        | n/a       | 3,489            |

|  | Less than 1 year % | Between 1 year and 5 years % | Between 5 years and 10 years % | After 10 years % |
|--|--------------------|------------------------------|--------------------------------|------------------|
| <b>Weighted average yields<sup>1</sup></b> |                    |                              |                                |                  |
| <b>Australia</b>                           |                    |                              |                                |                  |
| Commonwealth securities                    | –                  | –                            | –                              | –                |
| Local and semi-government securities       | 5.60               | 6.57                         | 6.35                           | –                |
| Other securities and equity investments    | –                  | 0.85                         | –                              | –                |
| <b>Overseas</b>                            |                    |                              |                                |                  |
| New Zealand government securities          | 5.52               | –                            | –                              | –                |
| US government securities                   | –                  | 6.30                         | –                              | –                |
| Other government securities                | 7.28               | 8.21                         | –                              | –                |
| Other securities and equity investments    | 7.36               | 4.03                         | 3.84                           | –                |

<sup>1</sup> Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2001

## Notes to the Financial Statements

### 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   |                | The Company   |               |
|---|----------------|----------------|---------------|---------------|
|   | 2002<br>\$m    | 2001<br>\$m    | 2002<br>\$m   | 2001<br>\$m   |
| <b>Australia</b>                                  |                |                |               |               |
| Overdrafts  | 3,151          | 2,430          | 3,151         | 2,430         |
| Credit card outstandings                          | 3,888          | 3,352          | 3,888         | 3,352         |
| Term loans – housing                              | 52,381         | 43,969         | 52,381        | 43,969        |
| Term loans – non-housing                          | 31,420         | 31,381         | 28,688        | 28,685        |
| Lease finance (refer below)                       | 2,503          | 2,524          | 878           | 767           |
| Hire purchase                                     | 8,203          | 8,075          | 332           | 302           |
| Other   | 992            | 724            | 973           | 724           |
|   | 102,538        | 92,455         | 90,291        | 80,229        |
| <b>New Zealand</b>                                |                |                |               |               |
| Overdrafts  | 619            | 707            | –             | –             |
| Credit card outstandings                          | 462            | 409            | –             | –             |
| Term loans – housing                              | 9,796          | 9,394          | –             | –             |
| Term loans – non-housing                          | 6,460          | 6,154          | –             | –             |
| Lease finance (refer below)                       | 375            | 294            | –             | –             |
| Hire purchase                                     | 477            | 445            | –             | –             |
| Other   | 908            | 902            | –             | –             |
|   | 19,097         | 18,305         | –             | –             |
| <b>Overseas markets</b>                           |                |                |               |               |
| Overdrafts  | 860            | 579            | 722           | 426           |
| Credit card outstandings                          | 108            | 70             | 26            | 20            |
| Term loans – housing                              | 323            | 320            | 239           | 251           |
| Term loans – non-housing                          | 11,938         | 14,291         | 9,983         | 12,737        |
| Lease finance (refer below)                       | 469            | 642            | 449           | 382           |
| Commercial bills                                  | 7              | 28             | 7             | 28            |
| Other   | 9              | –              | 3             | –             |
|   | 13,714         | 15,930         | 11,429        | 13,844        |
| Total gross loans and advances                    | 135,349        | 126,690        | 101,720       | 94,073        |
| Provisions for doubtful debts (refer note 16)     | (2,081)        | (1,886)        | (1,819)       | (1,680)       |
| Income yet to mature                              | (1,208)        | (1,147)        | (1)           | –             |
|   | (3,289)        | (3,033)        | (1,820)       | (1,680)       |
| <b>Total net loans and advances</b>               | <b>132,060</b> | <b>123,657</b> | <b>99,900</b> | <b>92,393</b> |
| Lease finance consists of gross lease receivables |                |                |               |               |
| Current   | 741            | 463            | 103           | 135           |
| Non-current                                       | 2,606          | 2,997          | 1,224         | 1,014         |
|   | 3,347          | 3,460          | 1,327         | 1,149         |



## 14: Net Loans and Advances (continued)

## Maturity Distribution and Concentrations of Credit Risk

Based on remaining term  
to maturity at 30 September 2002

|  | Overdraft <sup>1</sup><br>\$m | Less than<br>3 months<br>\$m | Between<br>3 months and<br>12 months<br>\$m | Between<br>1 year and<br>5 years<br>\$m | After<br>5 years<br>\$m | Total<br>\$m |
|--|-------------------------------|------------------------------|---|---|-------------------------|--------------|
| <b>Australia</b>   |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 398                           | 891                          | 433   | 575                                     | 1,139                   | 3,436        |
| Business service   | 278                           | 215                          | 396   | 481                                     | 750                     | 2,120        |
| Entertainment, leisure and tourism                                       | 98                            | 175                          | 442   | 893                                     | 857                     | 2,465        |
| Financial, investment and insurance                                      | 1,467                         | 67                           | 818   | 2,016                                   | 235                     | 4,603        |
| Government and official institutions                                     | 3                             | –                            | 3   | 22                                      | 39                      | 67           |
| Lease finance  | –                             | 93                           | 319   | 1,570                                   | 521                     | 2,503        |
| Manufacturing  | 381                           | 1,483                        | 710   | 1,011                                   | 718                     | 4,303        |
| Personal <sup>2</sup>  | 3,131                         | 4,208                        | 270   | 6,723                                   | 561                     | 14,893       |
| Real estate – construction   | 235                           | 29                           | 91  | 347                                     | 450                     | 1,152        |
| Real estate – mortgage <sup>3</sup>                                      | 116                           | 969                          | 1,407                                       | 9,130                                   | 45,427                  | 57,049       |
| Retail and wholesale trade   | 756                           | 1,748                        | 915   | 752                                     | 1,786                   | 5,957        |
| Other  | 178                           | 1,443                        | 635   | 723                                     | 1,011                   | 3,990        |
| <b>New Zealand</b>   |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 54                            | 124                          | 91  | 269                                     | 436                     | 974          |
| Business service   | 15                            | 40                           | 31  | 109                                     | 64                      | 259          |
| Entertainment, leisure and tourism                                       | 26                            | 20                           | 17  | 342                                     | 59                      | 464          |
| Financial, investment and insurance                                      | 59                            | 69                           | 46  | 863                                     | 5                       | 1,042        |
| Government and official institutions                                     | 7                             | 11                           | 6   | 60                                      | 37                      | 121          |
| Lease finance  | 22                            | 62                           | 57  | 102                                     | 132                     | 375          |
| Manufacturing  | 91                            | 134                          | 450   | 688                                     | 252                     | 1,615        |
| Personal <sup>2</sup>  | 41                            | 173                          | 137   | 296                                     | 74                      | 721          |
| Real estate – construction   | 13                            | 55                           | 39  | 77                                      | 52                      | 236          |
| Real estate – mortgage <sup>3</sup>                                      | 619                           | 297                          | 275   | 1,050                                   | 8,704                   | 10,945       |
| Retail and wholesale trade   | 54                            | 57                           | 108   | 547                                     | 184                     | 950          |
| Other  | 79                            | 205                          | 160   | 786                                     | 166                     | 1,396        |
| <b>Overseas Markets</b>  |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 18                            | 135                          | 141   | 714                                     | 544                     | 1,552        |
| Business service   | 11                            | 10                           | 29  | 121                                     | 5                       | 176          |
| Entertainment, leisure and tourism                                       | 5                             | 10                           | 6   | 75                                      | 26                      | 122          |
| Financial, investment and insurance                                      | 7                             | 26                           | 56  | 223                                     | 207                     | 519          |
| Government and official institutions                                     | 18                            | –                            | 12  | 52                                      | 9                       | 91           |
| Lease finance  | –                             | 188                          | –   | 188                                     | 93                      | 469          |
| Manufacturing  | 211                           | 549                          | 711   | 910                                     | 705                     | 3,086        |
| Personal <sup>2</sup>  | 14                            | 84                           | 50  | 400                                     | 579                     | 1,127        |
| Real estate – construction   | 18                            | 102                          | 27  | 123                                     | 45                      | 315          |
| Real estate – mortgage <sup>3</sup>                                      | 41                            | 7                            | 341   | 360                                     | 262                     | 1,011        |
| Retail and wholesale trade   | 295                           | 166                          | 24  | 200                                     | 13                      | 698          |
| Other  | 329                           | 439                          | 433   | 1,778                                   | 1,568                   | 4,547        |
| Gross loans and advances   | 9,088                         | 14,284                       | 9,686                                       | 34,576                                  | 67,715                  | 135,349      |
| Specific provision for doubtful debts                                    | (585)                         | –                            | –   | –                                       | –                       | (585)        |
| Income yet to mature   | –                             | (286)                        | (272)                                       | (642)                                   | (8)                     | (1,208)      |
|  | (585)                         | (286)                        | (272)                                       | (642)                                   | (8)                     | (1,793)      |
| Loans and advances net of specific<br>provision and income yet to mature | 8,503                         | 13,998                       | 9,414                                       | 33,934                                  | 67,707                  | 133,556      |
| General provision  | –                             | –                            | –   | –                                       | (1,496)                 | (1,496)      |
| Net loans and advances   | 8,503                         | 13,998                       | 9,414                                       | 33,934                                  | 66,211                  | 132,060      |
| <b>Interest rate sensitivity</b>   |                               |                              |   |   |                         |              |
| Fixed interest rates <sup>4</sup>  | 938                           | 8,519                        | 6,434                                       | 21,481                                  | 15,552                  | 52,925       |
| Variable interest rates  | 8,150                         | 5,765                        | 3,252                                       | 13,095                                  | 52,163                  | 82,424       |
|  | 9,088                         | 14,284                       | 9,686                                       | 34,576                                  | 67,715                  | 135,349      |

1 Overdraft includes credit cards and unsecured lending

2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances

3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

4 Housing loans and other loans that are capped for an initial period are fixed interest rate loans and their maturities based on the principal repayments due over the term of the loan

## Notes to the Financial Statements

### 14: Net Loans and Advances (continued)

#### Maturity Distribution and Concentrations of Credit Risk

Based on remaining term  
to maturity at 30 September 2001

|  | Overdraft <sup>1</sup><br>\$m | Less than<br>3 months<br>\$m | Between<br>3 months and<br>12 months<br>\$m | Between<br>1 year and<br>5 years<br>\$m | After<br>5 years<br>\$m | Total<br>\$m |
|--|-------------------------------|------------------------------|---|---|-------------------------|--------------|
| <b>Australia</b>   |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 345                           | 1,007                        | 649   | 565                                     | 934                     | 3,500        |
| Business service   | 251                           | 190                          | 328   | 600                                     | 675                     | 2,044        |
| Entertainment, leisure and tourism                                       | 96                            | 218                          | 617   | 542                                     | 820                     | 2,293        |
| Financial, investment and insurance                                      | 1,282                         | 155                          | 849   | 1,866                                   | 159                     | 4,311        |
| Government and official institutions                                     | 4                             | 43                           | 1   | 28                                      | 46                      | 122          |
| Lease finance  | –                             | 95                           | 327   | 1,550                                   | 552                     | 2,524        |
| Manufacturing  | 424                           | 1,164                        | 802   | 1,025                                   | 619                     | 4,034        |
| Personal <sup>2</sup>  | 2,406                         | 3,690                        | 570   | 6,269                                   | 500                     | 13,435       |
| Real estate – construction   | 212                           | 39                           | 107   | 357                                     | 483                     | 1,198        |
| Real estate – mortgage <sup>3</sup>                                      | 116                           | 1,354                        | 1,321                                       | 8,038                                   | 38,298                  | 49,127       |
| Retail and wholesale trade   | 664                           | 1,745                        | 1,005                                       | 924                                     | 1,679                   | 6,017        |
| Other  | 157                           | 1,208                        | 931   | 739                                     | 815                     | 3,850        |
| <b>New Zealand</b>   |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 37                            | 54                           | 150   | 455                                     | 274                     | 970          |
| Business service   | 4                             | 3                            | 8   | 77                                      | 16                      | 108          |
| Entertainment, leisure and tourism                                       | 8                             | 4                            | 9   | 155                                     | 44                      | 220          |
| Financial, investment and insurance                                      | 45                            | 9                            | 379   | 287                                     | 444                     | 1,164        |
| Government and official institutions                                     | 4                             | 2                            | 5   | 83                                      | 16                      | 110          |
| Lease finance  | 11                            | 4                            | 15  | 35                                      | 229                     | 294          |
| Manufacturing  | 53                            | 68                           | 70  | 762                                     | 58                      | 1,011        |
| Personal <sup>2</sup>  | 42                            | 79                           | 252   | 565                                     | 144                     | 1,082        |
| Real estate – construction   | 9                             | 23                           | 49  | 120                                     | 40                      | 241          |
| Real estate – mortgage <sup>3</sup>                                      | 391                           | 92                           | 84  | 955                                     | 8,967                   | 10,489       |
| Retail and wholesale trade   | 45                            | 387                          | 78  | 506                                     | 143                     | 1,159        |
| Other  | 57                            | 86                           | 149   | 647                                     | 518                     | 1,457        |
| <b>Overseas markets</b>  |                               |                              |   |   |                         |              |
| Agriculture, forestry, fishing and mining                                | 92                            | 454                          | 400   | 648                                     | 122                     | 1,716        |
| Business service   | 9                             | 8                            | 33  | 52                                      | 4                       | 106          |
| Entertainment, leisure and tourism                                       | 2                             | 17                           | 5   | 94                                      | 23                      | 141          |
| Financial, investment and insurance                                      | 494                           | 170                          | 84  | 93                                      | 271                     | 1,112        |
| Government and official institutions                                     | 28                            | 11                           | 61  | 45                                      | 117                     | 262          |
| Lease finance  | –                             | –                            | 11  | 462                                     | 169                     | 642          |
| Manufacturing  | 112                           | 1,204                        | 1,151                                       | 1,259                                   | 416                     | 4,142        |
| Personal <sup>2</sup>  | 21                            | 137                          | 108   | 201                                     | 255                     | 722          |
| Real estate – construction   | 10                            | 188                          | 36  | 436                                     | 10                      | 680          |
| Real estate – mortgage <sup>3</sup>                                      | 8                             | 72                           | 138   | 575                                     | 356                     | 1,149        |
| Retail and wholesale trade   | 150                           | 479                          | 62  | 149                                     | 22                      | 862          |
| Other  | 299                           | 698                          | 958   | 1,286                                   | 1,155                   | 4,396        |
| Gross loans and advances   | 7,888                         | 15,157                       | 11,802                                      | 32,450                                  | 59,393                  | 126,690      |
| Specific provision for doubtful debts                                    | (500)                         | –                            | –   | –                                       | –                       | (500)        |
| Income yet to mature   | –                             | (276)                        | (287)                                       | (575)                                   | (9)                     | (1,147)      |
|  | (500)                         | (276)                        | (287)                                       | (575)                                   | (9)                     | (1,647)      |
| Loans and advances net of specific<br>provision and income yet to mature | 7,388                         | 14,881                       | 11,515                                      | 31,875                                  | 59,384                  | 125,043      |
| General provision  | –                             | –                            | –   | –                                       | (1,386)                 | (1,386)      |
| Net loans and advances   | 7,388                         | 14,881                       | 11,515                                      | 31,875                                  | 57,998                  | 123,657      |
| <b>Interest rate sensitivity</b>   |                               |                              |   |   |                         |              |
| Fixed interest rates <sup>4</sup>  | 589                           | 6,873                        | 7,140                                       | 21,744                                  | 16,859                  | 53,205       |
| Variable interest rates  | 7,299                         | 8,284                        | 4,662                                       | 10,706                                  | 42,534                  | 73,485       |
|  | 7,888                         | 15,157                       | 11,802                                      | 32,450                                  | 59,393                  | 126,690      |

1 Overdraft includes credit cards and unsecured lending

2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances

3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

4 Housing loans and other loans that are capped for an initial period are fixed interest rate loans and their maturities based on the principal repayments due over the term of the loan

## 15: Impaired Assets

|   | 2002<br>\$m  | Consolidated<br>2001<br>\$m | 2002<br>\$m  | The Company<br>2001<br>\$m |
|---|--------------|-----------------------------|--------------|----------------------------|
| <b>Summary of impaired assets</b>   |              |                             |              |                            |
| Non-accrual loans   | 1,203        | 1,260                       | 1,006        | 961                        |
| Restructured loans  | 1            | 1                           | 1            | 1                          |
| Unproductive facilities   | 54           | 41                          | 52           | 39                         |
| <b>Gross impaired assets</b>  | <b>1,258</b> | <b>1,302</b>                | <b>1,059</b> | <b>1,001</b>               |
| Specific provisions   |              |                             |              |                            |
| Non-accrual loans   | (575)        | (490)                       | (500)        | (388)                      |
| Unproductive facilities   | (10)         | (10)                        | (9)          | (9)                        |
| Net impaired assets   | 673          | 802                         | 550          | 604                        |
| <b>Non-accrual loans</b>  |              |                             |              |                            |
| Non-accrual loans   | 1,203        | 1,260                       | 1,006        | 961                        |
| Specific provisions   | (575)        | (490)                       | (500)        | (388)                      |
| Total net non-accrual loans   | 628          | 770                         | 506          | 573                        |
| <b>Restructured loans</b>   |              |                             |              |                            |
| For these loans interest and fees are recognised as income on an accrual basis  | 1            | 1                           | 1            | 1                          |
| <b>Other real estate owned</b>  |              |                             |              |                            |
| In the event of customer default, any loan security is held as mortgagee in possession and therefore the Group does not hold any other real estate owned assets     | -            | -                           | -            | -                          |
| <b>Unproductive facilities</b>  |              |                             |              |                            |
| Unproductive facilities   | 54           | 41                          | 52           | 39                         |
| Specific provisions   | (10)         | (10)                        | (9)          | (9)                        |
| Net unproductive facilities   | 44           | 31                          | 43           | 30                         |
| <b>Accruing loans past due 90 days or more</b>  |              |                             |              |                            |
| These amounts, comprising loans less than \$100,000 or fully secured, are not classified as impaired assets and therefore are not included within the above summary | 216          | 351                         | 153          | 265                        |

## Notes to the Financial Statements

### 15: Impaired Assets (continued)

Further analysis of impaired assets at 30 September 2002 and interest and/or other income received during the year under Australian Prudential Regulation Authority guidelines is as follows:

|   | Gross<br>balance<br>outstanding<br>\$m | Consolidated<br>Specific<br>provision<br>\$m | Interest and/or<br>other income<br>received<br>\$m | Gross<br>balance<br>outstanding<br>\$m | The Company<br>Specific<br>provision<br>\$m | Interest and/or<br>other income<br>received<br>\$m |
|---|--|--|--|--|---|--|
| <b>Non-accrual loans</b>                                    |  |  |  |  |   |  |
| Without provisions  |  |  |  |  |   |  |
| Australia   | 78                                     | –  | 4  | 75                                     | –   | 4  |
| New Zealand   | 7                                      | –  | 1  | –                                      | –   | –  |
| Overseas markets  | 46                                     | –  | 10   | 17                                     | –   | 6  |
|   | 131                                    | –  | 15   | 92                                     | –   | 10   |
| With provisions and no, or partial performance <sup>1</sup> |  |  |  |  |   |  |
| Australia   | 436                                    | 204  | 5  | 362                                    | 178   | 5  |
| New Zealand   | 30                                     | 20   | 2  | –                                      | –   | –  |
| Overseas markets  | 353                                    | 337  | 5  | 307                                    | 310   | 5  |
|   | 819                                    | 561  | 12   | 669                                    | 488   | 10   |
| With provisions and full performance <sup>1</sup>           |  |  |  |  |   |  |
| Australia   | 9                                      | 4  | 1  | 6                                      | 4   | 1  |
| New Zealand   | –                                      | –  | –  | –                                      | –   | –  |
| Overseas markets  | 244                                    | 10   | 1  | 239                                    | 8   | 1  |
|   | 253                                    | 14   | 2  | 245                                    | 12  | 2  |
| <b>Total non-accrual loans</b>                              | 1,203                                  | 575  | 29   | 1,006                                  | 500   | 22   |
| <b>Restructured loans</b>                                   | 1                                      | –  | –  | 1                                      | –   | –  |
| <b>Unproductive facilities</b>                              | 54                                     | 10   | –  | 52                                     | 9   | –  |
| <b>Total</b>  | 1,258                                  | 585  | 29   | 1,059                                  | 509   | 22   |

1 A loan's performance is assessed against its contractual repayment schedule

### Interest and other income forgone on impaired assets

The following table shows the estimated amount of interest and other income that would have been recorded had interest and other income on non-accrual loans and unproductive facilities been accrued to income (or, in the case of restructured loans, had interest and other income been accrued at the original contract rate), and the amount of interest and other income received with respect to such loans.

|  | Consolidated |             | The Company |             |
|--|--------------|-------------|-------------|-------------|
|  | 2002<br>\$m  | 2001<br>\$m | 2002<br>\$m | 2001<br>\$m |
| <b>Gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities</b> |              |             |             |             |
| Australia  | 50           | 47          | 42          | 37          |
| New Zealand  | 3            | 12          | –           | –           |
| Overseas markets   | 30           | 67          | 23          | 38          |
| Total gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities  | 83           | 126         | 65          | 75          |
| <b>Interest and other income received</b>  |              |             |             |             |
| Australia  | (10)         | (20)        | (10)        | (18)        |
| New Zealand  | (3)          | (4)         | –           | –           |
| Overseas markets   | (16)         | (14)        | (12)        | (10)        |
| Total interest and other income received   | (29)         | (38)        | (22)        | (28)        |
| <b>Net interest and other income forgone</b>   |              |             |             |             |
| Australia  | 40           | 27          | 32          | 19          |
| New Zealand  | –            | 8           | –           | –           |
| Overseas markets   | 14           | 53          | 11          | 28          |
| <b>Total net interest and other income forgone</b>   | 54           | 88          | 43          | 47          |

## 16: Provisions for Doubtful Debts

|   | 2002<br>\$m  | Consolidated<br>2001<br>\$m | 2000<br>\$m  | The Company  |              |
|---|--------------|-----------------------------|--------------|--------------|--------------|
|   |              |                             |              | 2002<br>\$m  | 2001<br>\$m  |
| <b>General provision</b>  |              |                             |              |              |              |
| Balance at start of year  | 1,386        | 1,373                       | 1,395        | 1,283        | 1,280        |
| Adjustment for exchange rate fluctuations   | (22)         | 2                           | (51)         | (41)         | 2            |
| Sale of Grindlays   | –            | –                           | (90)         | –            | –            |
| Charge to statement of financial performance  | 610          | 531                         | 502          | 460          | 414          |
| Significant transactions: special charge to statement of financial performance <sup>1</sup> | 250          | –                           | –            | 250          | –            |
| Transfer to specific provision  | (788)        | (595)                       | (429)        | (677)        | (461)        |
| Recoveries  | 60           | 75                          | 46           | 35           | 48           |
| <b>Total general provision</b>  | <b>1,496</b> | <b>1,386</b>                | <b>1,373</b> | <b>1,310</b> | <b>1,283</b> |
| <b>Specific provision</b>   |              |                             |              |              |              |
| Balance at start of year  | 500          | 709                         | 907          | 397          | 507          |
| Adjustment for exchange rate fluctuations   | (6)          | 30                          | 88           | (6)          | 22           |
| Sale of Grindlays   | –            | –                           | (176)        | –            | –            |
| Bad debts written off   | (697)        | (834)                       | (539)        | (559)        | (593)        |
| Transfer from general provision   | 788          | 595                         | 429          | 677          | 461          |
| <b>Total specific provision</b>   | <b>585</b>   | <b>500</b>                  | <b>709</b>   | <b>509</b>   | <b>397</b>   |
| <b>Total provisions for doubtful debts</b>  | <b>2,081</b> | <b>1,886</b>                | <b>2,082</b> | <b>1,819</b> | <b>1,680</b> |
| <b>Provision movement analysis</b>  |              |                             |              |              |              |
| New and increased provisions  |              |                             |              |              |              |
| Australia   | 423          | 562                         | 319          | 348          | 461          |
| New Zealand   | 54           | 67                          | 52           | –            | –            |
| Asia  | 12           | 17                          | 98           | 6            | 20           |
| Other overseas markets  | 409          | 30                          | 79           | 403          | 26           |
|   | 898          | 676                         | 548          | 757          | 507          |
| Provision releases  | (110)        | (81)                        | (119)        | (81)         | (46)         |
|   | 788          | 595                         | 429          | 676          | 461          |
| Recoveries of amounts previously written off  | (60)         | (75)                        | (46)         | (35)         | (48)         |
| <b>Net specific provision</b>   | <b>728</b>   | <b>520</b>                  | <b>383</b>   | <b>641</b>   | <b>413</b>   |
| Net credit to general provision   | 132          | 11                          | 119          | 69           | 1            |
| <b>Charge to statement of financial performance</b>   | <b>860</b>   | <b>531</b>                  | <b>502</b>   | <b>710</b>   | <b>414</b>   |
| <b>Ratios</b>   |              |                             |              |              |              |
| Provisions <sup>2</sup> as a % of total advances <sup>2</sup>                               | %            | %                           | %            | %            | %            |
| Specific  | 0.4          | 0.4                         | 0.5          | 0.4          | 0.4          |
| General   | 1.1          | 1.0                         | 1.0          | 1.1          | 1.2          |
| Provisions <sup>2</sup> as a % of risk weighted assets                                      |              |                             |              |              |              |
| Specific  | 0.4          | 0.4                         | 0.5          | 0.5          | 0.4          |
| General   | 1.1          | 1.0                         | 1.1          | 1.3          | 1.2          |
| Bad debts written off as a % of total advances <sup>3</sup>                                 | 0.5          | 0.6                         | 0.4          | 0.5          | 0.5          |
| Net specific provision as a % of total advances <sup>3</sup>                                | 0.5          | 0.4                         | 0.2          | 0.5          | 0.4          |

1 Following an assessment of the general provision balance in March 2002, a special provision for doubtful debts of \$250 million (\$175 million after tax) was charged to restore the provision balance to an appropriate level in the current environment of unexpected investment grade defaults

2 Excludes provisions for unproductive facilities

3 See definitions on page 89

## Notes to the Financial Statements

### 17: Customers' Liabilities for Acceptances

|   | 2002<br>\$m   | Consolidated<br>2001<br>\$m | 2002<br>\$m   | The Company<br>2001<br>\$m |
|---|---------------|-----------------------------|---------------|----------------------------|
| <b>Australia</b>                                    |               |                             |               |                            |
| Agriculture, forestry, fishing and mining           | 645           | 823                         | 645           | 823                        |
| Business service                                    | 464           | 574                         | 464           | 574                        |
| Entertainment, leisure and tourism                  | 474           | 1,017                       | 474           | 1,017                      |
| Financial, investment and insurance                 | 730           | 555                         | 730           | 555                        |
| Manufacturing                                       | 2,921         | 3,204                       | 2,921         | 3,204                      |
| Personal <sup>1</sup>                               | 14            | 144                         | 14            | 144                        |
| Real estate – construction                          | 147           | 223                         | 147           | 223                        |
| Real estate – mortgage <sup>2</sup>                 | 5,012         | 4,225                       | 5,012         | 4,225                      |
| Retail and wholesale trade                          | 1,851         | 2,349                       | 1,851         | 2,349                      |
| Other   | 1,426         | 999                         | 1,426         | 999                        |
|   | 13,684        | 14,113                      | 13,684        | 14,113                     |
| <b>Overseas</b>                                     |               |                             |               |                            |
| Agriculture, forestry, fishing and mining           | 2             | 7                           | 2             | 7                          |
| Business service                                    | 1             | 1                           | 1             | 1                          |
| Financial, investment and insurance                 | 51            | 137                         | 51            | 137                        |
| Manufacturing                                       | 7             | 34                          | 7             | 34                         |
| Retail and wholesale trade                          | 18            | 12                          | 18            | 12                         |
| Other   | 33            | 20                          | 33            | 20                         |
|   | 112           | 211                         | 112           | 211                        |
| <b>Total customers' liabilities for acceptances</b> | <b>13,796</b> | <b>14,324</b>               | <b>13,796</b> | <b>14,324</b>              |

1 Personal includes non-business acceptances to individuals

2 Real estate mortgage includes residential and commercial property exposure. Acceptances within this category are for the purchase of such properties and must be secured by property

### 18: Regulatory Deposits

|                        | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2002<br>\$m | The Company<br>2001<br>\$m |
|------------------------|-------------|-----------------------------|-------------|----------------------------|
| Overseas central banks | 178         | 133                         | 138         | 98                         |



**19: Shares in Controlled Entities, Associates and Joint Venture Entities**

Refer notes 44 to 46 for details.

|   | Consolidated |             | The Company |             |
|---|--------------|-------------|-------------|-------------|
|   | 2002<br>\$m  | 2001<br>\$m | 2002<br>\$m | 2001<br>\$m |
| Total shares in controlled entities   | –            | –           | 6,238       | 6,088       |
| Total shares in associates  | 99           | 64          | 18          | 13          |
| Total shares in joint venture entity  | 1,593        | –           | –           | –           |
| Total shares in controlled entities, associates<br>and joint venture entities | 1,692        | 64          | 6,256       | 6,101       |

**Acquisitions of controlled entities**

There were no material controlled entities acquired during the year ended 30 September 2002 and 2001.

**Disposals of controlled entities**

On 30 April 2002, ANZ formed a joint venture with ING Australia Pty Ltd. ANZ have a 49% equity interest in the joint venture and 49% of the voting rights. ANZ sold a controlling interest in ANZ Life Assurance Company Limited, ANZ Managed Investments Limited, ANZ General Insurance Limited and Investment and Administration Services Limited to the joint venture representing net assets of \$392 million (fair value of business \$879 million) as well as paying \$960 million in cash. ING also contributed net assets of \$1,091 million into the joint venture.

ANZ's businesses were sold at fair value to the joint venture and a profit on sale of \$170 million (after tax and transaction costs) was recognised.

Subsequent to 30 April 2002 ANZ accounts for its interest in the joint venture using the equity method of accounting. The results of the joint venture have been included in the consolidated financial statements since the date of acquisition.

There were no material controlled entities disposed of during the year ended 30 September 2001.

## Notes to the Financial Statements

### 20: Deferred Tax Assets

|                                      | Consolidated |              | The Company |             |
|--------------------------------------|--------------|--------------|-------------|-------------|
|                                      | 2002<br>\$m  | 2001<br>\$m  | 2002<br>\$m | 2001<br>\$m |
| Future income tax assets comprises   |              |              |             |             |
| General provision for doubtful debts | 489          | 436          | 413         | 383         |
| Other                                | 729          | 764          | 422         | 483         |
| <b>Total income tax assets</b>       | <b>1,218</b> | <b>1,200</b> | <b>835</b>  | <b>866</b>  |
| Future income tax assets             |              |              |             |             |
| Australia                            | 883          | 920          | 644         | 714         |
| Overseas                             | 335          | 280          | 191         | 152         |
|                                      | 1,218        | 1,200        | 835         | 866         |

Certain potential future income tax assets within the Group have not been recognised as assets because recovery cannot be regarded as virtually certain. These potential benefits arise from tax losses and timing differences (benefits could amount to \$6 million, 2001: \$7 million), and from realised capital losses (benefits could amount to \$2 million, 2001: nil).

These benefits will only be obtained if

- (i) the relevant entities derive future assessable income of a nature and amount sufficient to enable the benefit of the taxation deductions to be realised;
- (ii) the relevant entities continue to comply with the conditions for deductibility imposed by law; and
- (iii) there are no changes in taxation legislation adversely affecting the benefit of the taxation deductions.

### 21: Goodwill

|                                   | Consolidated |             | The Company |             |
|-----------------------------------|--------------|-------------|-------------|-------------|
|                                   | 2002<br>\$m  | 2001<br>\$m | 2002<br>\$m | 2001<br>\$m |
| Goodwill – at cost                | 250          | 187         | 126         | 111         |
| Accumulated amortisation          | (70)         | (50)        | (32)        | (24)        |
| <b>Total goodwill<sup>1</sup></b> | <b>180</b>   | <b>137</b>  | <b>94</b>   | <b>87</b>   |

<sup>1</sup> Excludes notional goodwill related to the ING joint venture of \$865 million

### 22: Other Assets

|   |               |               |              |               |
|---|---------------|---------------|--------------|---------------|
| Property held for resale                      |               |               |              |               |
| Cost of acquisition                           | 25            | 18            | –            | –             |
| Development expenses capitalised              | –             | 20            | –            | –             |
|   | 25            | 38            | –            | –             |
| Provision for diminution in value             | –             | –             | –            | –             |
|   | 25            | 38            | –            | –             |
| Accrued interest/prepaid discounts            | 941           | 1,310         | 750          | 1,010         |
| Accrued commission                            | 133           | 118           | 93           | 70            |
| Prepaid expenses                              | 373           | 348           | 126          | 129           |
| Treasury instruments revaluations             | 7,918         | 13,579        | 7,044        | 12,936        |
| Security settlements                          | 305           | 771           | 283          | 593           |
| Operating leases residual value               | 437           | 410           | –            | –             |
| Available for sale emerging markets portfolio | 24            | 44            | 24           | 44            |
| Other   | 1,654         | 2,288         | 1,283        | 1,992         |
| <b>Total other assets</b>                     | <b>11,810</b> | <b>18,906</b> | <b>9,603</b> | <b>16,774</b> |

## 23: Premises and Equipment

|   | Consolidated |              | The Company |             |
|---|--------------|--------------|-------------|-------------|
|   | 2002<br>\$m  | 2001<br>\$m  | 2002<br>\$m | 2001<br>\$m |
| Freehold and leasehold land and buildings |              |              |             |             |
| At cost <sup>1</sup>                      | 469          | 494          | 28          | 28          |
| Provision for depreciation                | (14)         | (11)         | (1)         | (1)         |
|   | 455          | 483          | 27          | 27          |
| Leasehold improvements                    |              |              |             |             |
| At cost                                   | 154          | 145          | 99          | 96          |
| Provision for amortisation                | (110)        | (102)        | (69)        | (68)        |
|   | 44           | 43           | 30          | 28          |
| Furniture and equipment                   |              |              |             |             |
| At cost                                   | 706          | 748          | 477         | 454         |
| Provision for depreciation                | (475)        | (505)        | (316)       | (283)       |
|   | 231          | 243          | 161         | 171         |
| Computer and office equipment             |              |              |             |             |
| At cost                                   | 717          | 768          | 536         | 582         |
| Provision for depreciation                | (434)        | (508)        | (301)       | (367)       |
|   | 283          | 260          | 235         | 215         |
| Software                                  |              |              |             |             |
| At cost                                   | 515          | 349          | 474         | 314         |
| Provision for amortisation                | (96)         | (46)         | (85)        | (42)        |
|   | 419          | 303          | 389         | 272         |
| Capital works in progress                 |              |              |             |             |
| At cost                                   | 32           | 29           | 24          | 18          |
| <b>Total premises and equipment</b>       | <b>1,464</b> | <b>1,361</b> | <b>866</b>  | <b>731</b>  |

<sup>1</sup> In accordance with AASB 1041 this represents deemed cost

From 1 October 2000 as allowed by AASB 1041 'Revaluation of Non Current Assets' the Group elected to revert to the cost basis for measuring the class of assets land and building.

All premises over a specific value are subject to external valuation at least once every three years by independent valuers. Valuations are based on the estimated open market value and assume that the premises concerned continue to be used in their existing manner by the Group.

The independent valuation of the Group's freehold land and buildings carried out as at 30 June 2002 by Jones Lang La Salle Advisory resulted in a valuation of \$464 million (The Company: \$32 million). As land and buildings are recorded at cost, the valuation has not been brought to account.

## Notes to the Financial Statements

### 24: Due to Other Financial Institutions

|  | 2002<br>\$m   | Consolidated<br>2001<br>\$m | 2002<br>\$m   | The Company<br>2001<br>\$m |
|--|---------------|-----------------------------|---------------|----------------------------|
| Australia  | 2,340         | 2,457                       | 2,340         | 2,457                      |
| Overseas   | 8,520         | 10,233                      | 8,032         | 9,504                      |
| <b>Total due to other financial institutions</b>                             | <b>10,860</b> | <b>12,690</b>               | <b>10,372</b> | <b>11,961</b>              |
| <b>Maturity analysis based on remaining term to maturity at 30 September</b> |               |                             |               |                            |
| At call  | 2,639         | 2,636                       | 2,338         | 2,185                      |
| Less than 3 months   | 6,623         | 7,890                       | 6,453         | 7,612                      |
| Between 3 months and 12 months   | 694           | 2,124                       | 677           | 2,124                      |
| Between 1 year and 5 years   | 904           | 40                          | 904           | 40                         |
| <b>Total due to other financial institutions</b>                             | <b>10,860</b> | <b>12,690</b>               | <b>10,372</b> | <b>11,961</b>              |

**25: Deposits and Other Borrowings**

Deposits and other borrowings are classified between Australia and Overseas based on the location of the deposit taking point.

|  | Consolidated   |                | The Company   |               |
|--|----------------|----------------|---------------|---------------|
|  | 2002<br>\$m    | 2001<br>\$m    | 2002<br>\$m   | 2001<br>\$m   |
| <b>Australia</b>   |                |                |               |               |
| Certificates of deposit  | 5,340          | 2,714          | 5,340         | 2,714         |
| Term deposits  | 18,864         | 15,963         | 19,240        | 16,341        |
| Other deposits bearing interest  | 37,905         | 33,552         | 37,890        | 33,552        |
| Deposits not bearing interest  | 3,539          | 3,818          | 3,539         | 3,818         |
| Commercial paper   | 3,963          | 5,043          | 2,868         | 3,265         |
| Borrowing corporations' debt <sup>1</sup>  | 6,430          | 5,989          | –             | –             |
| Securities sold under agreement to repurchase  | 10             | 30             | 10            | 30            |
| Other borrowings   | 1,085          | 574            | 1,085         | 574           |
|  | 77,136         | 67,683         | 69,972        | 60,294        |
| <b>Overseas</b>  |                |                |               |               |
| Certificates of deposit  | 6,333          | 5,062          | 4,075         | 3,472         |
| Term deposits  | 18,395         | 19,032         | 9,870         | 11,580        |
| Other deposits bearing interest  | 6,317          | 6,184          | 869           | 827           |
| Deposits not bearing interest  | 1,710          | 1,470          | 472           | 348           |
| Commercial paper   | 1,654          | 4,059          | –             | –             |
| Borrowing corporations' debt <sup>1</sup>  | 1,713          | 1,353          | –             | –             |
| Other unsecured borrowings   | 39             | 31             | –             | 31            |
|  | 36,161         | 37,191         | 15,286        | 16,258        |
| <b>Total deposits and other borrowings</b>   | <b>113,297</b> | <b>104,874</b> | <b>85,258</b> | <b>76,552</b> |
| <b>Maturity analysis based on remaining term to maturity at 30 September</b>   |                |                |               |               |
| At call  | 46,121         | 44,263         | 39,325        | 37,652        |
| Less than 3 months   | 49,284         | 45,225         | 36,347        | 30,274        |
| Between 3 months and 12 months   | 13,615         | 10,378         | 8,089         | 6,289         |
| Between 1 year and 5 years   | 4,091          | 4,909          | 1,404         | 2,254         |
| After 5 years  | 186            | 99             | 93            | 83            |
| <b>Total deposits and other borrowings</b>   | <b>113,297</b> | <b>104,874</b> | <b>85,258</b> | <b>76,552</b> |
| <p><sup>1</sup> Included in this balance is debenture stock of controlled entities. The debenture stock is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entities involved other than land and buildings. All subsidiaries of the controlled entities (except for some subsidiaries which have been placed or are expected to be placed in voluntary deregistration 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 the controlled entity. No subsidiaries have given any charge over their respective assets in support of the above mentioned guarantees</p> |                |                |               |               |
| <b>26: Income Tax Liabilities</b>  |                |                |               |               |
|  | Consolidated   |                | The Company   |               |
|  | 2002<br>\$m    | 2001<br>\$m    | 2002<br>\$m   | 2001<br>\$m   |
| <b>Australia</b>   |                |                |               |               |
| Provision for income tax   | 538            | 460            | 476           | 357           |
| Provision for deferred income tax  | 593            | 615            | 315           | 414           |
|  | 1,131          | 1,075          | 791           | 771           |
| <b>Overseas</b>  |                |                |               |               |
| Provision for income tax   | 37             | 49             | 32            | 65            |
| Provision for deferred income tax  | 172            | 211            | 98            | 63            |
|  | 209            | 260            | 130           | 128           |
| <b>Total income tax liabilities</b>  | <b>1,340</b>   | <b>1,335</b>   | <b>921</b>    | <b>899</b>    |
| <b>Provision for deferred income tax comprises</b>   |                |                |               |               |
| Lease finance  | 111            | 209            | 43            | 31            |
| Other  | 654            | 617            | 370           | 446           |
|  | 765            | 826            | 413           | 477           |

## Notes to the Financial Statements

### 27: Payables and Other Liabilities

|   | Consolidated  |               | The Company   |               |
|---|---------------|---------------|---------------|---------------|
|   | 2002<br>\$m   | 2001<br>\$m   | 2002<br>\$m   | 2001<br>\$m   |
| <b>Australia</b>                            |               |               |               |               |
| Payables                                    | 2,174         | 1,515         | 2,137         | 1,349         |
| Accrued interest and unearned discounts     | 721           | 865           | 611           | 738           |
| Treasury instruments revaluations           | 4,142         | 7,598         | 4,134         | 7,586         |
| Accrued charges                             | 258           | 261           | 237           | 394           |
| Security settlements                        | 363           | –             | 363           | –             |
| Other liabilities                           | 128           | 444           | 128           | 259           |
|   | 7,786         | 10,683        | 7,610         | 10,326        |
| <b>Overseas</b>                             |               |               |               |               |
| Payables                                    | 124           | 190           | 10            | 11            |
| Accrued interest and unearned discounts     | 333           | 561           | 171           | 343           |
| Treasury instruments revaluations           | 3,344         | 3,202         | 2,197         | 2,461         |
| Accrued charges                             | 136           | 136           | 52            | 62            |
| Security settlements                        | 48            | 327           | 37            | 318           |
| Other liabilities                           | 679           | 849           | 626           | 353           |
|   | 4,664         | 5,265         | 3,093         | 3,548         |
| <b>Total payables and other liabilities</b> | <b>12,450</b> | <b>15,948</b> | <b>10,703</b> | <b>13,874</b> |

### 28: Provisions

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Employee entitlements                        | 253          | 242          | 222          | 213          |
| Dividends (refer note 8)                     | 692          | 595          | 692          | 595          |
| Non-lending losses, frauds and forgeries     | 216          | 775          | 184          | 717          |
| Restructuring costs and surplus leased space | 143          | 280          | 103          | 231          |
| Other  | 440          | 250          | 410          | 225          |
| <b>Total provisions</b>                      | <b>1,744</b> | <b>2,142</b> | <b>1,611</b> | <b>1,981</b> |

### 29: Bonds and Notes

#### Bonds and notes by currency

|                              |                       |               |               |               |               |
|------------------------------|-----------------------|---------------|---------------|---------------|---------------|
| USD                          | United States dollars | 5,758         | 8,076         | 5,758         | 8,076         |
| GBP                          | Great British pounds  | 1,346         | 1,225         | 1,346         | 1,225         |
| AUD                          | Australian dollars    | 160           | 151           | 160           | 151           |
| NZD                          | New Zealand dollars   | 183           | 165           | 11            | –             |
| JPY                          | Japanese yen          | 83            | 111           | 83            | 111           |
| EUR                          | Euro dollars          | 4,550         | 3,581         | 4,550         | 3,581         |
| HKD                          | Hong Kong dollars     | 2,188         | 1,854         | 2,188         | 1,854         |
| CHF                          | Swiss francs          | 173           | 177           | 173           | 177           |
| CAD                          | Canadian dollars      | 14            | –             | 14            | –             |
| NOK                          | Norwegian krone       | 98            | –             | 98            | –             |
| SGD                          | Singapore dollars     | 155           | –             | 155           | –             |
| <b>Total bonds and notes</b> |                       | <b>14,708</b> | <b>15,340</b> | <b>14,536</b> | <b>15,175</b> |

#### Bonds and notes by maturity

##### Maturity analysis based on remaining term to maturity at 30 September

|                                |               |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|
| Less than 3 months             | 399           | 995           | 399           | 995           |
| Between 3 months and 12 months | 3,502         | 2,856         | 3,330         | 2,856         |
| Between 1 year and 5 years     | 10,807        | 11,428        | 10,807        | 11,263        |
| After 5 years                  | –             | 61            | –             | 61            |
| <b>Total bonds and notes</b>   | <b>14,708</b> | <b>15,340</b> | <b>14,536</b> | <b>15,175</b> |

## 30: Loan Capital

|  | Interest Rate %                           | 2002 \$m | Consolidated 2001 \$m     | The Company 2002 \$m | 2001 \$m |
|--|---|----------|---------------------------|----------------------|----------|
| <b>Perpetual subordinated notes</b>  |   |          |                           |                      |          |
| USD 300m   | floating rate notes                       |          | LIBOR <sup>1</sup> + 0.15 | 551                  | 612      |
| USD 258.7m   | fixed rate notes                          |          | 9.125                     | 476                  | 528      |
|  |   |          |                           | 1,027                | 1,140    |
| <b>Subordinated notes</b>  |   |          |                           |                      |          |
| USD 40m <sup>2</sup>   | floating rate notes due 2002              |          | LIBOR + 0.70              | 71                   | 163      |
| USD 250m   | fixed notes due 2004                      |          | 6.25                      | 459                  | 510      |
| USD 125m   | floating rate notes due 2005              |          | LIBOR + 0.45              | –                    | 255      |
| USD 500m   | fixed notes due 2006                      |          | 7.55                      | 919                  | 1,020    |
| USD 12.5m  | floating rate notes due 2007              |          | LIBOR + 0.50              | 23                   | 25       |
| JPY 482m   | floating rate notes due 2007              |          | LIBOR + 0.50              | 7                    | 8        |
| USD 250m   | floating rate notes due 2007              |          | LIBOR + 0.25              | –                    | 510      |
| JPY 568.8m   | floating rate notes due 2008              |          | LIBOR + 0.55              | 9                    | 10       |
| USD 14.3m  | floating rate notes due 2008              |          | LIBOR + 0.50              | 26                   | 29       |
| USD 79m  | floating rate notes due 2008 <sup>3</sup> |          | LIBOR + 0.53              | 145                  | 161      |
| AUD 400m   | floating rate notes due 2008 <sup>4</sup> |          | BBSW + 0.57               | 400                  | –        |
| AUD 100m   | floating rate notes due 2008 <sup>4</sup> |          | BBSW + 0.57               | 100                  | –        |
| NZD 300m   | floating rate notes due 2012              |          | bkbm(3) + 0.50            | 259                  | –        |
|  |   |          |                           | 2,418                | 2,691    |
|  |   |          |                           | 2,159                | 2,436    |
| <b>Total loan capital</b>  |   |          |                           | 3,445                | 3,831    |
|  |   |          |                           | 3,186                | 3,576    |
| <b>Loan capital by currency</b>  |   |          |                           |                      |          |
| AUD  | Australian dollars                        |          |                           | 500                  | –        |
| NZD  | New Zealand dollars                       |          |                           | 259                  | –        |
| USD  | United States dollars                     |          |                           | 2,670                | 3,558    |
| JPY  | Japanese yen                              |          |                           | 16                   | 18       |
|  |   |          |                           | 3,445                | 3,831    |
|  |   |          |                           | 3,186                | 3,576    |
| <b>Loan capital by maturity</b>  |   |          |                           |                      |          |
| <b>Maturity analysis based on remaining term to maturity at 30 September</b> |   |          |                           |                      |          |
|  | Between 3 months and 12 months            |          |                           | 71                   | –        |
|  | Between 1 year and 5 years                |          |                           | 1,378                | 1,948    |
|  | After 5 years                             |          |                           | 969                  | 743      |
|  | Perpetual                                 |          |                           | 1,027                | 1,140    |
|  |   |          |                           | 3,445                | 3,831    |
|  |   |          |                           | 3,186                | 3,576    |

1 LIBOR is an average of rates offered on loans to leading banks in the London inter-bank market

2 As at 30 September 1998 principal of note outstanding was US\$200 million. Note is repayable over 5 years (\$40 million (20%) per annum), commencing in October 1998

3 Prior to January 2002, the interest rate was LIBOR+ 1.03

4 After March 2007 rate changes to BBSW+ 1.07

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, and constitutes tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes

## Notes to the Financial Statements

### 31: Share Capital

| Number of issued shares                                      | 2002                 | The Company<br>2001  | 2000                 |
|--|----------------------|----------------------|----------------------|
| Ordinary shares each fully paid                              | 1,503,886,082        | 1,488,267,146        | 1,506,210,690        |
| Ordinary shares each paid to 10 cents per share <sup>1</sup> | –                    | –                    | 73,000               |
| Preference shares each fully paid                            | 124,032,000          | 124,032,000          | 124,032,000          |
| <b>Total number of issued shares</b>                         | <b>1,627,918,082</b> | <b>1,612,299,146</b> | <b>1,630,315,690</b> |

1 90 cents outstanding per share.

#### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

| Number of issued shares             | 2002          | The Company<br>2001 | 2000          |
|-------------------------------------|---------------|---------------------|---------------|
| Balance at start of year            | 1,488,267,146 | 1,506,210,690       | 1,565,428,469 |
| Bonus option plan                   | 1,351,845     | 1,554,453           | 2,786,360     |
| Dividend reinvestment plan          | 5,018,513     | 5,828,303           | 20,416,971    |
| ANZ employee share acquisition plan | 4,144,988     | 5,925,928           | 4,346,635     |
| ANZ share option plan               | 5,103,590     | 2,125,120           | 1,947,138     |
| ANZ share purchase scheme           | –             | 73,000              | 22,000        |
| Share buy back                      | –             | (34,626,158)        | (88,736,883)  |
| Purchase of Amerika Samoa Bank      | –             | 1,175,810           | –             |
| Balance at end of year              | 1,503,886,082 | 1,488,267,146       | 1,506,210,690 |

#### Preference shares

The preference shares are fully paid non-converting non-cumulative preference shares issued for USD 6.25 per share via Trust Securities Issues in 1998.

The Trust Securities are mandatorily exchangeable for the preference shares issued by the Company, and carry an entitlement to a non-cumulative trust distribution of 8.00% or 8.08% per annum payable quarterly in arrears. The Trust Securities were issued by a non diversified closed end management investment company registered under the US Investment Company Act of 1940. The preference shares themselves carry no present entitlement to dividends. Distribution to investors in the Trust Securities are funded by income distributions made by the Group.

Upon maturity of the Trust Securities in 2048, investors will mandatorily exchange the Trust Securities for the preference shares and thereupon the preference shares will carry an entitlement to non-cumulative dividends of 8.00% or 8.08% per annum payable quarterly in arrears. The mandatory exchange of the Trust Securities for the preference shares may occur earlier at the Company's option or in specified circumstances.

With the prior consent of the Australian Prudential Regulation Authority, the preference shares are redeemable at the Company's option after 5 years, or within 5 years in limited circumstances. The entitlement of investors to distributions on the Trust Securities will cease on redemption of the preference shares.

The transaction costs arising on the issue of these instruments were recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

|  |     | 2002<br>\$m | Consolidated<br>2001<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|--|-----|-------------|-----------------------------|----------------------------|-------------|
| Preference share net proceeds at start and end of year               | USD | 748         | 748                         | 748                        | 748         |
| Preference share net proceeds translated to AUD at 30 September rate | AUD | 1,375       | 1,526                       | 1,375                      | 1,526       |

#### Share Buybacks

The Company conducted no on-market buybacks during the year ended 30 September 2002.



**32: Outside Equity Interests**

|                                       | 2002<br>\$m | Consolidated<br>2001<br>\$m |
|---------------------------------------|-------------|-----------------------------|
| Share capital                         | 2           | 2                           |
| Retained Profits                      | 15          | 11                          |
| <b>Total outside equity interests</b> | <b>17</b>   | <b>13</b>                   |

**33: Capital Adequacy**

The Australian Prudential Regulation Authority (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, or 'core' capital, and tier 2, or 'supplementary' capital. For capital adequacy purposes, eligible tier 2 capital cannot exceed the level of tier 1 capital. Banks are required to deduct from total capital any strategic holdings of other banks' capital instruments and investments in entities engaged in life insurance, funds management and securitisation activities. Under APRA guidelines, banks must maintain a ratio of qualifying capital to risk weighted assets of at least 8 per cent.

The measurement of risk weighted assets is based on: a) A credit risk-based approach wherein risk weightings are applied to statement of financial position 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.

| Qualifying capital  | 2002<br>\$m   | Consolidated<br>2001<br>\$m |
|---|---------------|-----------------------------|
| <b>Tier 1</b>   |               |                             |
| Total shareholders' equity and outside equity interests                 | 11,465        | 10,551                      |
| Asset revaluation reserve   | (31)          | (31)                        |
| Accumulated retained profits of insurance and funds management entities | (48)          | –                           |
| Unamortised goodwill  | (158)         | (115)                       |
| Investment in ANZ Lenders Mortgage Insurance                            | (27)          | (18)                        |
| <b>Tier 1 capital</b>   | <b>11,201</b> | <b>10,387</b>               |
| <b>Tier 2</b>   |               |                             |
| Asset revaluation reserve   | 31            | 31                          |
| Perpetual notes – subordinated  | 1,027         | 1,140                       |
| General provision for doubtful debts <sup>1</sup>                       | 1,007         | 950                         |
|   | 2,065         | 2,121                       |
| Subordinated notes <sup>2</sup>   | 1,872         | 2,436                       |
| <b>Tier 2 capital</b>   | <b>3,937</b>  | <b>4,557</b>                |
| <b>Deductions</b>   |               |                             |
| Investment in Funds Management entities                                 | (43)          | (567)                       |
| Investment in joint venture with ING                                    | (1,593)       | –                           |
| Other   | (67)          | (37)                        |
|   | (1,703)       | (604)                       |
| <b>Total qualifying capital</b>   | <b>13,435</b> | <b>14,340</b>               |
| Adjusted common equity <sup>3</sup>                                     | 8,123         | 8,257                       |

| Statement of financial position  | 2002<br>\$m    | Assets<br>2001<br>\$m | Risk weighted assets<br>2002<br>\$m | 2001<br>\$m    |
|--|----------------|-----------------------|-------------------------------------|----------------|
| Cash, claims on Australian Commonwealth and State Governments, and Territories, claims on OECD central governments, local currency claims on non-OECD governments and other zero weighted assets | 21,188         | 28,173                | –                                   | –              |
| Claims on approved banks and local governments   | 10,827         | 12,831                | 2,165                               | 2,567          |
| Advances secured by residential mortgages, approved merchant banks and stockbroking positions  | 65,575         | 57,420                | 32,788                              | 28,710         |
| Other assets – credit risk   | 82,697         | 84,283                | 82,697                              | 84,283         |
| Total statement of financial position assets – credit risk   | 180,287        | 182,707               | 117,650                             | 115,560        |
| Trading assets – market risk   | 2,818          | 2,786                 | n/a                                 | n/a            |
| <b>Total statement of financial position assets</b>  | <b>183,105</b> | <b>185,493</b>        | <b>117,650</b>                      | <b>115,560</b> |

1 Excluding attributable future income tax benefit

2 Subordinated note issues are reduced by 20% of the original amount during each of the last five years to maturity

3 Tier 1 capital less preference share, less deductions

## Notes to the Financial Statements

### 33: Capital Adequacy (continued)

|  | 2002<br>\$m | Contract/<br>notional amount<br>2001<br>\$m | 2002<br>\$m | Credit<br>equivalent<br>2001<br>\$m | 2002<br>\$m | Risk<br>weighted assets<br>2001<br>\$m |
|--|-------------|---|-------------|-------------------------------------|-------------|--|
| <b>Off balance sheet exposures</b>                                       |             |   |             |                                     |             |  |
| Direct credit substitutes  | 9,853       | 8,268                                       | 9,853       | 8,268                               | 8,304       | 6,503                                  |
| Trade and performance related items                                      | 12,781      | 10,570                                      | 5,905       | 4,866                               | 5,431       | 4,479                                  |
| Commitments  | 60,409      | 56,976                                      | 7,296       | 7,241                               | 6,506       | 7,010                                  |
| Foreign exchange, interest rate and<br>other market related transactions | 470,287     | 779,830                                     | 10,080      | 16,446                              | 3,126       | 5,025                                  |
| <b>Total off balance sheet exposures<br/>– credit risk</b>               | 553,330     | 855,644                                     | 33,134      | 36,821                              | 23,367      | 23,017                                 |
| <b>Total risk weighted assets – credit risk</b>                          |             |   |             |                                     | 141,017     | 138,579                                |
| <b>Risk weighted assets – market risk</b>                                |             |   |             |                                     | 373         | 550                                    |
| Total risk weighted assets   |             |   |             |                                     | 141,390     | 139,129                                |
| <b>Capital adequacy ratios</b>   |             |   |             |                                     | <b>%</b>    | <b>%</b>                               |
| Tier 1   |             |   |             |                                     | 7.9         | 7.5                                    |
| Tier 2   |             |   |             |                                     | 2.8         | 3.2                                    |
| Deductions   |             |   |             |                                     | (1.2)       | (0.4)                                  |
| <b>Total</b>   |             |   |             |                                     | 9.5         | 10.3                                   |
| <b>Adjusted common equity<sup>1</sup></b>                                |             |   |             |                                     | 5.7         | 5.9                                    |

<sup>1</sup> Tier 1 capital, less preference shares, less deductions

**34: 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. Non-accrual loans are included under the interest earning asset category "Loans, advances and bills discounted". Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

|  | Average<br>balance<br>\$m | 2002<br>Interest<br>\$m | Average<br>rate<br>% | Average<br>balance<br>\$m | 2001<br>Interest<br>\$m | Average<br>rate<br>% | Average<br>balance<br>\$m | 2000<br>Interest<br>\$m | Average<br>rate<br>% |
|--|---------------------------|-------------------------|----------------------|---------------------------|-------------------------|----------------------|---------------------------|-------------------------|----------------------|
| <b>Interest earning assets</b>                                   |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Due from other financial institutions                            |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 653                       | 26                      | 3.9                  | 858                       | 47                      | 5.5                  | 1,134                     | 62                      | 5.4                  |
| New Zealand  | 570                       | 26                      | 4.6                  | 589                       | 34                      | 5.7                  | 344                       | 19                      | 5.6                  |
| Overseas markets   | 2,404                     | 69                      | 2.9                  | 2,326                     | 133                     | 5.7                  | 2,407                     | 162                     | 6.7                  |
| Investments in public securities                                 |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 5,384                     | 259                     | 4.8                  | 4,517                     | 254                     | 5.6                  | 4,881                     | 289                     | 5.9                  |
| New Zealand  | 1,253                     | 55                      | 4.4                  | 1,690                     | 103                     | 6.1                  | 1,040                     | 60                      | 5.8                  |
| Overseas markets   | 1,550                     | 82                      | 5.3                  | 1,613                     | 114                     | 7.1                  | 2,234                     | 227                     | 10.1                 |
| Loans, advances and bills discounted                             |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 95,846                    | 6,273                   | 6.5                  | 90,028                    | 6,694                   | 7.4                  | 81,373                    | 6,156                   | 7.6                  |
| New Zealand  | 18,129                    | 1,363                   | 7.5                  | 17,258                    | 1,466                   | 8.5                  | 16,625                    | 1,368                   | 8.2                  |
| Overseas markets   | 14,195                    | 627                     | 4.4                  | 15,087                    | 986                     | 6.5                  | 17,118                    | 1,428                   | 8.3                  |
| Other assets   |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 1,463                     | 17                      | 1.2                  | 1,475                     | 98                      | 6.7                  | 1,705                     | 98                      | 5.7                  |
| New Zealand  | 1,349                     | 83                      | 6.1                  | 1,109                     | 69                      | 6.3                  | 1,005                     | 81                      | 8.1                  |
| Overseas markets   | 3,124                     | 179                     | 5.7                  | 2,751                     | 276                     | 10.0                 | 3,292                     | 317                     | 9.6                  |
| Intragroup assets  |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Overseas markets   | 9,525                     | 211                     | 2.2                  | 12,358                    | 536                     | 4.3                  | 9,042                     | 420                     | 4.6                  |
|  | 155,445                   | 9,270                   |                      | 151,659                   | 10,810                  |                      | 142,200                   | 10,687                  |                      |
| Intragroup elimination   | (9,525)                   | (211)                   |                      | (12,358)                  | (536)                   |                      | (9,042)                   | (420)                   |                      |
|  | 145,920                   | 9,059                   | 6.2                  | 139,301                   | 10,274                  | 7.4                  | 133,158                   | 10,267                  | 7.7                  |
| <b>Non-interest earning assets</b>                               |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Acceptances  |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 14,556                    |                         |                      | 15,421                    |                         |                      | 15,061                    |                         |                      |
| New Zealand  | –                         |                         |                      | –                         |                         |                      | –                         |                         |                      |
| Overseas markets   | 152                       |                         |                      | 249                       |                         |                      | 343                       |                         |                      |
| Premises and equipment   | 1,349                     |                         |                      | 1,264                     |                         |                      | 1,353                     |                         |                      |
| Other assets   | 18,189                    |                         |                      | 19,957                    |                         |                      | 18,090                    |                         |                      |
| Provisions for doubtful debts                                    |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | (1,805)                   |                         |                      | (1,742)                   |                         |                      | (1,830)                   |                         |                      |
| New Zealand  | (176)                     |                         |                      | (166)                     |                         |                      | (163)                     |                         |                      |
| Overseas markets   | (58)                      |                         |                      | (156)                     |                         |                      | (381)                     |                         |                      |
|  | 32,207                    |                         |                      | 34,827                    |                         |                      | 32,473                    |                         |                      |
| <b>Total assets</b>  | 178,127                   |                         |                      | 174,128                   |                         |                      | 165,631                   |                         |                      |
| <b>Total average assets</b>                                      |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia  | 130,515                   |                         |                      | 126,530                   |                         |                      | 117,181                   |                         |                      |
| New Zealand  | 22,607                    |                         |                      | 21,925                    |                         |                      | 20,337                    |                         |                      |
| Overseas markets   | 34,530                    |                         |                      | 38,031                    |                         |                      | 37,155                    |                         |                      |
|  | 187,652                   |                         |                      | 186,486                   |                         |                      | 174,673                   |                         |                      |
| Intragroup elimination   | (9,525)                   |                         |                      | (12,358)                  |                         |                      | (9,042)                   |                         |                      |
|  | 178,127                   |                         |                      | 174,128                   |                         |                      | 165,631                   |                         |                      |
| % of total average assets<br>attributable to overseas activities | 26.7%                     |                         |                      | 27.3%                     |                         |                      | 29.3%                     |                         |                      |

## Notes to the Financial Statements

### 34: Average Balance Sheet and Related Interest (continued)

|                                     | Average<br>balance<br>\$m | 2002<br>Interest<br>\$m | Average<br>rate<br>% | Average<br>balance<br>\$m | 2001<br>Interest<br>\$m | Average<br>rate<br>% | Average<br>balance<br>\$m | 2000<br>Interest<br>\$m | Average<br>rate<br>% |
|-------------------------------------|---------------------------|-------------------------|----------------------|---------------------------|-------------------------|----------------------|---------------------------|-------------------------|----------------------|
| <b>Interest bearing liabilities</b> |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Time deposits                       |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 20,741                    | 937                     | 4.5                  | 19,395                    | 1,081                   | 5.6                  | 24,750                    | 1,387                   | 5.6                  |
| New Zealand                         | 8,894                     | 456                     | 5.1                  | 8,411                     | 519                     | 6.2                  | 8,159                     | 476                     | 5.8                  |
| Overseas markets                    | 15,113                    | 417                     | 2.8                  | 13,156                    | 658                     | 5.0                  | 15,234                    | 931                     | 6.1                  |
| Savings deposits                    |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 10,964                    | 245                     | 2.2                  | 9,623                     | 269                     | 2.8                  | 9,181                     | 247                     | 2.7                  |
| New Zealand                         | 3,113                     | 76                      | 2.4                  | 2,832                     | 89                      | 3.1                  | 2,894                     | 85                      | 2.9                  |
| Overseas markets                    | 449                       | 7                       | 1.5                  | 353                       | 7                       | 2.0                  | 1,359                     | 57                      | 4.2                  |
| Other demand deposits               |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 23,397                    | 792                     | 3.4                  | 20,456                    | 872                     | 4.3                  | 17,053                    | 781                     | 4.6                  |
| New Zealand                         | 1,903                     | 78                      | 4.1                  | 1,621                     | 82                      | 5.0                  | 1,469                     | 66                      | 4.5                  |
| Overseas markets                    | 704                       | 11                      | 1.6                  | 809                       | 20                      | 2.5                  | 1,371                     | 52                      | 3.8                  |
| Due to other financial institutions |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 942                       | 49                      | 5.2                  | 434                       | 31                      | 7.2                  | 232                       | 15                      | 6.3                  |
| New Zealand                         | 514                       | 17                      | 3.3                  | 481                       | 20                      | 4.2                  | 482                       | 20                      | 4.1                  |
| Overseas markets                    | 7,399                     | 180                     | 2.4                  | 10,224                    | 539                     | 5.3                  | 8,976                     | 542                     | 6.0                  |
| Commercial paper                    |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 3,888                     | 178                     | 4.6                  | 5,275                     | 310                     | 5.9                  | 5,256                     | 307                     | 5.8                  |
| Overseas markets                    | 3,641                     | 73                      | 2.0                  | 5,408                     | 274                     | 5.1                  | 3,079                     | 180                     | 5.8                  |
| Borrowing corporations' debt        |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 6,097                     | 316                     | 5.2                  | 6,108                     | 365                     | 6.0                  | 5,935                     | 340                     | 5.7                  |
| New Zealand                         | 1,472                     | 88                      | 6.0                  | 1,334                     | 88                      | 6.6                  | 1,136                     | 69                      | 6.1                  |
| Loan capital, bonds and notes       |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 15,639                    | 756                     | 4.8                  | 12,397                    | 733                     | 5.9                  | 8,719                     | 554                     | 6.4                  |
| New Zealand                         | 441                       | 30                      | 6.8                  | 399                       | 29                      | 7.2                  | 316                       | 23                      | 7.3                  |
| Overseas markets                    | 540                       | 15                      | 2.7                  | 600                       | 35                      | 5.9                  | 276                       | 19                      | 7.0                  |
| Other liabilities <sup>1</sup>      |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 1,463                     | 165                     | n/a                  | 1,938                     | 169                     | n/a                  | 1,454                     | 63                      | n/a                  |
| New Zealand                         | 117                       | 98                      | n/a                  | 108                       | 160                     | n/a                  | 116                       | 156                     | n/a                  |
| Overseas markets                    | 37                        | 33                      | n/a                  | 47                        | 66                      | n/a                  | 246                       | 70                      | n/a                  |
| Intragroup Liabilities              |                           |                         |                      |                           |                         |                      |                           |                         |                      |
| Australia                           | 6,778                     | 128                     | 1.9                  | 8,763                     | 395                     | 4.5                  | 5,511                     | 286                     | 5.2                  |
| New Zealand                         | 2,747                     | 83                      | 3.0                  | 3,595                     | 141                     | 3.9                  | 3,531                     | 134                     | 3.8                  |
|                                     | 136,993                   | 5,228                   |                      | 133,767                   | 6,952                   |                      | 126,735                   | 6,860                   |                      |
| Intragroup elimination              | (9,525)                   | (211)                   |                      | (12,358)                  | (536)                   |                      | (9,042)                   | (420)                   |                      |
|                                     | 127,468                   | 5,017                   | 3.9                  | 121,409                   | 6,416                   | 5.3                  | 117,693                   | 6,440                   | 5.5                  |

<sup>1</sup> Includes foreign exchange swap costs

## 34: Average Balance Sheet and Related Interest (continued)

|  | 2002<br>Average<br>balance<br>\$m | 2001<br>Average<br>balance<br>\$m | 2000<br>Average<br>balance<br>\$m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Non-interest bearing liabilities</b>                            |                                   |                                   |                                   |
| Deposits   |                                   |                                   |                                   |
| Australia  | 3,925                             | 3,713                             | 3,636                             |
| New Zealand  | 873                               | 883                               | 794                               |
| Overseas markets   | 597                               | 432                               | 1,280                             |
| Acceptances  |                                   |                                   |                                   |
| Australia  | 14,556                            | 15,421                            | 15,061                            |
| New Zealand  | –                                 | –                                 | –                                 |
| Overseas markets   | 152                               | 249                               | 343                               |
| Other liabilities  | 19,634                            | 21,917                            | 17,147                            |
|  | 39,737                            | 42,615                            | 38,261                            |
| <b>Total liabilities</b>   | <b>167,205</b>                    | <b>164,024</b>                    | <b>155,954</b>                    |
| <b>Total average liabilities</b>                                   |                                   |                                   |                                   |
| Australia  | 123,341                           | 120,416                           | 110,875                           |
| New Zealand  | 21,507                            | 20,988                            | 19,347                            |
| Overseas markets   | 31,882                            | 34,978                            | 34,774                            |
|  | 176,730                           | 176,382                           | 164,996                           |
| Intragroup elimination   | (9,525)                           | (12,358)                          | (9,042)                           |
|  | 167,205                           | 164,024                           | 155,954                           |
| <b>Total average shareholders' equity</b>                          |                                   |                                   |                                   |
| Ordinary share capital <sup>1</sup>                                | 9,507                             | 8,666                             | 8,451                             |
| Preference share capital   | 1,415                             | 1,438                             | 1,226                             |
|  | 10,922                            | 10,104                            | 9,677                             |
| <b>Total average liabilities and shareholders' equity</b>          | <b>178,127</b>                    | <b>174,128</b>                    | <b>165,631</b>                    |
| % of total average liabilities attributable to overseas activities | 30.3%                             | 31.9%                             | 32.4%                             |

<sup>1</sup> Includes reserves and retained profits

## Notes to the Financial Statements

### 35: Interest Spreads and Net Interest Average Margins

|   | 2002<br>\$m | 2001<br>\$m | 2000<br>\$m |
|---|-------------|-------------|-------------|
| <b>Net interest income<sup>1</sup></b>  |             |             |             |
| Australia   | 3,009       | 2,868       | 2,625       |
| New Zealand   | 601         | 544         | 499         |
| Overseas markets  | 432         | 446         | 703         |
|   | 4,042       | 3,858       | 3,827       |
| <b>Average interest earning assets</b>  |             |             |             |
| Australia   | 103,346     | 96,878      | 89,093      |
| New Zealand   | 21,301      | 20,646      | 19,014      |
| Overseas markets  | 30,798      | 34,135      | 34,093      |
| Intragroup elimination  | (9,525)     | (12,358)    | (9,042)     |
|   | 145,920     | 139,301     | 133,158     |
|   | %           | %           | %           |
| <b>Gross earnings rate<sup>2</sup></b>  |             |             |             |
| Australia   | 6.36        | 7.32        | 7.41        |
| New Zealand   | 7.17        | 8.10        | 8.04        |
| Overseas markets  | 3.79        | 5.99        | 7.49        |
| Group   | 6.21        | 7.38        | 7.71        |
| <b>Interest spreads and net interest average margins may be analysed as follows</b> |             |             |             |
| <b>Australia</b>  |             |             |             |
| Gross interest spread   | 2.44        | 2.35        | 2.35        |
| Interest forgone on impaired assets <sup>3</sup>                                    | (0.04)      | (0.03)      | (0.03)      |
| Net interest spread   | 2.40        | 2.32        | 2.32        |
| Interest attributable to net non-interest bearing items                             | 0.51        | 0.64        | 0.63        |
| Net interest average margin – Australia   | 2.91        | 2.96        | 2.95        |
| <b>New Zealand</b>  |             |             |             |
| Gross interest spread   | 2.34        | 2.13        | 2.37        |
| Interest forgone on impaired assets <sup>3</sup>                                    | –           | (0.03)      | (0.02)      |
| Net interest spread   | 2.34        | 2.10        | 2.35        |
| Interest attributable to net non-interest bearing items                             | 0.48        | 0.54        | 0.28        |
| Net interest average margin – New Zealand   | 2.82        | 2.64        | 2.63        |
| <b>Overseas markets</b>   |             |             |             |
| Gross interest spread   | 1.20        | 0.92        | 1.61        |
| Interest forgone on impaired assets <sup>3</sup>                                    | (0.05)      | (0.16)      | (0.18)      |
| Net interest spread   | 1.15        | 0.76        | 1.43        |
| Interest attributable to net non-interest bearing items                             | 0.25        | 0.55        | 0.63        |
| Net interest average margin – Overseas markets                                      | 1.40        | 1.31        | 2.06        |
| <b>Group</b>  |             |             |             |
| Gross interest spread   | 2.31        | 2.15        | 2.31        |
| Interest forgone on impaired assets <sup>3</sup>                                    | (0.04)      | (0.06)      | (0.07)      |
| Net interest spread   | 2.27        | 2.09        | 2.24        |
| Interest attributable to net non-interest bearing items                             | 0.50        | 0.68        | 0.63        |
| Net interest average margin – Group   | 2.77        | 2.77        | 2.87        |

1 On a tax equivalent basis

2 Average interest rate received on interest earning assets. Overseas markets includes intragroup assets

3 Refer note 15 to the financial report

**36: Market Risk**

Market risk is the risk to earnings arising from changes in interest rates, currency exchange rates, or from fluctuations in bond, commodity or equity prices.

The Board of Directors through the Risk Management Committee, a Committee of the Board, has responsibility for oversight of market risk within the Group. Routine management of market risk is delegated to two senior management committees chaired by the Chief Financial Officer. The Credit and Trading Risk Committee is responsible for traded market risk, while the Group Asset and Liability Committee is responsible for non-traded market risk (or balance sheet risk).

The Credit and Trading Risk Committee monitors traded market risk exposures (including Value at Risk and Stress Testing) and is responsible for authorising the trading risk limit framework. The Group Asset and Liability Committee reviews balance sheet based risk measures and strategies on a monthly basis.

**The 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% probability that the loss will not exceed the VaR estimate on any given day.

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.

It should be noted that because VaR is driven by actual historical observations, it is therefore 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 supplementary limits to measure and manage traded market risk.

Traded and non-traded market risks have been 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<br>Sep 02<br>\$m | High for<br>period<br>Sep 02<br>\$m | Low for<br>period<br>Sep 02<br>\$m | Ave for<br>period<br>Sep 02<br>\$m | As at<br>Sep 01<br>\$m | High for<br>period<br>Sep 01<br>\$m | Low for<br>period<br>Sep 01<br>\$m | Avg for<br>period<br>Sep 01<br>\$m |
|-----------------------------------|------------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Value at risk at 97.5% confidence |                        |                                     |                                    |                                    |                        |                                     |                                    |                                    |
| Foreign exchange                  | 1.1                    | 2.3                                 | 0.5                                | 1.1                                | 1.6                    | 2.8                                 | 0.8                                | 1.3                                |
| Interest rate                     | 1.0                    | 3.4                                 | 0.7                                | 1.5                                | 1.6                    | 4.8                                 | 1.5                                | 2.8                                |
| Diversification benefit           | (0.6)                  | (1.8)                               | (0.2)                              | (0.5)                              | (0.3)                  | (2.5)                               | (0.4)                              | (0.9)                              |
| Total                             | 1.5                    | 3.9                                 | 1.0                                | 2.1                                | 2.9                    | 5.1                                 | 1.9                                | 3.2                                |

VaR is calculated separately for Foreign Exchange/Commodities and for Interest Rate/Debt Markets businesses as well as Total Group. The diversification benefit reflects the correlation implied by historical rates between Foreign Exchange/Commodities and Interest Rate/Debt Markets.

**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 hedge the market value of the Group's capital.

**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 as follows using three measures: VaR, scenario analysis (to a 1% shock) and disclosure of the interest rate sensitivity gap (Note 37).

## Notes to the Financial Statements

### 36: Market Risk (continued)

#### a) VaR Interest Rate Risk

Below are aggregate VaR figures covering non-traded interest rate risk.

|                                   | As at<br>Sep 02<br>\$m | High for<br>period<br>Sep 02<br>\$m | Low for<br>period<br>Sep 02<br>\$m | Ave for<br>period<br>Sep 02<br>\$m | As at<br>Sep 01<br>\$m | High for<br>period<br>Sep 01<br>\$m |
|-----------------------------------|------------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------|-------------------------------------|
| Value at risk at 97.5% confidence |                        |                                     |                                    |                                    |                        |                                     |
| ANZ                               | 56.9                   | 56.9                                | 45.0                               | 49.7                               | 44.7                   | 48.0                                |
| Diversification impact            | –                      | –                                   | –                                  | –                                  | –                      | –                                   |
| Total                             | 56.9                   | 56.9                                | 45.0                               | 49.7                               | 44.7                   | 48.0                                |

#### 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 immediate forward period of 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.

|                                      | Impact of 1% Rate Shock             |                                     |
|--------------------------------------|-------------------------------------|-------------------------------------|
|                                      | Consolidated Group Position<br>2002 | Consolidated Group Position<br>2001 |
| As at 30 September                   | 0.43%                               | (0.01%)                             |
| Maximum exposure (in absolute terms) | 0.63%                               | 1.47%                               |
| Minimum exposure (in absolute terms) | 0.04%                               | 0.01%                               |
| Average exposure (in absolute terms) | 0.25%                               | 0.50%                               |

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 sophisticated 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 accurately 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

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 hedging is conducted where it is likely to add shareholder value.

The risk relating to mismatching of non-traded foreign currency assets and liabilities has not been presented, as this type of risk is minimal for the Group.



**37: Interest Sensitivity Gap**

The following table represents the interest rate sensitivity as at 30 September 2002 of the Group's assets, liabilities and off balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

Repricing gaps are based upon contractual repricing information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity, for example, 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.

Sensitivity to interest rates arises 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.

| At 30 September 2002              | Less than<br>3 months<br>\$m | Between<br>3 months and<br>6 months<br>\$m | Between<br>6 months and<br>12 months<br>\$m | Between<br>1 year and<br>5 years<br>\$m | After<br>5 years<br>\$m | Not<br>bearing<br>interest<br>\$m | Total<br>\$m   |
|-----------------------------------|------------------------------|--|---|---|-------------------------|-----------------------------------|----------------|
| Liquid assets and due from        |                              |  |   |   |                         |                                   |                |
| other financial institutions      | 8,071                        | 893  | 11  | 44                                      | 32                      | 2,174                             | 11,225         |
| Trading and investment securities | 6,339                        | 717  | 646   | 1,247                                   | 365                     | 168                               | 9,482          |
| Net loans and advances            | 99,459                       | 6,918                                      | 7,130                                       | 19,028                                  | 545                     | (1,020)                           | 132,060        |
| Other assets                      | 86                           | 56   | 73  | 245                                     | 104                     | 29,774                            | 30,338         |
| <b>Total assets</b>               | <b>113,955</b>               | <b>8,584</b>                               | <b>7,860</b>                                | <b>20,564</b>                           | <b>1,046</b>            | <b>31,096</b>                     | <b>183,105</b> |
| Certificates of deposit           |                              |  |   |   |                         |                                   |                |
| and term deposits                 | 38,231                       | 5,183                                      | 3,638                                       | 1,869                                   | 11                      | –                                 | 48,932         |
| Other deposits                    | 38,073                       | 820  | 984   | 4,283                                   | –                       | 5,312                             | 49,472         |
| Other borrowings and due to       |                              |  |   |   |                         |                                   |                |
| other financial institutions      | 16,494                       | 2,694                                      | 2,589                                       | 2,014                                   | 25                      | 1,937                             | 25,753         |
| Other liabilities                 | 124                          | 2  | –   | 1                                       | 22                      | 29,181                            | 29,330         |
| Bonds, notes and loan capital     | 8,646                        | 1,087                                      | 486   | 7,458                                   | 476                     | –                                 | 18,153         |
| <b>Total liabilities</b>          | <b>101,568</b>               | <b>9,786</b>                               | <b>7,697</b>                                | <b>15,625</b>                           | <b>534</b>              | <b>36,430</b>                     | <b>171,640</b> |
| Shareholders' equity and          |                              |  |   |   |                         |                                   |                |
| outside equity interests          |                              |  |   |   |                         | 11,465                            | 11,465         |
| Off balance sheet items affecting |                              |  |   |   |                         |                                   |                |
| interest rate sensitivity         | (7,873)                      | (1,859)                                    | (2,189)                                     | 12,289                                  | (368)                   | –                                 | –              |
| <b>Interest sensitivity gap</b>   |                              |  |   |   |                         |                                   |                |
| – net                             | 4,514                        | (3,061)                                    | (2,026)                                     | 17,228                                  | 144                     | (16,799)                          | –              |
| – cumulative                      | 4,514                        | 1,453                                      | (573)                                       | 16,655                                  | 16,799                  | –                                 | –              |

The bulk 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 off-balance sheet instruments are used in the management of interest rate risk. For example, where a strong medium to 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.

## Notes to the Financial Statements

### 37: Interest Sensitivity Gap (continued)

The following table represents the interest rate sensitivity as at 30 September 2001 of the Group's assets, liabilities and off balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

| At 30 September 2001   | Less than<br>3 months<br>\$m | Between<br>3 months and<br>6 months<br>\$m | Between<br>6 months and<br>12 months<br>\$m | Between<br>1 year and<br>5 years<br>\$m | After<br>5 years<br>\$m | Not<br>bearing<br>interest<br>\$m | Total<br>\$m   |
|--|------------------------------|--|---|---|-------------------------|-----------------------------------|----------------|
| Liquid assets and due from<br>other financial institutions     | 9,343                        | 1,264                                      | 217   | 3                                       | 23                      | 1,773                             | 12,623         |
| Trading and investment securities                              | 5,531                        | 815  | 343   | 1,484                                   | 23                      | 118                               | 8,314          |
| Net loans and advances   | 89,803                       | 8,045                                      | 7,774                                       | 18,666                                  | 594                     | (1,225)                           | 123,657        |
| Other assets   | 699                          | 106  | 78  | 265                                     | 72                      | 39,679                            | 40,899         |
| <b>Total assets</b>  | <b>105,376</b>               | <b>10,230</b>                              | <b>8,412</b>                                | <b>20,418</b>                           | <b>712</b>              | <b>40,345</b>                     | <b>185,493</b> |
| Certificates of deposit<br>and term deposits                   | 33,270                       | 3,856                                      | 3,163                                       | 2,467                                   | 15                      | –                                 | 42,771         |
| Other deposits   | 35,167                       | 728  | 874   | 3,966                                   | 17                      | 4,272                             | 45,024         |
| Other borrowings and due to<br>other financial institutions    | 19,683                       | 3,609                                      | 2,510                                       | 1,780                                   | –                       | 2,187                             | 29,769         |
| Other liabilities  | 170                          | 1  | 1   | 21                                      | 71                      | 37,943                            | 38,207         |
| Bonds, notes and loan capital                                  | 11,576                       | 1,151                                      | 474   | 5,381                                   | 589                     | –                                 | 19,171         |
| <b>Total liabilities</b>                                       | <b>99,866</b>                | <b>9,345</b>                               | <b>7,022</b>                                | <b>13,615</b>                           | <b>692</b>              | <b>44,402</b>                     | <b>174,942</b> |
| Shareholders' equity and<br>outside equity interests           | –                            | –  | –   | –                                       | –                       | 10,551                            | 10,551         |
| Off balance sheet items affecting<br>interest rate sensitivity | (2,005)                      | (7,218)                                    | (23)  | 9,848                                   | (602)                   | –                                 | –              |
| <b>Interest sensitivity gap</b>                                |                              |  |   |   |                         |                                   |                |
| – net  | 3,505                        | (6,333)                                    | 1,367                                       | 16,651                                  | (582)                   | (14,608)                          | –              |
| – cumulative   | 3,505                        | (2,828)                                    | (1,461)                                     | 15,190                                  | 14,608                  | –                                 | –              |

**38: Net Fair Value of Financial Instruments**

Australian Accounting Standard AASB 1033: Presentation and Disclosure of Financial Instruments (AASB 1033) requires disclosure of the net fair value of on and off balance sheet financial instruments. The disclosures exclude all non-financial instruments, such as income taxes and regulatory deposits, and specified financial instruments, such as interests in controlled entities. The aggregate net fair value amounts do not represent the underlying value of the Group.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Net fair value is the fair value adjusted for transaction costs.

Quoted market prices, where available, are adjusted for material transaction costs and used as the measure of net fair value. In cases where quoted market values are not available, net fair values are based on present value estimates or other valuation techniques. 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 net fair value was assumed to equate to the carrying amount in the Group's statement of financial position.

The fair values are based on relevant information available as at 30 September 2002. While judgement is used in obtaining the net 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. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The net fair value amounts have not been updated for the purposes of these financial statements since 30 September 2002, and therefore the net fair value of the financial instruments subsequent to 30 September 2002 may be different from the amounts reported.

| Financial Assets  | Net fair value |             | Carrying value |             |
|---|----------------|-------------|----------------|-------------|
|   | 2002<br>\$m    | 2001<br>\$m | 2002<br>\$m    | 2001<br>\$m |
| Liquid assets   | 7,410          | 7,794       | 7,410          | 7,794       |
| Due from other financial institutions                                     | 3,815          | 4,829       | 3,815          | 4,829       |
| Trading securities  | 5,873          | 4,827       | 5,873          | 4,827       |
| Investment securities, shares in associates<br>and joint venture entities | 5,389          | 3,595       | 5,301          | 3,551       |
| Loans and advances  | 133,793        | 125,687     | 132,060        | 123,657     |
| Customers' liabilities for acceptances                                    | 13,796         | 14,324      | 13,796         | 14,324      |
| Other financial assets  | 12,114         | 24,061      | 11,413         | 23,305      |

**Liquid assets and Due from 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 market value. Market 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.

**Shares in associates and Joint venture entities**

Net fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available net fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or by reference to the net tangible asset backing of the investee.

**Investment securities**

Net fair value is based on quoted market prices or broker or dealer price quotations. If this information is not available, net fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

**Loans, advances and Customers' liabilities for acceptances**

The carrying value of loans, advances and acceptances is net of specific and general provisions for doubtful debts and income yet to mature. The estimated net 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 either specific or general provisions for doubtful debts.

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 net fair values of loans, advances and acceptances and carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

Net lease receivables, with a carrying value of \$3,151 million (2001: \$3,249 million) and a net fair value of \$3,155 million (2001: \$3,259 million), are included in loans and advances.

## Notes to the Financial Statements

### 38: Net Fair Value of Financial Instruments (continued)

#### Other financial assets

Included in this category are accrued interest, fees receivable and derivative financial instruments. 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.

The fair values of derivative financial instruments such as interest rate swaps and currency swaps were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. Foreign exchange contracts and interest rate option contracts were valued using market prices and option valuation models as appropriate.

Properties held for resale, deferred tax assets and prepaid expenses are not considered financial assets.

| Financial Liabilities               | Net fair value |             | Carrying value |             |
|-------------------------------------|----------------|-------------|----------------|-------------|
|                                     | 2002<br>\$m    | 2001<br>\$m | 2002<br>\$m    | 2001<br>\$m |
| Due to other financial institutions | 10,860         | 12,690      | 10,860         | 12,690      |
| Deposits and other borrowings       | 113,380        | 105,041     | 113,297        | 104,874     |
| Liability for acceptances           | 13,796         | 14,324      | 13,796         | 14,324      |
| Bonds and notes                     | 14,999         | 15,525      | 14,708         | 15,340      |
| Loan capital                        | 3,505          | 3,888       | 3,445          | 3,831       |
| Other financial liabilities         | 12,194         | 15,755      | 11,975         | 15,513      |

#### Due to other financial institutions

The carrying value of amounts due to other financial institutions is considered to approximate the net fair value.

#### Deposits and other borrowings

The net fair value of a deposit liability without a specified maturity or at call is deemed by AASB 1033 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 net fair value of bonds and notes and loan capital at 30 September 2002 was 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 instrument was used.

#### Other financial liabilities

This category includes accrued interest and fees payable for which the carrying amount is considered to approximate the fair value. Also included are derivative financial instruments, where fair value is determined on the basis described under "Other financial assets".

Income tax liabilities, other provisions and accrued charges are not considered financial instruments.

#### Commitments and contingencies

As outlined in note 48, 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.

#### Transaction costs

The fair value of financial instruments required to be disclosed under US accounting standard, Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" (SFAS 107) is calculated without regard to estimated transaction costs. Such transaction costs are not material, and accordingly the fair values shown above would not differ materially from fair values calculated in accordance with SFAS 107.

**39: Derivative Financial Instruments****Derivatives**

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

The principal 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 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.

Derivative transactions generate income for the Group from buy sell spreads and from trading positions taken by the Group. Income from these transactions is taken to net interest income, foreign exchange earnings or profit on trading instruments. Income or expense on derivatives entered into for balance sheet and revenue hedging purposes is accrued and recorded as an adjustment to the interest income or expense of the related hedged item.

## Notes to the Financial Statements

### 39: Derivative Financial Instruments (continued)

#### Credit risk

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 following table provides an overview of the Group's exchange rate, credit, commodity and interest rate derivatives. It includes all trading and other than trading 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 credit equivalent amount is calculated in accordance with the Australian Prudential Regulation Authority's Capital Adequacy guidelines. It combines the aggregate gross replacement cost with an allowance for the potential increase in value over the remaining term of the transaction should market conditions change.

The fair value of a derivative represents the aggregate net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at the reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses from marking to market all derivatives at a particular point in time.

| Consolidated                      | Notional principal amount 2002 \$m | Credit equivalent amount 2002 \$m | Fair value 2002 \$m | Notional principal amount 2001 \$m | Credit equivalent amount 2001 \$m | Fair value 2001 \$m |
|-----------------------------------|------------------------------------|-----------------------------------|---------------------|------------------------------------|-----------------------------------|---------------------|
| <b>Foreign exchange contracts</b> |                                    |                                   |                     |                                    |                                   |                     |
| Spot and forward contracts        | 140,867                            | 3,390                             | 815                 | 274,880                            | 7,312                             | 2,171               |
| Swap agreements                   | 23,834                             | 1,807                             | (13)                | 34,507                             | 3,519                             | 959                 |
| Futures contracts <sup>1</sup>    | 337                                | n/a                               | –                   | –                                  | n/a                               | –                   |
| Options purchased                 | 8,779                              | 435                               | 272                 | 13,586                             | 1,068                             | 834                 |
| Options sold <sup>2</sup>         | 11,741                             | n/a                               | (216)               | 13,481                             | n/a                               | (614)               |
| Other contracts                   | 3,046                              | 623                               | 456                 | 3,776                              | 580                               | 363                 |
|                                   | 188,604                            | 6,255                             | 1,314               | 340,230                            | 12,479                            | 3,713               |
| <b>Interest rate contracts</b>    |                                    |                                   |                     |                                    |                                   |                     |
| Forward rate agreements           | 35,890                             | 18                                | 5                   | 68,997                             | 84                                | 13                  |
| Swap agreements                   | 212,765                            | 3,491                             | 634                 | 278,152                            | 3,814                             | 519                 |
| Futures contracts <sup>1</sup>    | 26,934                             | n/a                               | (4)                 | 97,825                             | n/a                               | (9)                 |
| Options purchased                 | 16,118                             | 127                               | 88                  | 8,067                              | 65                                | 76                  |
| Options sold <sup>2</sup>         | 9,244                              | n/a                               | (65)                | 11,766                             | n/a                               | (89)                |
|                                   | 300,951                            | 3,636                             | 658                 | 464,807                            | 3,963                             | 510                 |
| <b>Credit contracts</b>           |                                    |                                   |                     |                                    |                                   |                     |
| Credit default swaps <sup>3</sup> | 5,722                              | 3,277                             | (13)                | 507                                | 4                                 | –                   |
|                                   | 495,277                            | 13,168                            | 1,959               | 805,544                            | 16,446                            | 4,223               |

<sup>1</sup> Credit equivalent amounts have not been included as there is minimal credit risk associated with exchange traded futures where the clearing house is the counterparty

<sup>2</sup> Options sold have no credit exposure, as they represent obligations rather than assets

<sup>3</sup> The Group has entered structured financing transactions that expose it to the performance of certain assets under credit default swaps. The total investment of the Group in these transactions is USD 750 million

**39: Derivative Financial Instruments (continued)**

The maturity structure of derivative activity is a primary component of potential credit exposure. The table below shows the remaining maturity profile by class of derivatives, based on notional principal amounts. The table also shows the notional principal amounts of the derivatives held for trading and other than trading purposes.

| Consolidated<br>At 30 September 2002         | Less than<br>1 year<br>\$m | Remaining life<br>1 to 5 years<br>\$m | Greater than<br>5 years<br>\$m | Total<br>\$m   | Trading<br>\$m | Other than<br>Trading<br>\$m |
|--|----------------------------|---------------------------------------|--------------------------------|----------------|----------------|------------------------------|
| <b>Foreign exchange contracts</b>            |                            |                                       |                                |                |                |                              |
| Spot and forward contracts                   | 132,923                    | 7,480                                 | 464                            | 140,867        | 130,940        | 9,927                        |
| Swap agreements                              | 5,315                      | 13,448                                | 5,071                          | 23,834         | 6,534          | 17,300                       |
| Future contracts                             | 325                        | 12                                    | –                              | 337            | 337            | –                            |
| Options purchased                            | 7,019                      | 1,498                                 | 262                            | 8,779          | 8,779          | –                            |
| Options sold                                 | 9,658                      | 1,918                                 | 165                            | 11,741         | 11,741         | –                            |
| Other contracts                              | 955                        | 1,789                                 | 302                            | 3,046          | 2,959          | 87                           |
|  | 156,195                    | 26,145                                | 6,264                          | 188,604        | 161,290        | 27,314                       |
| <b>Interest rate contracts</b>               |                            |                                       |                                |                |                |                              |
| Forward rate agreements                      | 35,608                     | 282                                   | –                              | 35,890         | 32,681         | 3,209                        |
| Swap agreements                              | 95,830                     | 86,697                                | 30,238                         | 212,765        | 173,199        | 39,566                       |
| Futures contracts                            | 18,087                     | 8,847                                 | –                              | 26,934         | 26,705         | 229                          |
| Options purchased                            | 9,012                      | 6,554                                 | 552                            | 16,118         | 16,118         | –                            |
| Options sold                                 | 8,959                      | 280                                   | 5                              | 9,244          | 9,244          | –                            |
|  | 167,496                    | 102,660                               | 30,795                         | 300,951        | 257,947        | 43,004                       |
| <b>Credit contracts</b>                      |                            |                                       |                                |                |                |                              |
| Credit default swaps                         | 1,520                      | 4,156                                 | 46                             | 5,722          | 1,718          | 4,004                        |
| <b>Total</b>                                 | <b>325,211</b>             | <b>132,961</b>                        | <b>37,105</b>                  | <b>495,277</b> | <b>420,955</b> | <b>74,322</b>                |
| <b>Consolidated<br/>At 30 September 2001</b> |                            |                                       |                                |                |                |                              |
|  | Less than<br>1 year<br>\$m | Remaining life<br>1 to 5 years<br>\$m | Greater than<br>5 years<br>\$m | Total<br>\$m   | Trading<br>\$m | Other than<br>Trading<br>\$m |
| <b>Foreign exchange contracts</b>            |                            |                                       |                                |                |                |                              |
| Spot and forward contracts                   | 261,717                    | 12,664                                | 499                            | 274,880        | 267,332        | 7,548                        |
| Swap agreements                              | 10,581                     | 18,090                                | 5,836                          | 34,507         | 11,123         | 23,384                       |
| Options purchased                            | 11,294                     | 2,029                                 | 263                            | 13,586         | 13,586         | –                            |
| Options sold                                 | 11,597                     | 1,590                                 | 294                            | 13,481         | 13,481         | –                            |
| Other contracts                              | 897                        | 2,439                                 | 440                            | 3,776          | 3,776          | –                            |
|  | 296,086                    | 36,812                                | 7,332                          | 340,230        | 309,298        | 30,932                       |
| <b>Interest rate contracts</b>               |                            |                                       |                                |                |                |                              |
| Forward rate agreements                      | 62,237                     | 6,760                                 | –                              | 68,997         | 67,006         | 1,991                        |
| Swap agreements                              | 126,912                    | 114,655                               | 36,585                         | 278,152        | 242,042        | 36,110                       |
| Futures contracts                            | 86,079                     | 11,746                                | –                              | 97,825         | 97,825         | –                            |
| Options purchased                            | 3,453                      | 4,460                                 | 154                            | 8,067          | 8,067          | –                            |
| Options sold                                 | 11,319                     | 442                                   | 5                              | 11,766         | 11,766         | –                            |
|  | 290,000                    | 138,063                               | 36,744                         | 464,807        | 426,706        | 38,101                       |
| <b>Credit contracts</b>                      |                            |                                       |                                |                |                |                              |
| Credit default swaps                         | 467                        | 40                                    | –                              | 507            | 40             | 467                          |
| <b>Total</b>                                 | <b>586,553</b>             | <b>174,915</b>                        | <b>44,076</b>                  | <b>805,544</b> | <b>736,044</b> | <b>69,500</b>                |

## Notes to the Financial Statements

### 39: Derivative Financial Instruments (continued)

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. In excess of 40% (2001: 55%) of the Group's exposures are with counterparties which are either Australian banks or banks based in other OECD countries.

| Consolidated<br>At 30 September 2002 | OECD<br>governments<br>\$m | Australian and<br>OECD banks<br>\$m | Corporations,<br>non-OECD<br>banks and others<br>\$m | Total<br>\$m |
|--------------------------------------|----------------------------|-------------------------------------|--|--------------|
| Australia                            | 402                        | 3,113                               | 6,351  | 9,866        |
| New Zealand                          | 17                         | 378                                 | 333  | 728          |
| Overseas markets                     | 1                          | 2,206                               | 367  | 2,574        |
|                                      | 420                        | 5,697                               | 7,051  | 13,168       |

  

| Consolidated<br>At 30 September 2001 | OECD<br>governments<br>\$m | Australian and<br>OECD banks<br>\$m | Corporations,<br>non-OECD<br>banks and others<br>\$m | Total<br>\$m |
|--------------------------------------|----------------------------|-------------------------------------|--|--------------|
| Australia                            | 566                        | 5,662                               | 5,372  | 11,600       |
| New Zealand                          | 17                         | 600                                 | 374  | 991          |
| Overseas markets                     | 2                          | 3,425                               | 428  | 3,855        |
|                                      | 585                        | 9,687                               | 6,174  | 16,446       |



**39: Derivative Financial Instruments (continued)**

The next table shows the fair values of the Group's derivatives by product type, disaggregated into gross unrealised gains and gross unrealised losses. The fair value of a derivative represents the aggregate net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at the reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses from marking to market all derivatives at a particular point in time.

| Consolidated                      | Other than Trading        |                           | Trading                   |                           | Trading                     |                             |
|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|-----------------------------|
|                                   | Fair value as at 2002 \$m | Fair value as at 2001 \$m | Fair value as at 2002 \$m | Fair value as at 2001 \$m | Fair value Average 2002 \$m | Fair value Average 2001 \$m |
| <b>Foreign exchange contracts</b> |                           |                           |                           |                           |                             |                             |
| Spot and forward contracts        |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | 1,452                     | 1,514                     | 553                       | 2,964                     | 2,187                       | 4,679                       |
| Gross unrealised losses           | (349)                     | (41)                      | (841)                     | (2,266)                   | (1,689)                     | (4,252)                     |
| Swap agreements                   |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | 333                       | 1,821                     | 436                       | 249                       | 354                         | 540                         |
| Gross unrealised losses           | (96)                      | (33)                      | (686)                     | (1,077)                   | (728)                       | (1,063)                     |
| Options purchased                 | –                         | –                         | 272                       | 834                       | 348                         | 896                         |
| Options sold                      | –                         | –                         | (216)                     | (614)                     | (412)                       | (529)                       |
| Other contracts                   |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | –                         | –                         | 501                       | 416                       | 459                         | 204                         |
| Gross unrealised losses           | –                         | –                         | (45)                      | (54)                      | (45)                        | (142)                       |
|                                   | 1,340                     | 3,261                     | (26)                      | 452                       | 474                         | 333                         |
| <b>Interest rate contracts</b>    |                           |                           |                           |                           |                             |                             |
| Forward rate agreements           |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | –                         | 6                         | 16                        | 44                        | 19                          | 34                          |
| Gross unrealised losses           | –                         | (19)                      | (11)                      | (18)                      | (11)                        | (34)                        |
| Swap agreements                   |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | 605                       | 470                       | 2,013                     | 2,379                     | 2,181                       | 2,339                       |
| Gross unrealised losses           | (267)                     | (217)                     | (1,717)                   | (2,113)                   | (1,911)                     | (2,086)                     |
| Futures contracts                 |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | –                         | –                         | 36                        | 84                        | 51                          | 80                          |
| Gross unrealised losses           | –                         | –                         | (40)                      | (93)                      | (56)                        | (82)                        |
| Options purchased                 | –                         | –                         | 88                        | 76                        | 81                          | 50                          |
| Options sold                      | –                         | –                         | (65)                      | (89)                      | (71)                        | (56)                        |
|                                   | 338                       | 240                       | 320                       | 270                       | 283                         | 245                         |
| <b>Credit contracts</b>           |                           |                           |                           |                           |                             |                             |
| Credit default swaps              |                           |                           |                           |                           |                             |                             |
| Gross unrealised gains            | –                         | –                         | 75                        | –                         | 42                          | –                           |
| Gross unrealised losses           | (15)                      | –                         | (73)                      | –                         | (33)                        | –                           |
|                                   | (15)                      | –                         | 2                         | –                         | 9                           | –                           |
| <b>Total</b>                      | <b>1,663</b>              | <b>3,501</b>              | <b>296</b>                | <b>722</b>                | <b>766</b>                  | <b>578</b>                  |

The fair values of derivatives vary over time depending on movements in interest and exchange rates and the trading or hedging strategies used.

## Notes to the Financial Statements

### 39: Derivative Financial Instruments (continued)

In addition to customer and trading activities, the Group uses, inter alia, derivatives to manage the risk associated with its balance sheet and future revenue streams. The principal objectives of asset and liability management are to hedge the market value of the Group's capital and to manage and control the sensitivity of the Group's income while maintaining acceptable levels of interest rate and liquidity risk. The Group also uses a variety of foreign exchange derivatives to hedge against adverse movements in the value of foreign currency denominated assets and liabilities and future revenue streams.

The table below shows the notional principal amount, credit equivalent amount and fair value of derivatives held by the Group, split between those entered into for customer-related and trading purposes, and those entered into for other than trading purposes.

| Consolidated                                    | Notional principal amount 2002 \$m | Credit equivalent amount 2002 \$m | Fair value 2002 \$m | Notional principal amount 2001 \$m | Credit equivalent amount 2001 \$m | Fair value 2001 \$m |
|---|------------------------------------|-----------------------------------|---------------------|------------------------------------|-----------------------------------|---------------------|
| <b>Foreign exchange and commodity contracts</b> |                                    |                                   |                     |                                    |                                   |                     |
| Customer-related and trading purposes           | 161,290                            | 3,689                             | (26)                | 309,298                            | 8,366                             | 452                 |
| Other than trading purposes                     | 27,314                             | 2,566                             | 1,340               | 30,932                             | 4,113                             | 3,261               |
|   | 188,604                            | 6,255                             | 1,314               | 340,230                            | 12,479                            | 3,713               |
| <b>Interest rate contracts</b>                  |                                    |                                   |                     |                                    |                                   |                     |
| Customer-related and trading purposes           | 257,947                            | 2,992                             | 320                 | 426,706                            | 3,391                             | 270                 |
| Other than trading purposes                     | 43,004                             | 644                               | 338                 | 38,101                             | 572                               | 240                 |
|   | 300,951                            | 3,636                             | 658                 | 464,807                            | 3,963                             | 510                 |
| <b>Credit contracts</b>                         |                                    |                                   |                     |                                    |                                   |                     |
| Customer - related and trading purposes         | 1,718                              | 189                               | 2                   | 40                                 | 4                                 | –                   |
| Other than trading purposes                     | 4,004                              | 3,088                             | (15)                | 467                                | –                                 | –                   |
|   | 5,722                              | 3,277                             | (13)                | 507                                | 4                                 | –                   |
| Total   | 495,277                            | 13,168                            | 1,959               | 805,544                            | 16,446                            | 4,223               |

Detailed below are the net deferred realised and unrealised gains and losses arising from other than trading contracts used to hedge interest rate exposure or to hedge anticipated transactions. These gains and losses are deferred only to the extent that there is an offsetting unrecognised gain or loss on the exposure being hedged. Deferred gains or losses are generally amortised over the expected term of the hedged exposure.

| Consolidated                          | Foreign Exchange Contracts |          | Interest Rate and Credit Contracts |          | Total | 2001 \$m |
|---------------------------------------|----------------------------|----------|------------------------------------|----------|-------|----------|
|                                       | 2002 \$m                   | 2001 \$m | 2002 \$m                           | 2001 \$m |       |          |
| <b>Expected recognition in income</b> |                            |          |                                    |          |       |          |
| Within one year                       | (10)                       | (22)     | 165                                | 183      | 155   | 161      |
| One to two years                      | (7)                        | (36)     | 130                                | 143      | 123   | 107      |
| Two to five years                     | (3)                        | (46)     | 105                                | 190      | 102   | 144      |
| Greater than five years               | –                          | –        | 102                                | 101      | 102   | 101      |
|                                       | (20)                       | (104)    | 502                                | 617      | 482   | 513      |

**40: Securitisation**

During the year ended 30 September 2002, the Group securitised residential mortgage loans amounting to \$nil (2001: \$2,470 million) and commercial loans amounting to \$66 million (2001: \$190 million).

These loans have been removed from the Group's balance sheet and transferred to third party special purpose entities (SPEs).

The Group retains servicing and (for some loans) custodian responsibilities for the loans sold. Following a securitisation, the Group receives fees for servicing the loans, custodian fees, fees for facilities provided and any excess income derived by the SPE after interest has been paid to investors and net credit losses and expenses absorbed.

The Group does not hold any material retained interest in the loans that have been sold. There is no recourse against the Group if cash flows from the securitised loans are inadequate to service the obligations of the SPE except to the limited extent provided in the transaction documents through the provision of arms length services and facilities.

The securities issued by the SPEs do not represent deposits or other liabilities of the Company or the Group. Neither the Company nor the Group in any way stands behind the capital value and/or performance of the securities or the assets of the SPEs except to the limited extent provided in the transaction documents through the provision of arms length services and facilities.

The Group may also provide liquidity facilities and other forms of credit enhancement to ensure adequate funds are available to the SPEs. The facilities are undrawn and are classified as contingent liabilities. The Group also provides hedging facilities to the SPEs to mitigate interest rate and currency risks. All these transactions are completed on an arms length basis.

The following table summarises the cash flows between the Group and the SPEs in respect of securitisation activities.

|                                  | 2002<br>\$m | 2001<br>\$m |
|----------------------------------|-------------|-------------|
| Proceeds from securitising loans | 66          | 2,660       |
| Servicing fees received          | 6           | 2           |
| Other cash inflows               | 17          | 6           |

## Notes to the Financial Statements

### 41: Life Insurance

|   | 2002 <sup>1</sup><br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m |
|---|--------------------------|-----------------------------|-------------|
| <b>Reconciliation of Life Insurance margin on services operating income to profit after income tax:</b> |                          |                             |             |
| Premium and related revenue   | 701                      | 1,600                       | 1,689       |
| Investment revenue  | 238                      | 20                          | 369         |
| Claims expense  | (636)                    | (1,330)                     | (1,249)     |
| Insurance policy liabilities expense  | (204)                    | (100)                       | (634)       |
| Life insurance margin on services operating income  | 99                       | 190                         | 175         |
| Operating expenses  | (54)                     | (105)                       | (73)        |
| Profit before income tax  | 45                       | 85                          | 102         |
| Income tax expense  | (20)                     | (47)                        | (53)        |
| Profit after income tax   | 25                       | 38                          | 49          |
| <b>Profit after income tax arose from:</b>  |                          |                             |             |
| <b>Movements in policy liabilities separated between:</b>   |                          |                             |             |
| Planned margin of revenues over expenses released   | 18                       | 36                          | 36          |
| Difference between actual and assumed experience  | (1)                      | (11)                        | (4)         |
| Investment earnings on assets in excess of policy liabilities   | 8                        | 13                          | 17          |
| <b>Profit after income tax</b>  | <b>25</b>                | <b>38</b>                   | <b>49</b>   |

<sup>1</sup> ANZ Life Assurance Company Limited was sold into a joint venture with ING Australia in April 2002. Accordingly the results shown only include profits to 30 April 2002

**42: Segment Analysis**

For management purposes the Group is organised into seven major business segments including Personal Banking and Wealth, Corporate Banking, Investment Banking, Consumer Finance, Mortgages, Asset Finance and Small to Medium Business.

A description of each segment is shown below:

|                             |  |
|-----------------------------|--|
| Personal Banking and Wealth | Provides a full range of banking and wealth management services for consumers.   |
| Corporate Businesses        | Comprises corporate banking, global institutional banking and global transaction services.   |
| Investment Banking          | Comprises global foreign exchange, global capital markets, global structured finance and corporate financing and advisory.   |
| Consumer Finance            | Provides consumer and commercial credit cards, ePayment products, personal loans and merchant payment facilities.  |
| Mortgages                   | Provides mortgage finance secured by residential real estate.  |
| Asset Finance               | Provides secured financing for motor vehicles and other assets, fleet management and vendor financing facilities, and fixed interest securities through the issue of debentures. |
| Small to Medium Business    | Provides a full range of banking services for metropolitan-based small to medium businesses.   |

As the composition of segments has changed over time, September 2001 comparatives have been adjusted to be consistent with the 2002 segment definitions. Comparatives for the year ended 30 September 2000 have not been provided because data could not reasonably be disaggregated into the changed segments.

The following analysis details financial information by business segment.

**Business Segment Analysis<sup>1,2</sup>**

| Consolidated Total<br>30 September 2002                     | Personal Banking & Wealth<br>\$m | Corporate Businesses<br>\$m | Investment Banking<br>\$m | Consumer Finance<br>\$m | Mortgages<br>\$m | Asset Finance<br>\$m | Small to Medium Business<br>\$m | Other <sup>3,4</sup><br>\$m | Consolidated Total<br>\$m |
|---|----------------------------------|-----------------------------|---------------------------|-------------------------|------------------|----------------------|---------------------------------|-----------------------------|---------------------------|
| External interest income                                    | 555                              | 1,421                       | 989                       | 598                     | 3,671            | 967                  | 423                             | 413                         | 9,037                     |
| External interest expense                                   | (1,011)                          | (744)                       | (1,433)                   | (1)                     | (159)            | (472)                | (191)                           | (1,008)                     | (5,019)                   |
| Net intersegment interest                                   | 1,533                            | (12)                        | 706                       | (208)                   | (2,830)          | (159)                | 87                              | 883                         | –                         |
| Net interest income   | 1,077                            | 665                         | 262                       | 389                     | 682              | 336                  | 319                             | 288                         | 4,018                     |
| Other external operating income                             | 789                              | 720                         | 536                       | 393                     | 89               | 69                   | 80                              | 263                         | 2,939                     |
| Net intersegment income                                     | 306                              | (36)                        | (4)                       | (86)                    | (230)            | (8)                  | (33)                            | 91                          | –                         |
| <b>Operating income</b>                                     | <b>2,172</b>                     | <b>1,349</b>                | <b>794</b>                | <b>696</b>              | <b>541</b>       | <b>397</b>           | <b>366</b>                      | <b>642</b>                  | <b>6,957</b>              |
| Other external expenses                                     | (1,056)                          | (306)                       | (335)                     | (234)                   | (119)            | (150)                | (124)                           | (581)                       | (2,905)                   |
| Net intersegment expenses                                   | (284)                            | (139)                       | (27)                      | (74)                    | (42)             | (29)                 | –                               | 595                         | –                         |
| <b>Operating expenses</b>                                   | <b>(1,340)</b>                   | <b>(445)</b>                | <b>(362)</b>              | <b>(308)</b>            | <b>(161)</b>     | <b>(179)</b>         | <b>(124)</b>                    | <b>14</b>                   | <b>(2,905)</b>            |
| Share of net profit/loss of equity<br>accounted investments | 32                               | –                           | 2                         | (5)                     | –                | –                    | –                               | 2                           | 31                        |
| Charge for doubtful debts                                   | (38)                             | (144)                       | (68)                      | (161)                   | (28)             | (69)                 | (16)                            | (336)                       | (860)                     |
| Income tax expense  | (253)                            | (231)                       | (54)                      | (73)                    | (106)            | (47)                 | (69)                            | (65)                        | (898)                     |
| Outside equity interests                                    | –                                | (2)                         | (1)                       | –                       | –                | –                    | –                               | –                           | (3)                       |
| <b>Profit after income tax</b>                              | <b>573</b>                       | <b>527</b>                  | <b>311</b>                | <b>149</b>              | <b>246</b>       | <b>102</b>           | <b>157</b>                      | <b>257</b>                  | <b>2,322</b>              |
| <b>Non-Cash Expenses</b>                                    |                                  |                             |                           |                         |                  |                      |                                 |                             |                           |
| Depreciation  | 59                               | 8                           | 11                        | 20                      | 6                | 11                   | 1                               | 90                          | 206                       |
| Amortisation of goodwill                                    | 3                                | 1                           | –                         | 7                       | 7                | 2                    | –                               | –                           | 20                        |
| <b>Financial Position</b>                                   |                                  |                             |                           |                         |                  |                      |                                 |                             |                           |
| Total external assets                                       | 10,635                           | 42,822                      | 25,669                    | 5,551                   | 64,826           | 12,410               | 6,764                           | 14,428                      | 183,105                   |
| Associate investments                                       | 1,661                            | –                           | 24                        | 4                       | –                | 1                    | –                               | 2                           | 1,692                     |
| Total external liabilities                                  | 39,342                           | 40,373                      | 20,654                    | 249                     | 3,551            | 9,704                | 7,589                           | 50,178                      | 171,640                   |

1 Results are equity standardised

2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis

3 Includes Treasury; Operations, Technology & Shared Services; Corporate Centre, Risk & Finance

4 Includes net profit from disposal of investments

## Notes to the Financial Statements

### 42: Segment Analysis (continued)

#### Business Segment Analysis<sup>1,2</sup>

| Consolidated<br>30 September 2001                           | Personal<br>Banking<br>& Wealth<br>\$m | Corporate<br>Businesses<br>\$m | Investment<br>Banking<br>\$m | Consumer<br>Finance<br>\$m | Mortgages<br>\$m | Asset<br>Finance<br>\$m | Small to<br>Medium<br>Business<br>\$m | Other <sup>3,4</sup><br>\$m | Consolidated<br>Total<br>\$m |
|---|--|--------------------------------|------------------------------|----------------------------|------------------|-------------------------|---------------------------------------|-----------------------------|------------------------------|
| External interest income                                    | 626                                    | 1,802                          | 1,761                        | 567                        | 3,768            | 1,012                   | 405                                   | 310                         | 10,251                       |
| External interest expense                                   | (1,162)                                | (865)                          | (2,043)                      | –                          | (154)            | (552)                   | (185)                                 | (1,457)                     | (6,418)                      |
| Net intersegment interest                                   | 1,632                                  | (268)                          | 491                          | (233)                      | (2,959)          | (122)                   | 83                                    | 1,376                       | –                            |
| Net interest income   | 1,096                                  | 669                            | 209                          | 334                        | 655              | 338                     | 303                                   | 229                         | 3,833                        |
| Other external operating income                             | 816                                    | 665                            | 547                          | 329                        | 78               | 59                      | 68                                    | 36                          | 2,598                        |
| Net intersegment income                                     | 272                                    | (38)                           | (8)                          | (70)                       | (203)            | (9)                     | (38)                                  | 94                          | –                            |
| <b>Operating income</b>                                     | <b>2,184</b>                           | <b>1,296</b>                   | <b>748</b>                   | <b>593</b>                 | <b>530</b>       | <b>388</b>              | <b>333</b>                            | <b>359</b>                  | <b>6,431</b>                 |
| Other external expenses                                     | (1,038)                                | (303)                          | (331)                        | (205)                      | (108)            | (158)                   | (113)                                 | (836)                       | (3,092)                      |
| Net intersegment expenses                                   | (292)                                  | (147)                          | (23)                         | (61)                       | (42)             | (30)                    | (8)                                   | 603                         | –                            |
| <b>Operating expenses</b>                                   | <b>(1,330)</b>                         | <b>(450)</b>                   | <b>(354)</b>                 | <b>(266)</b>               | <b>(150)</b>     | <b>(188)</b>            | <b>(121)</b>                          | <b>(233)</b>                | <b>(3,092)</b>               |
| Share of net profit/loss of equity<br>accounted investments | (2)                                    | –                              | 1                            | –                          | –                | –                       | –                                     | (24)                        | (25)                         |
| Charge for doubtful debts                                   | (38)                                   | (149)                          | (64)                         | (171)                      | (24)             | (65)                    | (17)                                  | (3)                         | (531)                        |
| Income tax expense  | (288)                                  | (229)                          | (43)                         | (57)                       | (120)            | (43)                    | (65)                                  | (66)                        | (911)                        |
| Outside equity interests                                    | –                                      | (2)                            | –                            | –                          | –                | –                       | –                                     | –                           | (2)                          |
| <b>Profit after income tax</b>                              | <b>526</b>                             | <b>466</b>                     | <b>288</b>                   | <b>99</b>                  | <b>236</b>       | <b>92</b>               | <b>130</b>                            | <b>33</b>                   | <b>1,870</b>                 |
| <b>Non-Cash Expenses</b>                                    |  |                                |                              |                            |                  |                         |                                       |                             |                              |
| Depreciation  | 48                                     | 7                              | 9                            | 17                         | 1                | 9                       | 1                                     | 91                          | 183                          |
| Amortisation of goodwill                                    | –                                      | 1                              | –                            | 7                          | 7                | 2                       | –                                     | –                           | 17                           |
| <b>Financial Position</b>                                   |  |                                |                              |                            |                  |                         |                                       |                             |                              |
| Total external assets                                       | 13,597                                 | 44,245                         | 29,851                       | 4,881                      | 55,901           | 12,013                  | 6,013                                 | 18,992                      | 185,493                      |
| Associate investments                                       | 37                                     | –                              | 12                           | 10                         | –                | –                       | –                                     | 5                           | 64                           |
| Total external liabilities                                  | 39,998                                 | 37,133                         | 26,112                       | 313                        | 3,014            | 9,566                   | 6,873                                 | 51,933                      | 174,942                      |

1 Results are equity standardised

2 Intersegment transfers are accounted for and determined on an arms length or cost recovery basis

3 Includes Treasury; Operations, Technology & Shared Services; Corporate Centre, Risk & Finance

4 Includes net profit from disposal of investments

The following analysis details financial information by geographic location.

| Geographic Segment Analysis <sup>5,6</sup><br>Consolidated | \$m     | 2002 | %   | \$m     | 2001 | %   | \$m     | 2000 | %   |
|--|---------|------|-----|---------|------|-----|---------|------|-----|
| <b>Income<sup>7</sup></b>                                  |         |      |     |         |      |     |         |      |     |
| Australia  | 8,697   |      | 72  | 9,012   |      | 70  | 7,991   |      | 57  |
| New Zealand  | 1,917   |      | 16  | 2,011   |      | 16  | 1,843   |      | 13  |
| Overseas markets   | 1,393   |      | 12  | 1,801   |      | 14  | 4,197   |      | 30  |
|  | 12,007  |      | 100 | 12,824  |      | 100 | 14,031  |      | 100 |
| <b>Total assets</b>  |         |      |     |         |      |     |         |      |     |
| Australia  | 135,050 |      | 74  | 133,057 |      | 72  | 127,306 |      | 74  |
| New Zealand  | 23,799  |      | 13  | 22,337  |      | 12  | 20,354  |      | 12  |
| Overseas markets   | 24,256  |      | 13  | 30,099  |      | 16  | 24,807  |      | 14  |
|  | 183,105 |      | 100 | 185,493 |      | 100 | 172,467 |      | 100 |

5 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis

6 The geographic segments represent the locations in which the transaction was booked

7 2000 includes abnormal items

## 43: Notes to the Statements of Cash Flows

|  | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|--|-------------|-----------------------------|-------------|----------------------------|-------------|
| <b>a) Reconciliation of net profit after income tax to net cash provided by operating activities</b> |             |                             |             |                            |             |
|  |             | Inflows<br>(Outflows)       |             | Inflows<br>(Outflows)      |             |
| Net profit after income tax  | 2,322       | 1,870                       | 1,747       | 1,507                      | 1,610       |
| Adjustments to reconcile net profit after income tax to net cash provided by operating activities    |             |                             |             |                            |             |
| Provision for doubtful debts   | 860         | 531                         | 502         | 710                        | 414         |
| Depreciation and amortisation  | 226         | 181                         | 186         | 113                        | 111         |
| Provision for employee entitlements, restructuring and other provisions                              | 248         | 300                         | 1,354       | 224                        | 221         |
| Payments from provisions   | (436)       | (288)                       | (297)       | (299)                      | (179)       |
| (Profit) on sale of premises and equipment   | (5)         | (1)                         | (17)        | (1)                        | (2)         |
| Provision for surplus lease space  | 1           | –                           | (7)         | 1                          | –           |
| (Profit) on sale of controlled entities and associates   | (170)       | –                           | (1,239)     | –                          | –           |
| Recovery from NHB litigation   | (248)       | –                           | –           | (248)                      | –           |
| Profit on sale of investment securities  | (4)         | –                           | –           | –                          | –           |
| Net decrease (increase)  |             |                             |             |                            |             |
| Trading securities   | (1,030)     | (629)                       | (25)        | (782)                      | (987)       |
| Interest receivable  | 328         | 137                         | (325)       | 230                        | 254         |
| Accrued income   | (16)        | (34)                        | 23          | (25)                       | (31)        |
| Net debit tax balances   | 46          | 88                          | 286         | 69                         | (20)        |
| Amortisation of discounts/premiums included in interest income                                       | (30)        | (52)                        | (67)        | (6)                        | (5)         |
| Net increase (decrease)  |             |                             |             |                            |             |
| Interest payable   | (348)       | (285)                       | 332         | (272)                      | (283)       |
| Accrued expenses   | (1)         | (42)                        | 89          | (2)                        | 117         |
| Other  | (12)        | 73                          | (74)        | –                          | (6)         |
| Total adjustments  | (591)       | (21)                        | 721         | (288)                      | (396)       |
| Net cash provided by operating activities  | 1,731       | 1,849                       | 2,468       | 1,219                      | 1,214       |

**b) Reconciliation of cash and cash equivalents<sup>1</sup>**

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

|   | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company<br>2002<br>\$m | 2001<br>\$m |
|---|-------------|-----------------------------|-------------|----------------------------|-------------|
| Liquid assets – less than 90 days                         | 4,821       | 5,504                       | 2,662       | 3,432                      | 3,692       |
| Due from other financial institutions – less than 90 days | 3,104       | 3,567                       | 3,800       | 2,021                      | 3,055       |
|   | 7,925       | 9,071                       | 6,462       | 5,453                      | 6,747       |

<sup>1</sup> At 30 September 2002, cash and cash equivalents totalling nil (2001: nil; 2000: \$2 million) were not available for use outside the local operations due to exchange control regulations

## Notes to the Financial Statements

### 43: Notes to the Statements of Cash Flows (continued)

|  | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m |
|--|-------------|-----------------------------|-------------|
| <b>c) Acquisitions and disposals<sup>1</sup></b>   |             |                             |             |
| <b>Details of aggregate assets and liabilities of controlled entities and branches acquired, and disposed of, by the Group are as follows:</b> |             |                             |             |
| Fair value of net assets acquired  |             |                             |             |
| Net loans and advances   | 141         | 408                         | –           |
| Trading securities   | –           | 4                           | –           |
| Other assets   | 106         | 30                          | 4           |
| Premises and equipment   | 5           | 5                           | 14          |
| Payables and other liabilities   | (7)         | (11)                        | (6)         |
| Deposits and other borrowings  | (230)       | (348)                       | (9)         |
| Income tax liability   | –           | (42)                        | (2)         |
| Fair value of net assets acquired  | 14          | 46                          | 1           |
| Goodwill on acquisition  | 53          | 5                           | 42          |
| Consideration paid   | 67          | 51                          | 43          |
| Cash consideration paid  | 67          | 36                          | 43          |
| Fair value of net assets disposed  |             |                             |             |
| Liquid assets  | 8           | 99                          | 520         |
| Due from other financial institutions  | –           | –                           | 338         |
| Trading securities   | –           | –                           | 107         |
| Investment securities  | 36          | –                           | 1,592       |
| Net loans and advances   | –           | –                           | 6,028       |
| Customers' liabilities for acceptances   | –           | –                           | 250         |
| Regulatory deposits  | –           | –                           | 661         |
| Life insurance investment assets   | 5,090       | –                           | –           |
| Shares in controlled entities and associates   | –           | –                           | 60          |
| Other assets   | 38          | –                           | 3,333       |
| Premises and equipment   | 4           | –                           | 272         |
| Due to other financial institutions  | –           | –                           | (808)       |
| Deposits and other borrowings  | –           | –                           | (10,589)    |
| Liability for acceptances  | –           | –                           | (250)       |
| Income tax liability   | –           | –                           | 11          |
| Payables and other liabilities   | (22)        | –                           | (295)       |
| Life insurance policy liabilities  | (4,798)     | –                           | –           |
| Provisions   | 36          | –                           | (25)        |
| Loan capital   | –           | –                           | (76)        |
| Fair value of net assets disposed  | 392         | 99                          | 1,129       |
| Profit on disposal net of transaction costs  | 174         | –                           | 1,239       |
| Net consideration received/receivable  | 566         | 99                          | 2,368       |
| Cash consideration received  | –           | 99                          | 2,368       |

<sup>1</sup> For details on acquisitions and disposals refer to Note 19

### d) Non-cash financing and investing activities

|                            | 2002<br>\$m | Consolidated<br>2001<br>\$m | 2000<br>\$m | The Company |             |
|----------------------------|-------------|-----------------------------|-------------|-------------|-------------|
|                            |             |                             |             | 2002<br>\$m | 2001<br>\$m |
| Share capital issues       |             |                             |             |             |             |
| Dividend reinvestment plan | 94          | 86                          | 236         | 94          | 86          |



## 43: Notes to the Statements of Cash Flows (continued)

|  | Available<br>\$m | 2002<br>Unused<br>\$m | Available<br>\$m | 2001<br>Unused<br>\$m |
|--|------------------|-----------------------|------------------|-----------------------|
| <b>e) Financing arrangements</b>   |                  |                       |                  |                       |
| Financing arrangements which are available under normal financial arrangements |                  |                       |                  |                       |
| Credit standby arrangements  |                  |                       |                  |                       |
| Standby lines  | 1,197            | 551                   | 1,048            | 188                   |
| Other financing arrangements   |                  |                       |                  |                       |
| Overdrafts and other financing arrangements                                    | 1,124            | 68                    | 1,273            | 64                    |
| Total finance available  | 2,321            | 619                   | 2,321            | 252                   |

## 44: Controlled Entities

|  | Incorporated in  | Nature of Business      |
|--|------------------|-------------------------|
| All controlled entities are 100% owned unless otherwise noted. |                  |                         |
| The material controlled entities of the Group are              |                  |                         |
| <b>Australia and New Zealand Banking Group Limited</b>         | Australia        | Banking                 |
| <b>ANZCover Insurance Pty Ltd</b>                              | Australia        | Self-Insurance          |
| <b>ANZ Executors &amp; Trustee Company Limited</b>             | Australia        | Trustee/Nominee         |
| <b>ANZ Funds Pty Ltd</b>                                       | Australia        | Holding Company         |
| <b>ANZ Holdings (New Zealand) Limited<sup>1</sup></b>          | New Zealand      | Holding Company         |
| <b>EFTPOS New Zealand Limited<sup>1</sup></b>                  | New Zealand      | Eftpos Service Provider |
| <b>ANZ Banking Group (New Zealand) Limited<sup>1</sup></b>     | New Zealand      | Banking                 |
| <b>Tui Securities Limited<sup>1</sup></b>                      | New Zealand      | Investment              |
| <b>UDC Finance Limited<sup>1</sup></b>                         | New Zealand      | Finance                 |
| <b>Endeavour Finance Limited<sup>1</sup></b>                   | New Zealand      | Finance                 |
| <b>Tui Endeavour Limited<sup>1</sup></b>                       | New Zealand      | Finance                 |
| <b>ANZ International Private Limited<sup>1</sup></b>           | Singapore        | Finance                 |
| <b>ANZ Singapore Limited<sup>1</sup></b>                       | Singapore        | Merchant Banking        |
| <b>Minerva Holdings Limited<sup>1</sup></b>                    | England          | Holding Company         |
| <b>ANZEF Limited<sup>1</sup></b>                               | England          | Export Finance          |
| <b>ANZ Lenders Mortgage Insurance Pty Limited</b>              | Australia        | Mortgage Insurance      |
| <b>ANZ Holdings Pty Ltd</b>                                    | Australia        | Property Owner          |
| <b>ANZ Investment Holdings Pty Ltd</b>                         | Australia        | Investment              |
| 530 Collins Street Property Trust                              | Australia        | Investment Activities   |
| <b>ANZ Properties (Australia) Pty Ltd</b>                      | Australia        | Property Owner          |
| <b>ANZ Securities (Holdings) Limited</b>                       | Australia        | Holding Company         |
| <b>Australia and New Zealand Banking Group (PNG) Limited</b>   | Papua New Guinea | Banking                 |
| <b>Esanda Finance Corporation Limited</b>                      | Australia        | General Finance         |
| Fleet Partners Pty Limited                                     | Australia        | Finance                 |
| <b>ANZ Capel Court Limited</b>                                 | Australia        | Investment Banking      |
| <b>PT ANZ Panin Bank<sup>1</sup></b>                           | Indonesia        | Banking                 |
| <b>US Distribution Trust I</b>                                 | USA              | Investment              |
| <b>US Distribution Trust II</b>                                | USA              | Investment              |
| <b>Alliance Holdings Limited</b>                               | Australia        | Investment              |
| <b>NMRSB Pty Ltd</b>   | Australia        | Investment              |
| <b>ANZ Financial Products Pty Ltd</b>                          | Australia        | Investment              |
| <b>Orchard Investments Pty Ltd</b>                             | Australia        | Investment              |

\* Audited by overseas KPMG firms

1 Outside equity interests hold ordinary shares or units in the controlled entities listed above as follows:

PT ANZ Panin Bank – 7,500 IDR 1M shares (15%) (2001: 7,500 IDR 1M shares (15%))

## Notes to the Financial Statements

### 45: Associates

Significant associates of the Group are as follows:

|   | Ownership Interest held | Voting Interest | Incorporated in | Carrying Value \$m | Reporting date | Principal activity |
|---|-------------------------|-----------------|-----------------|--------------------|----------------|--------------------|
| PT Panin Indonesia Bank <sup>1</sup>              | 11%                     | 11%             | Indonesia       | 67                 | 31 December    | Banking            |
| ECard Pty Ltd <sup>2</sup>                        | 20%                     | 20%             | Australia       | 4                  | 30 June        | Smart Cards        |
| Alto Plastics Limited <sup>3</sup>                | 68%                     | 25%             | New Zealand     | 7                  | 31 March       | Manufacturing      |
| Motion Industries Limited <sup>4</sup>            | 81%                     | 25%             | New Zealand     | 6                  | 31 March       | Manufacturing      |
| Australian Convenience Foods Pty Ltd <sup>5</sup> | 46%                     | 20%             | Australia       | 7                  | 30 June        | Manufacturing      |
| Other associates                                  |                         |                 |                 | 8                  |                |                    |
| Total shares in associates                        |                         |                 |                 | 99                 |                |                    |

1 An associate from 1 April 2001. In addition, the Group holds options over a further 18% of PT Panin Indonesia Bank

2 An associate from 1 June 2000

3 An associate from 31 October 2000

4 An associate from 1 April 2001

5 An associate from 20 August 2002

### 46: Interests in Joint Venture Entities

The Group has an interest in a joint venture entity as follows:

|                                | Interest held | Voting Interest <sup>2</sup> | Incorporated in | Carrying Value \$m | Reporting date | Principal activity             |
|--------------------------------|---------------|------------------------------|-----------------|--------------------|----------------|--------------------------------|
| ING Australia Ltd <sup>1</sup> | 49%           | 49%                          | Australia       | 1,593              | 31 December    | Funds Management and Insurance |

1 A joint venture entity from 1 May 2002

2 The Group has right of veto on certain decisions

|  | 2002 \$m |
|--|----------|
| <b>Retained profits attributable to the joint venture entity</b>   |          |
| At the beginning of the financial year                             | –        |
| At the end of the financial year                                   | 2        |
| <b>Movement in the carrying amount of the joint venture entity</b> |          |
| Carrying amount at the commencement of the joint venture entity    | 1,591    |
| Share of net profit  | 2        |
| Distributions received   | –        |
| Carrying amount at the end of the financial year                   | 1,593    |
| <b>Share of assets and liabilities<sup>1</sup></b>                 |          |
| Investments  | 9,140    |
| Other assets   | 732      |
| Total assets   | 9,872    |
| Policy holder liabilities  | 8,508    |
| Other liabilities  | 373      |
| Total liabilities  | 8,881    |
| Net assets   | 991      |
| <b>Share of revenues, expenses and results</b>                     |          |
| Revenues   | 195      |
| Expenses   | 169      |
| Profit from ordinary activities before income tax                  | 26       |
| Income tax   | 6        |
| Profit from ordinary activities after income tax                   | 20       |
| Amortisation of notional goodwill                                  | (18)     |
| Net equity accounted profit  | 2        |
| <b>Share of commitments</b>  |          |
| Lease commitments  | 163      |
| Other commitments  | 166      |
| Total expenditure commitments                                      | 329      |

1 This represents the Group's share of the assets and liabilities of ING Australia, less outside equity interests and including goodwill on acquisition of ANZ Funds Management entities

## 47: Commitments

|   | 2002<br>\$m | Consolidated | 2001<br>\$m | The Company | 2002<br>\$m | 2001<br>\$m |
|---|-------------|--------------|-------------|-------------|-------------|-------------|
| <b>Capital expenditure</b>                    |             |              |             |             |             |             |
| Contracts for outstanding capital expenditure |             |              |             |             |             |             |
| Not later than 1 year                         | 75          |              | 32          |             | 38          | 9           |
| Later than 1 year but not later than 5 years  | –           |              | 1           |             | –           | –           |
| Total capital expenditure commitments         | 75          |              | 33          |             | 38          | 9           |
| <b>Lease rentals</b>                          |             |              |             |             |             |             |
| Future rentals in respect of leases           |             |              |             |             |             |             |
| Land and buildings                            |             |              |             |             |             |             |
| Not later than 1 year                         | 163         |              | 133         |             | 133         | 110         |
| Later than 1 year but not later than 5 years  | 426         |              | 359         |             | 347         | 290         |
| Later than 5 years                            | 450         |              | 471         |             | 427         | 450         |
|   | 1,039       |              | 963         |             | 907         | 850         |
| <b>Furniture and equipment</b>                |             |              |             |             |             |             |
| Not later than 1 year                         | 16          |              | 9           |             | 10          | 4           |
| Later than 1 year but not later than 5 years  | 7           |              | 17          |             | 3           | 14          |
|   | 23          |              | 26          |             | 13          | 18          |
| Total lease rental commitments                | 1,062       |              | 989         |             | 920         | 868         |
| Total commitments                             | 1,137       |              | 1,022       |             | 958         | 877         |

The Group leases land and buildings under operating leases expiring from one to five years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

## Notes to the Financial Statements

### 48: Contingent Liabilities and Credit Related Commitments

#### Credit related commitments

The credit risk of the following facilities may be less than the contract amount, but as it cannot be accurately determined, the credit risk has been taken to be the contract amount.

|                         | Consolidated                      |                                   | The Company                       |                                   | Controlled Entities               |                                   |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                         | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m |
| Undrawn facilities      | 60,373                            | 56,766                            | 54,271                            | 49,751                            | 6,102                             | 7,014                             |
| Underwriting facilities | 36                                | 210                               | 36                                | 54                                | –                                 | 156                               |
|                         | 60,409                            | 56,976                            | 54,307                            | 49,805                            | 6,102                             | 7,170                             |

#### Contingent liabilities

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, but as it cannot be accurately determined, the credit risk has been taken to be the contract amount.

|                                     | Consolidated                      |                                   | The Company                       |                                   | Controlled Entities               |                                   |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                                     | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m | 2002<br>Contract<br>amount<br>\$m | 2001<br>Contract<br>amount<br>\$m |
| Guarantees                          | 3,580                             | 4,496                             | 3,526                             | 4,417                             | 54                                | 79                                |
| Credit derivatives - sold           | 3,088                             | –                                 | 3,088                             | –                                 | –                                 | –                                 |
| Standby letters of credit           | 1,952                             | 1,412                             | 1,932                             | 1,329                             | 20                                | 83                                |
| Bill endorsements                   | 298                               | 430                               | 298                               | 430                               | –                                 | –                                 |
| Documentary letters of credit       | 1,620                             | 1,396                             | 1,505                             | 1,274                             | 115                               | 122                               |
| Performance related contingents     | 11,161                            | 9,174                             | 10,907                            | 9,049                             | 254                               | 125                               |
| Other <sup>1</sup>                  | 935                               | 1,930                             | 552                               | 1,874                             | 383                               | 56                                |
| <b>Total contingent liabilities</b> | <b>22,634</b>                     | <b>18,838</b>                     | <b>21,808</b>                     | <b>18,373</b>                     | <b>826</b>                        | <b>465</b>                        |

1 In addition the Group had no equity underwriting commitments at 30 September 2002 (2001: nil) which are classified as market risk exposures

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 (APCA) Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System and the High Value Clearing System (HVCS) and in the Austraclear System Regulations, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution. For both the APCA HVCS and Austraclear, the obligation arises only in limited circumstances.

#### (ii) 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 Regulatory 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.

#### (iv) Tax Audit

ANZ in Australia is being audited by the Australian Taxation Office (ATO). There are several major issues that the ATO is considering, including:

- › Lease assignments in 1991 and 1992. Tax assessments have been received and are being contested in the Federal Court. Profit after tax of approximately \$50 million was earned from these transactions.
- › During the years 1996 - 2002 ANZ was involved in securities lending, equity swaps, and other similar kinds of transactions in the normal course of its business of banking. Total profit after tax from these transactions was less than \$200 million. The ATO is reviewing these transactions. ANZ received external advice in support of the taxation treatment of these transactions prior to commencing them. This advice was based on the taxation law as understood at the time these transactions were undertaken, and strongly supports ANZ's position.
- › Sale of Grindlays in 2000. At ANZ's request the ATO is reviewing the taxation treatment of this transaction. ANZ's profit after tax from this transaction was \$404 million.

Based on external advice, ANZ has assessed the likely progress of these issues, and believes that it holds appropriate provisions.

**48: Contingent Liabilities and Credit Related Commitments (continued)**

## (v) Sale of Grindlays businesses

As part of the sale on 31 July 2000 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 (the Grindlays businesses), to Standard Chartered Bank (SCB), ANZ provided warranties relating to those businesses. Where it is anticipated that payments are likely under these warranties, provisions have been made to cover the anticipated liability.

In addition, ANZ provided SCB and/or Grindlays with certain indemnities. Those indemnities under which ANZ remains exposed as at 30 September 2002 are:

- › an indemnity relating to liabilities Grindlays may incur as a result of certain claims made against Grindlays and its officers in India (the Indian Indemnity). Details of this indemnity are set out below;
- › an indemnity in relation to certain customer accounts written by Grindlays prior to 31 July 2000. This indemnity covers 80% of losses emerging on accounts totalling up to USD 64 million at 30 September 2002; and
- › an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities have not been provided for in the Grindlays accounts as at 31 July 2000.

Claims have been made under the above indemnities and also in relation to certain warranties made by ANZ at the time of sale. Discussions are continuing on the outstanding claims; at present the Group is confident that they will have no material impact on the Group.

The Indian Indemnity requires ANZ to pay SCB for losses that Grindlays incurs as a result of certain claims that have been or may be made against Grindlays and its officers in India. Under the terms of the Indian Indemnity, ANZ will have control of matters for which it is potentially liable. No settlement offer can be made or paid by Grindlays without the prior agreement of ANZ. ANZ will continue to manage these matters in the best interests of the shareholders taking into account its legal obligations.

On 19 January 2002 Grindlays completed the settlement of its long running dispute with India's National Housing Bank (NHB). The dispute originated in 1992. Since January 2001 the amount in dispute had been deposited with the Supreme Court of India. Of this amount (including interest) of Rupees 16.45 billion (AUD 661 million at 19 January 2002 rates), Grindlays recovered under the terms of the settlement Indian Rupees 6.20 billion (AUD 248 million), with NHB receiving the balance. ANZ in turn received a payment of USD 124 million from SCB under the terms of the Indian Indemnity.

ANZ remains liable for other claims under the Indian Indemnity, including in relation to the following two matters that are the subject of current proceedings involving Grindlays or its officers:

- › In 1991, certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. In making these transactions it would appear that the provisions of the Foreign Exchange Regulation Act 1973 were inadvertently not complied with. 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 that could lead to possible penalties. Grindlays has commenced proceedings in the courts contesting the validity of these notices.
- › In July 2002, Grindlays was ordered to repay, with interest, two payments it received from a stockbroker in 1991 in connection with securities transactions. Grindlays has commenced proceedings challenging the validity of these orders, which direct repayment of Indian Rupees 24 million (AUD \$0.9 million at 30 September 2002 rates, plus interest accruing at 24% since 1991). Since July Grindlays has been given notice of hearings in relation to a further six payments received by it in 1991 in similar circumstances totalling Indian Rupees 31 million (AUD 1.2 million at 30 September 2002 rates).

(vi) Pursuant to class order 98/1418 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 financial statements. The entities to which relief was granted are

|   |  |
|---|--|
| ANZ Properties (Australia) Pty Ltd <sup>1</sup> | Binnstone Traders Pty Limited <sup>1</sup> |
| Alliance Holdings Pty Ltd <sup>1</sup>          | Deori Pty Ltd <sup>1</sup>                 |
| ANZ Capital Hedging Pty Ltd <sup>1</sup>        | E S & A Holdings Pty Ltd <sup>1</sup>      |
| ANZ Funds Pty Ltd <sup>1</sup>                  | NMRSB Pty Ltd <sup>1</sup>                 |
| ANZ Nominees Limited <sup>1</sup>               | Jikk Pty Ltd <sup>1</sup>                  |
| Orchard Investments Pty Ltd <sup>2</sup>        | LFD Limited <sup>1</sup>                   |
|   | Votrait No. 1103 Pty Limited <sup>2</sup>  |

<sup>1</sup> Relief granted on 21 August 2001

<sup>2</sup> Relief granted on 13 August 2002

## Notes to the Financial Statements

### 48: Contingent Liabilities and Credit Related Commitments (continued)

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 lodged and approved by the Australian Securities and Investments Commission. 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. 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 statement of financial performance and consolidated statement of financial position of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee are:

|  | 2002<br>\$m | Consolidated<br>2001<br>\$m |
|--|-------------|-----------------------------|
| Profit before tax                              | 1,955       | 2,841                       |
| Income tax expense                             | (654)       | (674)                       |
| Profit after income tax                        | 1,301       | 2,167                       |
| Retained profits at start of year <sup>1</sup> | 4,348       | 3,363                       |
| Total available for appropriation              | 5,649       | 5,530                       |
| Ordinary share dividends provided for or paid  | (882)       | (1,062)                     |
| Retained profits at end of year                | 4,767       | 4,468                       |
| <b>Assets</b>                                  |             |                             |
| Liquid assets                                  | 5,998       | 6,032                       |
| Investment securities                          | 2,606       | 2,512                       |
| Net loans and advances                         | 100,999     | 93,482                      |
| Other assets                                   | 40,520      | 47,396                      |
| Premises and equipment                         | 1,189       | 1,070                       |
| Total assets                                   | 151,312     | 150,492                     |
| <b>Liabilities</b>                             |             |                             |
| Deposits and other borrowings                  | 85,258      | 76,552                      |
| Income tax liability                           | 1,064       | 989                         |
| Payables and other liabilities                 | 53,218      | 61,004                      |
| Provisions                                     | 1,611       | 1,981                       |
| <b>Total liabilities</b>                       | 141,151     | 140,526                     |
| <b>Net assets</b>                              | 10,161      | 9,966                       |
| <b>Shareholders' equity</b>                    | 10,161      | 9,966                       |

<sup>1</sup> The Companies included in the class order have changed, accordingly retained profits have not carried forward

(vii) The Company has guaranteed payment on maturity of the principal and accrued interest of commercial paper notes issued by ANZ (Delaware) Inc. of \$1,654 million (2001: \$4,059 million).

(viii) The Company is party to an underpinning agreement with ANZ Banking Group (New Zealand) Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by ANZ Banking Group (New Zealand) Limited to individual customers which exceed 35% of ANZ Banking Group (New Zealand) Limited's capital base.

(ix) 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 50% of Australia and New Zealand Banking Group (PNG) Limited's capital base.

### 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 have been made as deemed necessary.

## 49: Superannuation Commitments

A number of pension and superannuation schemes have been established by the Group worldwide. The Group is 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 \$25 million are:

| Country     | Scheme  | Scheme type  | Contribution levels |                              |
|-------------|---|--|---------------------|------------------------------|
|             |   |  | Employee            | Employer                     |
| Australia   | ANZ Australian Staff Superannuation Scheme <sup>1,2</sup>         | Defined Contribution Scheme Section C                | optional            | Balance of cost <sup>3</sup> |
|             |   | or<br>Defined Contribution Scheme Section A          | optional            | 9% of salary <sup>4</sup>    |
|             |   | or<br>Defined Benefit Scheme Pension Section Account | nil                 | Balance of cost              |
| New Zealand | ANZGROUP (New Zealand) Staff Superannuation Scheme <sup>1,2</sup> | Defined Benefit Scheme <sup>5</sup>                  | nil                 | Balance of cost              |
|             |   | or<br>Defined Contribution Scheme                    | 2.5% min            | 7.5% of salaries             |
| England     | ANZ UK Staff Pension Scheme <sup>1</sup>                          | Defined Benefit Scheme                               | nil                 | Balance of cost              |

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 As recommended by the actuary, currently 9% of members' superannuation salaries

4 From 1 October 2001 to 30 June 2002 the contribution rate was 8% of salary

5 Closed to new members on 31 March 1990. Operates to make pension payments to retirees who were members of that section of the scheme

The details of major defined benefit schemes with assets in excess of \$25 million are as follows:

| 2002 Schemes                               | Employer's contribution \$m | Accrued benefits \$m | Net market value of assets held by scheme \$m | Excess of net market value of assets over accrued benefits \$m | Vested benefits \$m |
|--|-----------------------------|----------------------|---|--|---------------------|
| ANZ Australian Staff Superannuation Scheme |                             |                      |   |  |                     |
| Pension Section Account <sup>1</sup>       | –                           | 46                   | 47  | 1  | 46                  |
| ANZ UK Staff Pension Scheme <sup>1</sup>   | –                           | 998                  | 1,053   | 55   | 963                 |
| 2001 Schemes                               | Employer's contribution \$m | Accrued benefits \$m | Net market value of assets held by scheme \$m | Excess of net market value of assets over accrued benefits \$m | Vested benefits \$m |
| ANZ Australian Staff Superannuation Scheme |                             |                      |   |  |                     |
| Pension Section Account <sup>2</sup>       | –                           | 48                   | 50  | 2  | 48                  |
| ANZ UK Staff Pension Scheme <sup>2</sup>   | –                           | 943                  | 1,228   | 285  | 904                 |

1 Amounts were measured at 31 December 2001

2 Amounts were measured at 31 December 2000

## Notes to the Financial Statements

### 50: Fiduciary Activities

The Group conducts investment fiduciary activities for trusts, including deceased estates. These trusts have not been consolidated as the Company does not have direct or indirect control.

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, 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.

The aggregate amounts of funds concerned are as follows:

|                            | 2002<br>\$m | 2001<br>\$m |
|----------------------------|-------------|-------------|
| Funds managed <sup>1</sup> | –           | 15,810      |
| Trusteeships               | 1,849       | 3,240       |
|                            | 1,849       | 19,050      |

<sup>1</sup> As at 30 September 2002, the ANZ/INGA joint venture had funds under management of \$26,642 million

### 51: Employee Share and Option Plans

The Company has five share purchase and option incentive plans available for employees and directors of the Group: the ANZ Employee Share Acquisition Plan; the ANZ Share Purchase Scheme; the ANZ Employee Share Save Scheme<sup>1</sup>; the ANZ Share Option Plan and the ANZ Directors' Share Plan. Shareholders of the Company have approved the implementation of each of the current plans. Fully paid ordinary shares issued under these plans rank equally with other existing fully paid ordinary shares.

Each option granted under the ANZ Share Option Plan entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue.

An offer to employees and directors cannot be made under any of the schemes if an issue pursuant to that offer will result in the aggregate of shares issued and options granted over unissued shares held for employees under various employee share and option incentive schemes exceeding 7% of the issued capital (and unexercised options) of the Company.

Amounts received from the ANZ Employee Share Acquisition Plan and the ANZ Share Purchase Scheme, on fully paid and partly paid shares, are recognised as share capital.

The closing market price of one ordinary share at 30 September 2002 was \$17.65.

Amounts received from exercising options under the ANZ Share Option Plan during the financial year, excluding calls on partly paid shares issued in prior financial years, were recognised as follows:

|                 | The Company |            |
|-----------------|-------------|------------|
|                 | 2002<br>\$  | 2001<br>\$ |
| Share capital   | 57,131,915  | 21,426,988 |
| General reserve | (26)        | (12,113)   |

### ANZ Employee Share Acquisition Plan

All permanent employees who have had continuous service for one year with the Company or any of its controlled entities may be eligible to participate in a scheme enabling the issue of up to \$1,000 of shares to an employee in each financial year. During the financial year, 1,070,986 shares with an average issue price of \$17.21 were issued under the \$1,000 scheme.

Selected employees may also be issued deferred shares which vest in the employee after a qualifying period. Ordinary shares acquired under this plan are held in trust and have restrictions on their disposal. During the financial year, 3,074,002 (2001: 4,756,024, 2000: 2,565,559) deferred shares were issued under this Plan.

<sup>1</sup> The ANZ Employee Share Save Scheme is a scheme which operates under the ANZ Employee Share Acquisition Plan



**51: Employee Share and Option Plans (continued)****ANZ Share Purchase Scheme**

Officers eligible to participate in this scheme may be offered fully paid ordinary shares. During the financial year, no fully paid ordinary shares were issued under the scheme.

At 30 September 2002, 1,272,500 fully paid ordinary shares remained subject to the rules of this scheme.

**ANZ Employee Share Save Scheme**

Employees have the opportunity to request that a proportion of their income be directed to the purchase of ANZ shares. The amount they elect to contribute is deducted fortnightly and shares are purchased on market quarterly in arrears. The Company contributes 5% of the purchase price and pays for brokers fees and (prior to 1 July 2001) stamp duty. During the financial year 1,831 employees participated in the scheme and 288,324 shares were purchased. The number of shares acquired since the commencement of the scheme is 472,442. Senior executives are not eligible to receive the 5% discount.

**ANZ Share Option Plan**

Selected employees may be granted options which entitle them to purchase ordinary fully paid shares in the Company at a price fixed at the time when the options are issued.

11,119,785 options with a weighted average grant date fair value of \$3.21 were issued during the financial year and 760,506 options lapsed during the financial year.

At 30 September 2002, 32,435,347 options were outstanding under this scheme.

| No. of options outstanding<br>at 30 September 2002 | Exercise price | Earliest exercise<br>date | Expiry date                |
|--|----------------|---------------------------|----------------------------|
| 2,565  | \$11.45        | 23 Mar 2001               | 22 Jan 2003 <sup>2</sup>   |
| 325,000  | \$9.51         | 24 Feb 2001               | 23 Feb 2003 <sup>1,2</sup> |
| 71,501   | \$0.00         | 24 Oct 2002               | 27 Oct 2003 <sup>1</sup>   |
| 250,000  | \$8.97         | 28 Oct 2001               | 27 Oct 2003 <sup>1,2</sup> |
| 195,000  | \$10.34        | 11 Dec 2001               | 10 Dec 2003 <sup>1,2</sup> |
| 500,000  | \$17.52        | 31 Dec 2003               | 31 Dec 2007 <sup>1</sup>   |
| 10,000   | \$10.41        | 28 Jan 2002               | 27 Jan 2004 <sup>1,2</sup> |
| 82,000   | \$11.44        | 25 Mar 2002               | 24 Mar 2004 <sup>1,2</sup> |
| 23,421   | \$0.00         | 24 Oct 2003               | 24 Apr 2004                |
| 1,852,500  | \$11.20        | 2 Jun 2002                | 1 Jun 2004 <sup>1,2</sup>  |
| 2,500  | \$11.26        | 7 Jun 2002                | 6 Jun 2004 <sup>2</sup>    |
| 150,000  | \$11.30        | 12 July 2002              | 11 Jul 2004 <sup>1,2</sup> |
| 900,000  | \$9.94         | 27 Oct 2002               | 26 Oct 2004 <sup>1</sup>   |
| 750,000  | \$11.49        | 31 Dec 2002               | 31 Dec 2004 <sup>1</sup>   |
| 750,000  | \$14.78        | 31 Dec 2003               | 31 Dec 2004 <sup>1</sup>   |
| 100,000  | \$10.63        | 31 Jan 2003               | 30 Jan 2005 <sup>1</sup>   |
| 500,000  | \$17.20        | 31 Dec 2004               | 31 Dec 2006 <sup>1</sup>   |
| 1,050,000  | \$10.11        | 23 Feb 2003               | 22 Feb 2007 <sup>1</sup>   |
| 350,000  | \$10.20        | 8 Mar 2003                | 7 Mar 2007 <sup>1</sup>    |
| 447,500  | \$11.81        | 23 May 2003               | 23 May 2007 <sup>1</sup>   |
| 200,000  | \$12.23        | 7 Jun 2003                | 6 Jun 2007 <sup>1</sup>    |
| 75,000   | \$12.75        | 26 Sep 2003               | 25 Sept 2007               |
| 2,373,258  | \$14.34        | 22 Nov 2003               | 21 Nov 2007 <sup>1</sup>   |
| 2,676,000  | \$14.63        | 25 Oct 2003               | 7 Feb 2008                 |
| 4,510,025  | \$14.92        | 21 Feb 2004               | 20 Feb 2008                |
| 75,000   | \$15.47        | 27 Feb 2004               | 26 Feb 2008 <sup>1</sup>   |
| 50,000   | \$15.66        | 7 Mar 2004                | 6 Mar 2008 <sup>1</sup>    |
| 3,604,752  | \$13.70        | 25 Apr 2004               | 24 Apr 2008 <sup>1</sup>   |
| 194,800  | \$13.70        | 7 May 2004                | 6 May 2008                 |
| 453,500  | \$15.33        | 1 Jun 2004                | 31 May 2008                |
| 76,000   | \$16.49        | 21 Aug 2004               | 20 Aug 2008 <sup>1</sup>   |
| 84,000   | \$16.81        | 27 Aug 2004               | 26 Aug 2008                |
| 50,000   | \$17.05        | 24 Oct 2004               | 23 Oct 2008 <sup>1</sup>   |
| 4,399,250  | \$17.05        | 25 Oct 2004               | 24 Oct 2008 <sup>1</sup>   |
| 20,000   | \$18.21        | 26 Feb 2005               | 25 Feb 2009 <sup>1</sup>   |
| 4,821,805  | \$18.75        | 24 Apr 2005               | 24 Apr 2009                |
| 145,000  | \$19.27        | 14 May 2005               | 13 May 2009                |
| 297,970  | \$19.27        | 28 Jun 2005               | 27 Jun 2009                |
| 17,000   | \$17.90        | 27 July 2005              | 21 Jul 2009 <sup>1</sup>   |

<sup>1</sup> subject to performance condition

<sup>2</sup> options exercisable as at 30 September 2002

## Notes to the Financial Statements

### 51: Employee Share and Option Plans (continued)

These options will expire immediately on termination of employment, except in the event of retirement, retrenchment, death or disablement or where agreed by the Directors of the Company, in which case the exercise of the options may be allowed.

The following options were exercised by employees and former employees during the financial year:

|         |  |         |  |
|---------|--|---------|--|
| 171,550 | options exercised at \$ 8.76 per share | 36,959  | options exercised at \$11.45 per share |
| 100,000 | options exercised at \$ 8.93 per share | 60,000  | options exercised at \$11.64 per share |
| 625,000 | options exercised at \$ 8.97 per share | 195,000 | options exercised at \$11.81 per share |
| 600,000 | options exercised at \$ 9.51 per share | 500,000 | options exercised at \$12.11 per share |
| 120,000 | options exercised at \$10.11 per share | 160,450 | options exercised at \$13.70 per share |
| 310,000 | options exercised at \$10.34 per share | 121,000 | options exercised at \$14.34 per share |
| 150,000 | options exercised at \$10.44 per share | 172,500 | options exercised at \$14.63 per share |
| 50,000  | options exercised at \$10.64 per share | 213,750 | options exercised at \$14.92 per share |
| 812,500 | options exercised at \$11.20 per share | 16,500  | options exercised at \$15.33 per share |
| 25,000  | options exercised at \$11.29 per share | 6,750   | options exercised at \$16.81 per share |
| 500,000 | options exercised at \$11.39 per share | 81,375  | options exercised at \$17.05 per share |
| 63,000  | options exercised at \$11.44 per share | 12,256  | options exercised at \$18.75 per share |

In the event of a takeover offer or takeover announcement, the directors of the Company may allow the options to be exercised.

If there is a bonus issue prior to the expiry or exercise of the options, then upon exercise of the options, option holders are entitled to those shares as if the options had been exercised prior to that issue. Those shares will be allotted to the option holder when the options are exercised.

As at the date of the Directors' Report, unexercised options over ordinary shares are as per the table above, adjusted for the exercise of the following options which were exercised by employees and former employees since the end of the financial year:

|         |  |        |  |
|---------|--|--------|--|
| 11,727  | options exercised at \$ 0.00 per share | 38,725 | options exercised at \$13.70 per share |
| 100,000 | options exercised at \$ 8.97 per share | 38,000 | options exercised at \$14.34 per share |
| 150,000 | options exercised at \$ 9.94 per share | 28,400 | options exercised at \$14.63 per share |
| 40,000  | options exercised at \$10.11 per share | 46,700 | options exercised at \$14.92 per share |
| 25,000  | options exercised at \$10.34 per share | 13,000 | options exercised at \$15.33 per share |
| 785,000 | options exercised at \$11.20 per share | 2,250  | options exercised at \$16.81 per share |
| 20,000  | options exercised at \$11.44 per share | 37,850 | options exercised at \$17.05 per share |
| 2,500   | options exercised at \$11.81 per share | 202    | options exercised at \$18.75 per share |

For options granted in the current year the valuation is based on a numerical pricing method which takes into account the probability of achieving the performance hurdle required for these options to vest. The following significant assumptions were adopted to determine the fair value of options:

| Weighted Average          | 2002      | 2001      | 2000      |
|---------------------------|-----------|-----------|-----------|
| Risk free interest rate   | 6.14%     | 6.33%     | 5.98%     |
| Life of options           | 6.8 years | 6.9 years | 6.2 years |
| Volatility of share price | 22.00%    | 24.96%    | 24.88%    |
| Dividend rate             | 4.45%     | 4.66%     | 6.03%     |

The following table provides information in respect of movements in the number of options and the weighted average exercise price:

|  | 2002<br>Number | Weighted<br>Average<br>Exercise<br>Price \$ | 2001<br>Number | Weighted<br>Average<br>Exercise<br>Price \$ | 2000<br>Number | Weighted<br>Average<br>Exercise<br>Price \$ |
|--|----------------|---|----------------|---|----------------|---|
| Options outstanding at the start of the year | 27,179,658     | 12.91                                       | 13,443,974     | 10.53                                       | 10,018,633     | 10.35                                       |
| Options granted during the year              | 11,119,785     | 17.73                                       | 16,365,860     | 14.49                                       | 4,671,000      | 10.73                                       |
| Options expired during the year              | 760,506        | 13.99                                       | 505,056        | 12.54                                       | 230,563        | 10.76                                       |
| Options exercised during the year            | 5,103,590      | 11.19                                       | 2,125,120      | 10.08                                       | 1,015,096      | 9.54  |
| Options outstanding at the end of the year   | 32,435,347     | 14.81                                       | 27,179,658     | 12.91                                       | 13,443,974     | 10.53                                       |

**51: Employee Share and Option Plans (continued)****ANZ Directors' Share Plan**

Directors may elect to forgo remuneration to which they may have otherwise become entitled and receive shares to the value of the remuneration forgone. Participation in the Plan is voluntary.

The shares are purchased on market and are held upon trust for periods ranging from 1 to 10 years. The director selects the period. The shares may also be subject to forfeiture for serious misconduct. All costs associated with the Plan are met by the Company.

At 30 September 2002 344,843 shares were held under this Plan. During the year, 128,044 shares were issued under this Plan.

**52: Related Party Disclosures**

The directors during the year were:

|  |                                      |
|--|--------------------------------------|
| C B Goode (Chairman)                   | M A Jackson                          |
| J C Dahlsen                            | J McFarlane                          |
| R S Deane                              | B W Scott                            |
| J K Ellis                              | G K Toomey (resigned 8 October 2001) |
| D M Gonski (appointed 7 February 2002) |                                      |

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, by an Australian Securities and Investments Commission (ASIC) class order, 98/110 dated 10 July 1998, from making disclosures of loans made, guaranteed or secured by a bank to related parties (other than specified categories of directors) and financial instrument transactions (other than shares and share options) of a bank where a director of the relevant entity is not a party to the transaction and where the loan or financial instrument transaction is lawfully made and occurs in the course of ordinary banking business either at arm's length or with the approval of a general meeting of the relevant entity and its ultimate chief entity (if any).

The class order does not apply to a loan or financial instrument transaction of which any director of the relevant entity should reasonably be aware that, if not disclosed, would have the potential to adversely affect the decisions made by users of the financial statements about the allocation of scarce resources.

A condition of the class order is that for each financial year to which it applies, the Company must provide evidence to ASIC that the Company has systems of internal controls and procedures which:

- (i) in the case of any material financial instrument transaction, ensure that; and
- (ii) in any other case, are designed to provide a reasonable degree of assurance that, any financial instrument transaction of a bank which may be required to be disclosed in the Company's financial statements and which is not entered into regularly, is drawn to the attention of the directors.

**(a) Transactions with directors and director-related entities****Shares and Share Options**

The aggregate number of shares issued to, acquired for, disposed or no longer held by directors, and share options granted to directors of the Company and their director-related entities by the Company during the financial year were as follows:

|  | 2002<br>No. | The Company<br>2001<br>No. |
|--|-------------|----------------------------|
| Fully paid ordinary shares in the Company acquired                                   | 1,127,098   | 258,333                    |
| Fully paid ordinary shares in the Company disposed of or no longer held by directors | 605,864     | –                          |
| Options granted under the ANZ Share Option Plan                                      | 1,000,000   | 750,000                    |

Aggregate number of shares and share options held directly, indirectly or beneficially by directors of the Company and their director-related entities, as at balance date, were as follows:

|   | 2002<br>No. | 2001<br>No. |
|---|-------------|-------------|
| Fully paid ordinary shares in the Company                                     | 1,561,350   | 1,040,116   |
| Fully paid deferred shares in the Company issued under previous employee Plan | 87,190      | 87,190      |
| Share options over ordinary shares in the Company                             | 2,500,000   | 2,500,000   |

Directors of the Company and their director-related entities receive normal dividends on these shares.

## Notes to the Financial Statements

### 52: Related Party Disclosures (continued)

#### Loans made to Directors

Loans made to non-executive directors of the Company and controlled entities are made in the course of ordinary business on normal commercial terms and conditions. Loans to executive directors of the Company and controlled entities are made pursuant to the Executive Directors' Loan Scheme authorised by shareholders on 18 January 1982, on the same terms and conditions applicable to other employees within the Group in accordance with established policy.

Under the Australian Securities and Investments Commission class order referred to above, disclosure is limited to the aggregate amount of loans made, guaranteed or secured by:

- (i) the Company to its directors;
- (ii) any controlled entity to the directors of the Company;
- (iii) banking corporation controlled entities to their directors; and
- (iv) non-banking corporation controlled entities to directors of controlled entities and to parties related to any one of them or the directors of the Company.

The directors involved were:

|                                    |                              |
|------------------------------------|------------------------------|
| S Armstrong <sup>2</sup>           | P Cromby <sup>1,2,3,4</sup>  |
| D Gonski <sup>2</sup>              | C B Goode <sup>2</sup>       |
| D Hannam <sup>1,2</sup>            | D Horner <sup>1,2</sup>      |
| M A Jackson <sup>1,2</sup>         | M Kalangis <sup>1,2</sup>    |
| J McFarlane <sup>1,2,3,4</sup>     | N Merrick <sup>1,2,3,4</sup> |
| B Poedijirahard <sup>1,2,3,4</sup> | M Rostian <sup>1,2,3,4</sup> |
| M Tilbrook <sup>1,2</sup>          | J Todd <sup>1,2</sup>        |
| G Tunstall <sup>1,2,3,4</sup>      |                              |

1 Repayments made during the year

2 Loans made or outstanding during the year

3 Repayments made during the prior year

4 Loans made during the prior year

The aggregate amount of such loans outstanding at 30 September 2002 were:

|   | Consolidated   |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>\$'000 | 2001<br>\$'000 | 2002<br>\$'000 | 2001<br>\$'000 |
| Balance outstanding at 30 September   | 12,663         | 4,790          | 11,984         | 4,379          |
| Total interest received   | 843            | 300            | 775            | 292            |
| The aggregate amount of repayments received from directors and their director-related entities during the financial year was: |                |                |                |                |
| Normal terms and conditions   | 6,518          | 516            | 6,518          | 516            |
| Employee terms and conditions   | 106            | 27             | –              | –              |
| The aggregate amount of loans made during the financial year was:   |                |                |                |                |
| Normal terms and conditions   | 11,518         | 879            | 11,518         | 879            |
| Employee terms and conditions   | 36             | 68             | –              | –              |

#### Other transactions of Directors and Director-Related Entities

##### (i) Financial instrument transactions

Under the Australian Securities and Investments Commission class order referred to above, disclosure of financial instrument transactions regularly made by a bank is limited to disclosure of such transactions with a director of the entity concerned. Financial instrument transactions which have occurred on arm's length terms and conditions, and are deemed trivial or domestic in nature are required to be disclosed by general description.

Financial instrument transactions between the directors and the banks during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions occurred on an arm's length basis and on normal commercial terms and conditions no more favourable than those given to other employees or customers.

##### (ii) Transactions other than financial instrument transactions of banks

All transactions with directors and their director-related entities are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of deposits, debentures, or investment transactions conducted with non-bank controlled entities.

All other transactions with director-related entities occur within a normal customer or supplier relationship and are on arms length terms.

**52: Related Party Disclosures (continued)****(b) Transactions with associates and joint venture entities**

During the course of the financial year the Company and the Group conducted transactions with associated and joint venture entities on normal commercial terms and conditions as shown below:

|   | Consolidated   |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2002<br>\$'000 | 2001<br>\$'000 | 2002<br>\$'000 | 2001<br>\$'000 |
| Aggregate   |                |                |                |                |
| Amounts receivable from associates and joint venture entities | 26,097         | 12,412         | –              | –              |
| Interest revenue  | –              | 896            | –              | –              |
| Dividend revenue  | 760            | 12,400         | 760            | –              |
| Commissions received from joint venture                       | 32,019         | –              | 32,019         | –              |
| Costs recovered from joint venture                            | 12,213         | –              | 12,213         | –              |

**53: Remuneration of Directors**

Remuneration includes income from salaries, bonuses, other benefits (including non-cash benefits), retirement benefits and superannuation contributions. The maximum total remuneration for non-executive directors of the Company was set at the Annual General Meeting held on 21 January 1998 at \$1.5 million. Total fees paid to non-executive directors by the Company for the year were \$1.1 million (2000: \$1.0 million). Retirement benefits paid to directors of the Company are detailed in the Directors' Report.

The number of directors of the Company with total income in each of the following bands was:

|                            | The Company |      |
|----------------------------|-------------|------|
|                            | 2002        | 2001 |
| \$90,001 to \$100,000      | 2           | 1    |
| \$110,001 to \$120,000     | –           | 4    |
| \$120,001 to \$130,000     | 1           | –    |
| \$130,001 to \$140,000     | 3           | –    |
| \$190,001 to \$200,000     | –           | 1    |
| \$210,001 to \$220,000     | 1           | –    |
| \$320,001 to \$330,000     | –           | 1    |
| \$350,001 to \$360,000     | 1           | –    |
| \$2,890,001 to \$2,900,000 | 1           | –    |
| \$3,090,001 to \$3,100,000 | –           | 1    |
| Total number of directors  | 9           | 8    |

|  | Consolidated   |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2002<br>\$'000 | 2001<br>\$'000 | 2002<br>\$'000 | 2001<br>\$'000 |
| Total income paid or payable to directors of the Company and controlled entities from the Company or related entity <sup>1</sup> | 42,606         | 42,503         | 4,194          | 4,163          |

<sup>1</sup> Including the total income of executive directors, excluding directors of controlled entities who are executives of the Company

## Notes to the Financial Statements

### 54: Remuneration of Executives

Executives are defined as members of the Chief Executive's Group. The membership of this Group was expanded in 2002. Remuneration includes salaries, bonuses, other benefits (including non-cash benefits), and superannuation contributions. The remuneration of executives who work wholly or mainly outside Australia are excluded from this disclosure. Executive emoluments disclosed in the Directors' Report include the emoluments of the five highest paid executives, calculated to include the fair value of options issued in 2002. For the purposes of this note, options are valued at intrinsic value (nil).

The number of executives with total remuneration exceeding \$100,000 in each of the following bands was:

|                            | Consolidated |      | The Company |      |
|----------------------------|--------------|------|-------------|------|
|                            | 2002         | 2001 | 2002        | 2001 |
| \$130,001 to \$140,000     | –            | 1    | –           | 1    |
| \$190,001 to \$200,000     | 1            | 1    | 1           | 1    |
| \$250,001 to \$260,000     | 1            | –    | 1           | –    |
| \$260,001 to \$270,000     | 1            | –    | 1           | –    |
| \$280,001 to \$290,000     | 1            | –    | 1           | –    |
| \$290,001 to \$300,000     | –            | 1    | –           | 1    |
| \$330,001 to \$340,000     | –            | 1    | –           | 1    |
| \$340,001 to \$350,000     | 1            | –    | 1           | –    |
| \$350,001 to \$360,000     | 1            | –    | 1           | –    |
| \$360,001 to \$370,000     | 1            | 1    | 1           | 1    |
| \$370,001 to \$380,000     | 1            | –    | 1           | –    |
| \$390,001 to \$400,000     | 2            | –    | 2           | –    |
| \$400,001 to \$410,000     | 1            | –    | 1           | –    |
| \$420,001 to \$430,000     | 1            | –    | 1           | –    |
| \$430,001 to \$440,000     | 1            | –    | 1           | –    |
| \$440,001 to \$450,000     | 1            | –    | 1           | –    |
| \$460,001 to \$470,000     | 3            | –    | 3           | –    |
| \$470,001 to \$480,000     | 1            | –    | 1           | –    |
| \$530,001 to \$540,000     | 1            | –    | 1           | –    |
| \$550,001 to \$560,000     | –            | 1    | –           | 1    |
| \$560,001 to \$570,000     | 2            | –    | 2           | –    |
| \$570,001 to \$580,000     | 4            | –    | 4           | –    |
| \$590,001 to \$600,000     | 1            | –    | 1           | –    |
| \$600,001 to \$610,000     | 1            | 1    | 1           | 1    |
| \$610,001 to \$620,000     | 1            | –    | 1           | –    |
| \$620,001 to \$630,000     | 1            | –    | 1           | –    |
| \$640,001 to \$650,000     | –            | 1    | –           | 1    |
| \$670,001 to \$680,000     | 1            | –    | 1           | –    |
| \$680,001 to \$690,000     | –            | 1    | –           | 1    |
| \$690,001 to \$700,000     | –            | 1    | –           | 1    |
| \$740,001 to \$750,000     | 1            | –    | 1           | –    |
| \$760,001 to \$770,000     | 1            | –    | 1           | –    |
| \$770,001 to \$780,000     | 1            | –    | 1           | –    |
| \$790,001 to \$800,000     | 1            | –    | 1           | –    |
| \$810,001 to \$820,000     | 1            | –    | 1           | –    |
| \$820,001 to \$830,000     | 1            | –    | 1           | –    |
| \$830,001 to \$840,000     | –            | 1    | –           | 1    |
| \$860,001 to \$870,000     | 2            | –    | 2           | –    |
| \$910,001 to \$920,000     | 1            | –    | 1           | –    |
| \$920,001 to \$930,000     | 1            | 1    | 1           | 1    |
| \$930,001 to \$940,000     | –            | 1    | –           | 1    |
| \$950,001 to \$960,000     | –            | 1    | –           | 1    |
| \$970,001 to \$980,000     | 1            | –    | 1           | –    |
| \$980,001 to \$990,000     | –            | 1    | –           | 1    |
| \$1,030,001 to \$1,040,000 | –            | 1    | –           | 1    |
| \$1,101,001 to \$1,110,000 | –            | 1    | –           | 1    |
| \$1,110,001 to \$1,120,000 | 2            | –    | 2           | –    |
| \$1,120,001 to \$1,130,000 | –            | 1    | –           | 1    |
| \$1,140,001 to \$1,150,000 | –            | 1    | –           | 1    |
| \$1,160,001 to \$1,170,000 | 1            | –    | 1           | –    |
| \$1,190,001 to \$1,200,000 | 1            | –    | 1           | –    |
| \$1,200,001 to \$1,210,000 | 1            | –    | 1           | –    |
| \$1,240,001 to \$1,250,000 | 1            | –    | 1           | –    |
| \$1,290,001 to \$1,300,000 | –            | 1    | –           | 1    |
| \$1,340,001 to \$1,350,000 | 1            | –    | 1           | –    |
| \$1,430,001 to \$1,440,000 | 2            | –    | 2           | –    |
| \$1,470,001 to \$1,480,000 | –            | 1    | –           | 1    |
| \$1,480,001 to \$1,490,000 | –            | 1    | –           | 1    |
| \$1,490,001 to \$1,500,000 | 1            | 1    | 1           | 1    |

**54: Remuneration of Executives (continued)**

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| \$1,500,001 to \$1,510,000   | –      | 1      | –      | 1      |
| \$1,540,001 to \$1,550,000   | 1      | –      | 1      | –      |
| \$1,550,001 to \$1,560,000   | 1      | –      | 1      | –      |
| \$1,580,001 to \$1,590,000   | 1      | –      | 1      | –      |
| \$1,590,001 to \$1,600,000   | –      | 1      | –      | 1      |
| \$2,890,000 to \$2,900,000   | 1      | –      | 1      | –      |
| \$3,090,001 to \$3,100,000   | –      | 1      | –      | 1      |
| Total number of executives   | 55     | 26     | 55     | 26     |
| Total remuneration received or due and receivable directly or indirectly by executives of the Company and controlled entities (\$'000) | 43,477 | 25,500 | 43,477 | 25,500 |

**55: US GAAP Reconciliation**

The consolidated financial statements of the Group are prepared in accordance with Generally Accepted Accounting Principles applicable in Australia (Australian GAAP) which differ in some respects from Generally Accepted Accounting Principles in the United States (US GAAP).

The following are reconciliations of the net profit, shareholders' equity and total assets, applying US GAAP instead of Australian GAAP.

|   | Note    | 2002<br>\$m | 2001<br>\$m | 2000<br>\$m |
|---|---------|-------------|-------------|-------------|
| <b>Net profit reported under Australian GAAP<sup>1</sup></b>  |         | 2,322       | 1,870       | 1,747       |
| <b>Items having the effect of increasing (decreasing) reported income (total tax impact of adjustments shown separately):</b> |         |             |             |             |
| Employee share issue and options  | (xviii) | (40)        | (49)        | (54)        |
| Depreciation charged on the difference between revaluation amount and historical cost of buildings                            | (i)     | 2           | 2           | 3           |
| Difference in gain or loss on disposal of properties revalued under historical cost   | (i)     | 5           | 17          | 168         |
| Revaluation of properties   | (i)     | –           | –           | (72)        |
| Deferred profit on sale and leaseback transactions over the lease term  | (iii)   | (9)         | –           | (80)        |
| Amortisation of goodwill not recognised for Australian GAAP   | (ii)    | (6)         | (28)        | (48)        |
| Amortisation of deferred profit on sale and leaseback transactions over the lease term  | (iii)   | 25          | 23          | 19          |
| Pension expense adjustment  | (vi)    | 18          | 20          | 8           |
| Provisions  | (xvi)   | –           | (361)       | 361         |
| Transition adjustment related to the initial application of SFAS 133  | (xv)    | –           | 11          | –           |
| Derivatives and hedging activities  | (xv)    | (17)        | 284         | –           |
| Adjustment on entering joint venture  | (xvii)  | (205)       | –           | –           |
| <b>Total tax impact of adjustments</b>  |         | 2           | 7           | (112)       |
| Net income according to US GAAP   |         | 2,097       | 1,796       | 1,940       |
| <b>Earnings per share (cents) according to US GAAP</b>  | (xiv)   |             |             |             |
| Basic   |         | 132.3       | 112.4       | 119.3       |
| Diluted   |         | 131.6       | 110.8       | 118.4       |
| <b>Adjustments to determine other comprehensive income for US GAAP</b>  |         |             |             |             |
| Net income according to US GAAP   |         | 2,097       | 1,796       | 1,940       |
| Currency translation adjustments (net of tax)   |         | (98)        | 197         | 170         |
| Unrealised profit (loss) on available for sale securities (net of tax)  | (ix)    | 3           | 15          | (23)        |
| Transition adjustment related to the initial application of SFAS 133 (net of tax)   | (xv)    | –           | (52)        | –           |
| Derivatives and hedging activities (net of tax)   | (xv)    | 60          | (66)        | –           |
| Total comprehensive income according to US GAAP   |         | 2,062       | 1,890       | 2,087       |

1 2000 after abnormal items

## Notes to the Financial Statements

### 55: US GAAP Reconciliation (continued)

|  | Note   | 2002<br>\$m | 2001<br>\$m | 2000<br>\$m |
|--|--------|-------------|-------------|-------------|
| <b>Shareholders' equity reported under Australian GAAP<sup>1</sup></b>   |        |             |             |             |
| Elimination of gross asset incremental revaluations                      | (i)    | 11,448      | 10,538      | 9,795       |
| Unrealised profit (loss) on available for sale securities                | (ix)   | (266)       | (287)       | (330)       |
| Adjustment to accumulated depreciation on buildings revalued             | (i)    | 3           | –           | (16)        |
| Restoration of previously deducted goodwill                              | (ii)   | 48          | 46          | 44          |
| Accumulated amortisation of goodwill                                     | (ii)   | 714         | 692         | 692         |
| Deferred profit on sale and leaseback transactions                       | (iii)  | (533)       | (505)       | (477)       |
| Provision for final cash dividend  | (iv)   | (14)        | (12)        | (12)        |
| Provisions   | (xvi)  | 681         | 583         | 514         |
| Pension expense adjustment   | (vi)   | –           | –           | 245         |
| Derivatives and hedging activities                                       | (xv)   | 88          | 75          | 62          |
| Adjustment on entering joint venture                                     | (xvii) | 173         | 77          | –           |
|  |        | (203)       | –           | –           |
| Shareholders' equity according to US GAAP                                |        | 12,139      | 11,207      | 10,517      |
| <b>Total assets reported under Australian GAAP</b>                       |        |             |             |             |
| Elimination of gross incremental revaluations                            | (i)    | 183,105     | 185,493     | 172,467     |
| Unrealised profit (loss) on available for sale securities                | (ix)   | (205)       | (210)       | (227)       |
| Adjustment to accumulated depreciation on buildings revalued             | (i)    | 3           | (1)         | (24)        |
| Restoration of previously deducted goodwill                              | (ii)   | 48          | 46          | 44          |
| Accumulated amortisation of goodwill                                     | (ii)   | 714         | 692         | 692         |
| Prepaid pension adjustment   | (vi)   | (533)       | (505)       | (477)       |
| Reclassification of deferred tax assets against deferred tax liabilities | (v)    | 67          | 58          | 45          |
| Revaluation of hedges  | (xv)   | (462)       | (552)       | (662)       |
| Adjustment to carrying value of the ING joint venture                    | (xvii) | 501         | 552         | –           |
|  |        | (203)       | –           | –           |
| Total assets according to US GAAP  |        | 183,035     | 185,573     | 171,858     |

<sup>1</sup> Excluding outside equity interests



**55: US GAAP Reconciliation (continued)****(i) Premises and equipment**

In accordance with Australian GAAP, the Group holds its properties at a deemed cost value (refer note 1). However in the past the Group at various times, has revalued properties, increasing the book value of these assets. Any increments on revaluation were credited directly to the Asset Revaluation Reserve (ARR), and decrements were debited to the ARR to the extent of any previous revaluation increments.

Decrements in excess of any previous revaluation increments were charged to the statement of financial performance. The ARR forms part of Shareholders' equity and is not available for future property writedowns while properties are measured at deemed cost.

Under US GAAP, upward revaluation of properties is not permitted except for decrements which are regarded as other than temporary. Any such decrements are recorded in the statement of financial performance. Subsequent recoveries to the statement of financial performance are not allowed.

The impact of previous revaluations under Australian GAAP is that depreciation charges are generally higher and profits on disposal are lower than those recorded under US GAAP. The depreciation charges, together with the profits and losses on revalued assets sold have been adjusted to historical cost in the US GAAP reconciliation.

**(ii) Goodwill**

The Group changed its accounting policy in respect of goodwill in the financial year ended 30 September 1993. Previously, goodwill on acquisition was charged in full to the Group's statement of financial performance in the year of acquisition.

Historically, under US GAAP, goodwill has been capitalised and amortised over the period of time during which the benefits are expected to arise, such period not exceeding 20 years. For goodwill acquired during the year ended 30 September 2002 and for all goodwill balances after 30 September 2002 a recoverable amount test will apply rather than systematic goodwill amortisation.

Adjustments have been made in the US GAAP reconciliation statement to restore goodwill written-off in full under Australian GAAP and to amortise such goodwill over the period of the expected benefits. Additionally, to the extent that periodic reviews of the carrying amount of goodwill lead to a write-down of goodwill previously capitalised for US purposes, this is adjusted in the US GAAP reconciliation.

In accordance with the revision of US GAAP rules dealing with goodwill, goodwill acquired during the year has not been amortised in the calculation of these adjustments as it is considered recoverable.

**(iii) Sale-leaseback transactions**

Under Australian GAAP for operating leases, gains on disposal under sale-leaseback transactions can be recognised in the period of sale. Under US GAAP, the gain is amortised over the remaining lease term. This difference in treatment has been adjusted in the US GAAP reconciliation.

**(iv) Dividends**

Under Australian GAAP, dividends are shown in the statement of financial performance in the period to which they relate rather than in the period when they are declared as required by US GAAP. This difference in treatment has been adjusted in the US GAAP shareholders' equity reconciliation.

**(v) Income taxes**

Under Australian GAAP, tax benefits relating to carry forward tax losses must be "virtually certain" of being realised before being booked. Realisations of benefits relating to other timing differences must be "beyond reasonable doubt" before they may be booked. These tests are more stringent than those applied under US GAAP. However no material adjustment to future tax benefits for US GAAP is required.

Australian GAAP allows offsetting of future income tax benefits and liabilities to the extent they will reverse in the same period.

Under US GAAP, deferred tax liabilities and deferred tax assets are offset and presented for each tax paying component of an enterprise and within each particular tax jurisdiction. The impact of the difference in this approach to Australian GAAP has been adjusted for in the US GAAP reconciliation for total assets.

**(vi) Pension commitments**

Under Australian GAAP, contributions in respect of defined benefit schemes are recorded in the income statement and are made at levels necessary to ensure that these schemes are maintained with sufficient assets to meet their actuarially assessed liabilities. Any net deficiency arising from the aggregation of assets and liabilities of the Group's defined benefit schemes is provided for in the Group's financial statements (refer note 49 in the Financial Statements).

Under US SFAS 87 "Employers' Accounting for Pensions" and the disclosure requirements of SFAS 132 "Employers' Disclosures about Pensions and Other Post Retirement Benefits", pension expense is a function of an employee's service period, interest costs, expected actuarial return on the schemes' assets, amortisation of net transition asset and recognised prior service cost. In addition, reconciliation between the accrued pension liability/prepaid asset and the funded status (difference between projected benefit obligation and fair value of pension plan assets) of the pension schemes is required.

**(vii) Post retirement and post employment benefits**

Post retirement and post employment benefits other than pension payments are not material and no adjustment is required in the US GAAP reconciliation.

**(viii) Trading securities**

US GAAP requires that in instances where trading securities are not bought and held principally for the purpose of selling them in the near term, they should be classified as available for sale and recorded at market value with unrealised profits and losses in respect of market value adjustments recognised as other comprehensive income in Shareholders' equity.

The residual emerging markets portfolio had been classified as available for sale with the market value write down taken through the statement of financial performance for both Australian GAAP and US GAAP purposes.

Except for the above no adjustment is required to be made in the US GAAP reconciliation as the effect of reclassifying certain trading securities as available for sale is not material.

**(ix) Investment Securities**

US GAAP requires that investments not classified as trading securities or as held to maturity securities shall be classified as available for sale securities and be recorded at market value in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". An adjustment is made in the US GAAP reconciliation to reflect available for sale securities which are carried at market value with unrealised profits and losses in respect of market value adjustments being reported as other comprehensive income in shareholders' equity.

**(x) Accounting for the impairment of loans**

SFAS 114 "Accounting by Creditors for Impairment of a Loan", as amended by SFAS 118 "Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures", requires the value of an impaired loan to be measured as the present value of future cash flows discounted at the loan's initial effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent.

There is no requirement under Australian GAAP to discount the expected future cash flows attributable to impaired loans in assessing the level of specific provision for doubtful debts.

No adjustment is required in the US GAAP reconciliation as the estimated fair value of impaired loans is not materially different from the carrying value.

**(xi) Accounting for the impairment of long lived assets and for long-lived assets to be disposed of**

SFAS 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of”, requires that where an event or a change in circumstance indicates that the carrying value of an asset that is expected to be held and used may not be recoverable, an impairment loss should be recognised. The standard also requires that where there is a committed plan to dispose of an asset, the asset should be reported at the lower of the carrying value or fair value less selling costs.

The Group has assessed the carrying values of all non-current assets and determined that they are not in excess of their recoverable amounts.

**(xii) Accounting for transfers and servicing of financial assets and extinguishments of liabilities**

SFAS 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” prescribes the accounting and disclosure requirements for transfers of financial assets and extinguishments of liabilities. Under certain circumstances, the statement also requires a transferor of financial assets that are pledged as collateral to reclassify those assets, and the transferee to recognise those assets and their obligation to return them.

No adjustment is required in the US GAAP reconciliation as the effect of adopting the provisions of SFAS 140 on total assets is not material. Refer to Note 40 in the Financial Statements for the required disclosures.

**(xiii) Comprehensive Income**

SFAS 130 “Reporting Comprehensive Income” establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is defined as all changes in shareholders’ equity during a period excluding those resulting from investments by shareholders and distributions to shareholders.

Accordingly, the Group has shown currency translation adjustments, unrealised profit on available for sale securities and certain SFAS 133 adjustments as components of other comprehensive income with net income according to US GAAP forming the remaining component of comprehensive income.

**(xiv) Earnings per share (“EPS”)**

Under US GAAP, EPS is computed in accordance with SFAS 128 “Earnings Per Share”. This standard is similar to Australian GAAP. One area of difference relates to the calculation of diluted EPS. Under US GAAP, assumed proceeds from potentially dilutive stock options are assumed to be used to repurchase outstanding shares at the average market price during the period.

**(xv) Accounting for derivative instruments and hedging activities**

The Group has adopted SFAS 133 “Accounting for Derivative Instruments and Hedging Activities” as amended by SFAS 138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities” in its US GAAP reconciliation from 1 October 2000. SFAS 133 requires all derivatives to be recognised on balance sheet at fair value. Movements in the fair value of derivatives are taken to the statement of financial performance, unless the derivatives meet the criteria prescribed in SFAS 133 for fair value, cash flow, or foreign currency hedges. If certain criteria are met derivatives can be designated as hedges. Under SFAS 133 normal banking hedging practices may not qualify for hedge accounting, notwithstanding their ability to hedge existing balance sheet positions from an economic perspective.

As a result future fair value movements recognised in US GAAP reconciliation may not be indicative of the Group’s risk profile. The Group uses instruments and hedging techniques that are effective in managing interest rate risk and foreign exchange risk.

Further information on the results of the Group’s hedging activities, and the effectiveness of the risk management policies, can be assessed better by considering the information provided on interest rate risk in note 36, and the information on hedging derivatives provided in note 39: Derivative Financial Instruments, of the Financial Report.

Under SFAS 133, movements in the value of derivatives designated as fair value hedges are taken to the statement of financial performance, along with the movement in the fair value of the underlying exposure that is being hedged to the extent the hedge is effective. These amounts largely offset each other with any ineffectiveness recognised in the US GAAP statement of financial performance. Movements in the effective portion of the fair value of derivatives designated as cash flow hedges are taken to other comprehensive income. Any ineffectiveness is recognised in US GAAP statement of financial performance immediately. Amounts are subsequently reclassified out of other comprehensive income into earnings as the hedged transaction impacts earnings.

The impact on adoption of SFAS 133 and SFAS 138 at 1 October 2000 was a transitional adjustment to increase US GAAP profit by \$11 million, and a transitional adjustment to decrease other comprehensive income by \$52 million. Changes in market conditions and the Group’s hedging policies may result in volatility in these US GAAP adjustments going forward.

**(xvi) Provisions**

At 30 September 2000, the Group recorded a provision for restructuring in accordance with Australian GAAP amounting to \$361 million before tax with an associated taxation credit of \$116 million. US GAAP requires certain criteria to be met before a restructuring provision is recognised. These criteria, which are more

detailed than the Australian recognition criteria, include public announcement of many details of the programs prior to balance date. Accordingly, the provision and associated taxation effect were recognised for US GAAP during the year ended 30 September 2001.

**(xvii) Gain and non-capitalisable costs recognised on entering joint venture**

In accordance with Australian GAAP the Group recognised a profit (net of transaction costs) based on the difference between fair value and carrying value of the share of businesses transferred to an external party on entering into a joint venture.

Under US GAAP the gain may not be recognised as it occurred as a result of a non-monetary transaction, which involved transferring ownership of controlled entities in exchange for a non-controlling ownership interest in the joint venture.

**(xviii) Accounting for stock - compensation plans**

Under Australian GAAP an expense is not recognised for share options issued to employees or for shares issued at a discount.

SFAS 123 “Accounting for Stock-Based Compensation” requires shares and options issued to employees to be recognised using either the fair value method or the intrinsic value method as prescribed by APB No. 25 and its related interpretations.

For US GAAP disclosure the Group measures share-based employee compensation cost using the intrinsic value based method. US GAAP compensation cost relating to share options is attributable to the impact of the increase in the market price of the Group’s shares on those share option plans defined as variable under APB 25.

Variable share option plans include all plans with performance conditions. The Group’s policy is to generally grant share options at the average market price of the underlying shares at the date of grant.

Share issues to employees under the ANZ Employee Share Acquisition Plan are recognised at intrinsic value under US GAAP.

If the fair value basis of accounting had been applied to account for compensation costs as stipulated in SFAS 123, the following profit after income tax and earnings per share would have appeared.

## 55: US GAAP Reconciliation (continued)

## (xviii) Accounting for stock-compensation plans (continued)

|                                       | 2002           | 2001         | 2000           |
|---------------------------------------|----------------|--------------|----------------|
|                                       | As<br>Reported | Pro<br>Forma | As<br>Reported |
| Net income according to US GAAP (\$m) | 2,097          | 2,093        | 1,970          |
| - Basic earnings per share (cents)    | 132.3          | 132.0        | 121.3          |
| - Diluted earnings per share (cents)  | 131.6          | 131.3        | 120.3          |

Details of the share-based compensation plans are included in Note 51 to the Financial Statements.

## (xix) Details of Pension Schemes and Pension Expense

Reconciliations of the funded status of major defined benefit schemes as at 30 June 2002 are summarised below.

Details of the funding of the schemes are set out in note 49.

|   | 2002<br>\$m | Australian Scheme<br>2001<br>\$m | 2000<br>\$m |
|---|-------------|----------------------------------|-------------|
| <b>Change in benefit obligation</b>   |             |                                  |             |
| Balance at start of year  | 54          | 54                               | 58          |
| Interest costs  | 3           | 3                                | 4           |
| Benefits paid   | (6)         | (6)                              | (7)         |
| Actuarial gains (losses)  | -           | 3                                | (1)         |
| Benefit obligation, 30 June   | 51          | 54                               | 54          |
| <b>Change in plan assets</b>  |             |                                  |             |
| Fair value at start of year   | 49          | 52                               | 53          |
| Actual return on plan assets  | -           | 3                                | 6           |
| Employer contribution   | -           | -                                | -           |
| Benefits paid   | (6)         | (6)                              | (7)         |
| Total fair value of plan assets, 30 June  | 43          | 49                               | 52          |
| Funded status   | (8)         | (5)                              | (2)         |
| Unrecognised net transition loss  | 2           | 3                                | 4           |
| Unrecognised net loss   | 10          | 7                                | 4           |
| Adjustment required to recognise minimum unfunded<br>projected benefit obligation     | (12)        | (10)                             | (8)         |
| <b>Net amount recognised</b>  | (8)         | (5)                              | (2)         |
| Amounts recognised in the consolidated statement of financial<br>position consist of: |             |                                  |             |
| Prepaid benefits costs  | -           | -                                | -           |
| Accrued benefit liabilities   | (8)         | (5)                              | (2)         |
| The assumptions used in the actuarial calculations are as follows:                    |             |                                  |             |
| Discount rate used in determining present values                                      |             |                                  |             |
| - pensioners  | 6.0%        | 6.0%                             | 6.5%        |
| Annual increase in future compensation levels   |             |                                  |             |
| - pensions  | 3%          | 3%                               | 3%          |
| Expected long-term rate of return on assets   | 7.5%        | 7.5%                             | 7.5%        |

## Notes to the Financial Statements

### 55: US GAAP Reconciliation (continued)

#### (xix) Details of Pension Schemes and Pension Expense (continued)

|  | 2002<br>\$m | UK Scheme<br>2001<br>\$m | 2000<br>\$m |
|--|-------------|--------------------------|-------------|
| <b>Change in benefit obligation</b>  |             |                          |             |
| Balance at start of year   | 1,038       | 923                      | 818         |
| Service cost   | 15          | 17                       | 9           |
| Interest cost  | 62          | 55                       | 24          |
| Plan amendment   | –           | –                        | –           |
| Benefits paid  | (62)        | (50)                     | (45)        |
| Actuarial gains (losses)   | 27          | (15)                     | 26          |
| Foreign currency exchange rate fluctuations  | (46)        | 108                      | 91          |
| Benefit obligation, 30 June  | 1,034       | 1,038                    | 923         |
| <b>Change in plan assets</b>   |             |                          |             |
| Fair value at start of year  | 1,152       | 1,120                    | 1,004       |
| Actual return on plan assets   | (69)        | (43)                     | 89          |
| Employer contribution  | (2)         | 2                        | 2           |
| Benefits paid  | (62)        | (50)                     | (45)        |
| Foreign currency exchange rate fluctuations  | (37)        | 123                      | 70          |
| Total fair value of plan assets, 30 June   | 982         | 1,152                    | 1,120       |
| Funded status  | (51)        | 114                      | 197         |
| Unrecognised net transition gain   | (19)        | (28)                     | (33)        |
| Unrecognised net gain  | 91          | (81)                     | (171)       |
| Unrecognised prior service cost  | 46          | 53                       | 52          |
| <b>Net amount recognised</b>   | <b>67</b>   | <b>58</b>                | <b>45</b>   |
| Amounts recognised in the consolidated statement of financial position consist of: |             |                          |             |
| Prepaid benefits costs   | 67          | 58                       | 45          |
| Accrued benefit liabilities  | –           | –                        | –           |
| The assumptions used in the actuarial calculations are as follows:                 |             |                          |             |
| Discount rate used in determining present values                                   |             |                          |             |
| – active members   | 5.75%       | 6.0%                     | 6.0%        |
| – pensioners   | 5.75%       | 6.0%                     | 6.0%        |
| Annual increase in future compensation levels                                      |             |                          |             |
| – salary   | 4.5%        | 4.75%                    | 4.75%       |
| – pensions   | 2.5%        | 2.9%                     | 2.9%        |
| Expected long-term rate of return on assets  | 6.75%       | 7.0%                     | 7.0%        |

The elements of the net periodic pension cost of the above schemes are as follows:

|                                    | 2002<br>\$m | 2001<br>\$m | 2000<br>\$m |
|------------------------------------|-------------|-------------|-------------|
| Service cost                       | 13          | 17          | 17          |
| Interest cost                      | 59          | 55          | 52          |
| Expected return on schemes' assets | (77)        | (74)        | (68)        |
| Amortisation net transition asset  | (7)         | (7)         | (6)         |
| Recognised prior service cost      | 4           | 4           | 4           |
| Net periodic pension cost          | (8)         | (5)         | (1)         |

The Group also sponsors defined contribution schemes. The Group's contributions to major defined contribution schemes amounted to \$80 million for the year (2001: \$83 million).

### 56: 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:

|                      | 2002    |         | 2001    |         | 2000    |         |
|----------------------|---------|---------|---------|---------|---------|---------|
|                      | Closing | Average | Closing | Average | Closing | Average |
| Great British pound  | 0.3477  | 0.3621  | 0.3331  | 0.3627  | 0.3720  | 0.3903  |
| United States dollar | 0.5441  | 0.5323  | 0.4903  | 0.5230  | 0.5444  | 0.6101  |
| New Zealand dollar   | 1.1585  | 1.2001  | 1.2127  | 1.2473  | 1.3324  | 1.2647  |

### 57: Events Since the End of the Financial Year

There have been no significant events since 30 September 2002 to the date of this report.

**Directors' Declaration**

The directors of Australia and New Zealand Banking Group Limited declare that the financial statements and notes of the Company and the consolidated entity:

- (a) are in accordance with the Corporations Act 2001, including:
  - (i) complying with applicable Australian Accounting Standards and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2002 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and
- (b) in the directors' opinion at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Company and some of its wholly owned controlled entities listed in note 48 executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418, dated 13 August 1998 issued by the Australian Securities and Investments Commission.

The nature of the Deed of Cross Guarantee is to guarantee 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 to which the class order applies, 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



**John Dahlsen**  
Director  
4 November 2002



**John McFarlane**  
Chief Executive Officer

## Auditors' Report

### Independent audit report to the members of Australia and New Zealand Banking Group Limited

#### Scope

We have audited the financial report of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2002, consisting of the statements of financial performance, statements of financial position, statements of changes in shareholders' equity, statements of cash flows, accompanying notes 1 to 57 and the directors' declaration set out on pages 2 to 77. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Auditing Standards of Australia and the United States of America to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

## Audit Opinion

In our opinion, the financial report of Australia and New Zealand Banking Group Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 September 2002 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the two sets of principles is presented in note 55 to the financial statements.

The application of the United States principles would have affected the determination of consolidated net profit for each of the three years in the period ended 30 September 2002 and the determination of the consolidated financial position as of 30 September 2002, 2001 and 2000 to the extent summarised in note 55 to the financial statements.



**KPMG**  
Chartered Accountants  
Melbourne  
4 November 2002



**Peter Nash**  
Partner



## Critical Accounting Policies

The Group prepares its consolidated financial statements in accordance with Australian Accounting Standards and other authoritative accounting pronouncements. However, notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments, which include complex or subjective decisions or assessments. The Group requires all such applications of judgement to be reviewed and agreed by Group Finance, and where the impact is material, the accounting treatment be reviewed during the audit process by the Group's external auditors. All material changes to accounting policy are approved by the Audit Committee of the Board.

### Historical changes

No change has been made to any of the critical accounting policies or their related methodologies over the last 3 years.

A brief discussion of critical accounting policies, and their impact on the Group, follows:

#### (a) Economic Loss Provisioning

##### Description and Significance

Each month the Group recognises an expense for credit losses based on the expected long term loss ratio for each part of the loan portfolio. The monthly charge is transferred to the General Provision which is maintained to cover losses inherent within the Group's existing loan portfolio.

The method used by the Group for determining this monthly expense charge is referred to as 'economic loss provisioning' (ELP). The Group uses ELP models to calculate the expected loss by considering:

- › the history of credit loss for each type and risk grade of lending; and
- › the size, composition and risk profile of the current loan portfolio.

##### Ongoing reviews

The Group regularly reviews the assumptions used in the ELP models. These reviews are conducted in recognition of the subjective nature of ELP methodology. Methodologies are updated as improved analysis becomes available. In addition, the robustness of outcomes is reviewed considering the Group's actual loss experience, and losses sustained by other banks operating in similar markets.

To the extent that credit losses are not consistent with previous loss patterns used to develop the assumptions within the ELP methodology, the existing General Provision may be determined to be either in excess of or insufficient to cover credit losses not yet specifically identified. As a result of the reassessments, ELP charge levels may be periodically increased or decreased with a direct impact on profitability.

As part of its review of the ELP model outputs, the Group also regularly evaluates the overall level of the General Provision. The Group is required, by APRA prudential standards, to have policies which cover the level of General Provisions that are needed to absorb estimated losses inherent in the credit portfolio. In some limited circumstances, the assessment of the inherent losses in the portfolio may require an additional charge to profits to ensure the adequacy of the General Provision. The Group considers it appropriate to maintain its General Provision in excess of the APRA guidelines.

##### Quantification of Sensitivity

For 2002, the balance of the General Provision of \$1,496 million (Sep 2001: \$1,386 million) represents 1.1% (Sep 2001: 1.0%) of risk weighted assets.

Specifically identified credit losses net of recoveries during the year were \$728 million (Sep 2001: \$520 million). During the same period, the average charge to profit for ELP was 0.43% of average net lending assets (Sep 2001: 0.38%).

During the year an additional provision for bad debts of \$250 million, identified as part of the regular review process, was added to the general provision to restore its balance to an appropriate level. Also, recognising the unexpected default experience on international exposures, an additional ELP charge of \$72 million has been recognised at the Group level.

#### (b) Specific Provisioning

##### Description and Significance

The Group maintains a specific provision for doubtful debts arising from its exposure to organisations and credit counterparties.

The Group's ELP provisioning methodology is used to estimate the extent of losses inherent within the loan book. Once a specific doubtful debt loss is identified as being probable, its value is transferred from the General Provision to the Specific Provision. Specific provisioning methodology applies when the full recovery of one of the Group's exposures is identified as being doubtful resulting in the creation of a specific provision equal to the full amount of the expected loss plus any enforcement/recovery expenses.

Recoveries resulting from excess specific provisions arising when actual losses are determined to be less than the amount provided for within the specific provision are transferred back to the General Provision.

## Critical Accounting Policies (continued)

### Quantification of Sensitivity

The recognition of losses has an impact on the size of the General Provision rather than directly impacting profit. However, to the extent that the General Provision is drawn down beyond a prudent amount it will be restored through a transfer from the current year's earnings. Recoveries of amounts previously specifically provided against are applied to the restoration of the General Provision balance. The amount of draw down from the General Provision to the Specific Provision, net of recoveries, during the year was \$728 million (Sep 2001: \$520 million).

### (c) Deferred acquisition costs, software assets and deferred income

#### Description and Significance

The Group recognises assets and liabilities that represent:

- › Capitalised expenses - direct costs from the acquisition of interest earning assets;
- › Software assets - direct costs incurred in developing software systems; and
- › Deferred income - liabilities representing income received in advance of services performed.

Capitalised expenses - Initially, expenses related to the acquisition of interest earning assets are recognised as part of the cost of acquiring the asset and written-off as an adjustment to its yield over its expected life. For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the asset portfolio, taking into account prepayments. Commissions paid to third party mortgage brokers are an example of expenditure that is deferred and amortised over the expected average life of a mortgage of 4 years.

Software assets - Costs incurred in acquiring and building software and computer systems are capitalised as fixed assets and expensed as depreciation over periods of between 3 and 5 years except for the branch front end applications where 7 years is used. The carrying value of these assets is subject to a 'recoverable amount test' to determine their value to the Group. If it is determined that the value of the asset is less than its 'book' value, the asset is written down to the recoverable amount. Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

Deferred income - Income received in advance of the Group's performance of services or in advance of having been earned, is initially recorded as a liability. Once the recognition criteria are met, it is then recognised as income.

#### Quantification of Sensitivity

Deferred acquisition costs - At 30 September, the Group's assets included \$289 million (Sep 2001: \$258 million) in relation to costs incurred in acquiring interest earning assets. During the year, amortisation of \$132 million (Sep 2001: \$121 million) was recognised as an adjustment to the yield earned on interest earning assets.

Software assets - At 30 September, the Group's fixed assets included \$419 million (Sep 2001: \$303 million) in relation to costs incurred in acquiring and developing software. During the year, depreciation expense of \$50 million (Sep 2001: \$22 million) was recognised and \$24 million (Sep 2001: \$14 million) was written off in relation to software assets. The software depreciation expense will increase going forward, as projects are completed following a period of above average project activity which has replaced significant parts of the Group's core infrastructure. The Group anticipates that software depreciation will exceed \$90 million in 2003. Consistent with US accounting rules on software capitalisation only costs incurred during configuration, coding and installation stages are capitalised. Administrative, preliminary project and post implementation costs including determining performance requirements, vendor selection and training costs are expensed as incurred.

Deferred income - At 30 September, the Group's liabilities included \$128 million (Sep 2001: \$131 million) in relation to income received in advance. This income is comprised of 2 components: (1) fees received for services not yet completed; and (2) profit made on an interest rate swap that was hedging future payments (years 2004 and forward) on the Group's preference shares. Under Australian Accounting Standards, this profit is deferred and recognised when the hedged transaction occurs, or immediately if the hedged transaction is no longer expected to occur. As the Group presently plans to retain the preference shares, recognition of the income from the hedging transaction is deferred.

The balances of deferred assets at 30 September were:

|                           | Deferred acquisition costs |             | Software Assets |             | Deferred Income |             |
|---------------------------|----------------------------|-------------|-----------------|-------------|-----------------|-------------|
|                           | 2002<br>\$m                | 2001<br>\$m | 2002<br>\$m     | 2001<br>\$m | 2002<br>\$m     | 2001<br>\$m |
| Personal Banking & Wealth | -                          | -           | 177             | 142         | -               | 1           |
| Corporate Businesses      | -                          | -           | 17              | 16          | 4               | 5           |
| Investment Banking        | 27                         | 39          | -               | -           | 11              | 11          |
| Consumer Finance          | -                          | -           | 45              | 30          | -               | -           |
| Mortgages                 | 73                         | 57          | 27              | 17          | -               | -           |
| Asset Finance             | 189                        | 162         | 29              | 31          | -               | 1           |
| Small to Medium Business  | -                          | -           | 6               | 3           | -               | -           |
| Other                     | -                          | -           | 118             | 64          | 113             | 113         |
| Total                     | 289                        | 258         | 419             | 303         | 128             | 131         |



**Critical Accounting Policies (continued)****(d) Derivatives and Hedging**

## Description and Significance

The Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, foreign exchange risk and equity risks (in the ING Australia joint venture). The derivative instruments used to hedge the Group's exposures include:

- > swaps;
- > forward rate agreements;
- > futures;
- > options; and
- > combinations of the above instruments.

Accounting treatment - In accordance with the requirements of Australian Accounting Standards, derivative instruments entered into for the purpose of hedging are accounted for on the same basis as the underlying exposures or risks.

Derivative instruments entered into to hedge exposures that are not recorded at fair value do not have their fair values recorded in the Group's Statement of Financial Position (in accordance with Australian Accounting Standards).

Exposures hedged by derivatives not recorded at their fair value include risks related to:

- > revenues from foreign operations;
- > structured lending transactions;
- > lending assets; and
- > funding liabilities.

Hedge accounting is only applied when the hedging relationship is identified at the time the Group enters into the hedging derivative transaction. If a hedge ceases to be effective, the hedging derivative transaction will be recognised at fair value. Gains and losses on derivative instruments not carried at their fair value amounts are recognised at the same time as the gain or loss on the hedged exposure is booked.

Movements in the value of foreign exchange contracts that are hedging overseas operations are not recognised as income or expenses. Instead these movements are recognised in the Foreign Currency Translation Reserve together with the net difference arising from the translation of the overseas operation.

Fair value determination - Derivatives entered into as part of the Group's trading operations are carried at their fair values with any change in fair value being immediately recognised as part of trading income. Where liquid markets exist, fair value is based on quoted market prices. For certain complex or illiquid derivative instruments, it may be necessary to use projections, estimates and models to determine fair value. In addition, judgemental factors such as the need for credit adjustments, liquidity and other valuation adjustments affect the reported fair value amounts of derivatives.

**(e) Special purpose and off balance sheet vehicles**

The Group may invest in or establish special purpose companies, or vehicles (SPVs), to enable it to undertake specific types of transactions. Where the Group controls such vehicles, they are consolidated into the Group financial results.

Certain SPVs may be set up by the Group to facilitate Group strategic aims, or to assist with structured transactions for clients. The accounting treatment of each SPV is assessed using existing Australian guidance, with reference also to International and US accounting standards where specific issues are yet to be addressed in Australia. The table below summarises the main types of SPVs that are not consolidated into the Group, the reason for their establishment, and the key risks associated with them.

| Type of Special Purpose Vehicle (SPV) | Reason for establishment   | Key Risks   | SPV Assets \$m |
|---------------------------------------|--|---|----------------|
| Securitisation vehicles               | Assets are transferred to a SPV, which funds the purchase by issuing securities.<br><br>Enables ANZ or customers to increase diversity of funding sources. | ANZ may manage securitisation vehicles, service assets in a vehicle and provide liquidity support, and retains the risks associated with the provision of these services. Credit and market risks associated with the underlying assets are not retained by ANZ. ANZ may also provide other services (eg. swaps, credit guarantees), for which ANZ earns a fee at commercial rates. | 6,992          |
| Structured finance entities           | These entities are set up to assist with the structuring of client financing.  | ANZ may retain liquidity risk, if it provides liquidity support to the vehicle. ANZ may also manage these vehicles.   | 1,968          |
| Managed funds                         | These funds invest in specified investments on behalf of clients.  | The ANZ/ING Australia joint venture, as manager of the funds, exposes ANZ to operational risk and reputational risk.  | 26,642         |

## 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 specific and general provisions.

|                             | Governments<br>and other<br>official institutions<br>\$m | Banks and<br>other financial<br>institutions<br>\$m | Other<br>commercial<br>and industrial<br>\$m | Total<br>\$m | % of<br>Group<br>assets |
|-----------------------------|--|---|--|--------------|-------------------------|
| <b>At 30 September 2002</b> |  |   |  |              |                         |
| United Kingdom              | 273  | 1,079   | 4,581  | 5,933        | 3.2                     |
| USA                         | 29   | 2,456   | 1,705  | 4,190        | 2.3                     |
| South Korea <sup>1</sup>    | 245  | 1,305   | 171  | 1,721        | 0.9                     |
| Singapore <sup>1</sup>      | 603  | 388   | 629  | 1,620        | 0.9                     |
| France                      | 358  | 349   | 890  | 1,597        | 0.9                     |
| Germany                     | 370  | 345   | 797  | 1,512        | 0.8                     |
| <b>At 30 September 2001</b> |  |   |  |              |                         |
| United Kingdom              | 394  | 2,238   | 3,976  | 6,608        | 3.6                     |
| USA                         | 31   | 3,981   | 2,355  | 6,367        | 3.4                     |
| Germany                     | 598  | 696   | 1,025  | 2,319        | 1.3                     |
| New Zealand                 | –  | 21  | 2,093  | 2,114        | 1.1                     |
| France                      | 252  | 193   | 1,613  | 2,058        | 1.1                     |
| Singapore <sup>1</sup>      | 476  | 369   | 951  | 1,796        | 1.0                     |
| South Korea <sup>1</sup>    | 1  | 1,120   | 428  | 1,549        | 0.8                     |

<sup>1</sup> Includes local lending in local currency

**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 2002.

|                         | Less than<br>3 months<br>\$m | Between<br>3 months and<br>6 months<br>\$m | Between<br>6 months and<br>12 months<br>\$m | After<br>1 year<br>\$m | Total<br>\$m |
|-------------------------|------------------------------|--|---|------------------------|--------------|
| <b>Australia</b>        |                              |  |   |                        |              |
| Certificates of deposit | 3,650                        | 528  | 350   | 812                    | 5,340        |
| Term deposits           | 11,886                       | 1,275                                      | 792   | 379                    | 14,332       |
|                         | 15,536                       | 1,803                                      | 1,142                                       | 1,191                  | 19,672       |
| <b>Overseas</b>         |                              |  |   |                        |              |
| Certificates of deposit | 4,098                        | 709  | 1,218                                       | 284                    | 6,309        |
| Term deposits           | 15,065                       | 961  | 689   | 346                    | 17,061       |
|                         | 19,163                       | 1,670                                      | 1,907                                       | 630                    | 23,370       |
| Total                   | 34,699                       | 3,473                                      | 3,049                                       | 1,821                  | 43,042       |

**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.

|                                       | 2002 over 2001 |                              |              | 2001 over 2000 |                              |              |
|---------------------------------------|----------------|------------------------------|--------------|----------------|------------------------------|--------------|
|                                       | Volume<br>\$m  | Change due to<br>Rate<br>\$m | Total<br>\$m | Volume<br>\$m  | Change due to<br>Rate<br>\$m | Total<br>\$m |
| <b>Interest earning assets</b>        |                |                              |              |                |                              |              |
| Due from other financial institutions |                |                              |              |                |                              |              |
| Australia                             | (10)           | (11)                         | (21)         | (15)           | –                            | (15)         |
| New Zealand                           | (1)            | (7)                          | (8)          | 14             | 1                            | 15           |
| Overseas markets                      | 4              | (68)                         | (64)         | (5)            | (24)                         | (29)         |
| Regulatory deposits with              |                |                              |              |                |                              |              |
| Reserve Bank of Australia             | –              | –                            | –            | –              | –                            | –            |
| Investments in public securities      |                |                              |              |                |                              |              |
| Australia                             | 45             | (40)                         | 5            | (21)           | (14)                         | (35)         |
| New Zealand                           | (23)           | (25)                         | (48)         | 39             | 4                            | 43           |
| Overseas markets                      | (4)            | (28)                         | (32)         | (54)           | (59)                         | (113)        |
| Loans, advances and bills discounted  |                |                              |              |                |                              |              |
| Australia                             | 414            | (835)                        | (421)        | 645            | (107)                        | 538          |
| New Zealand                           | 71             | (174)                        | (103)        | 53             | 45                           | 98           |
| Overseas markets                      | (55)           | (304)                        | (359)        | (156)          | (286)                        | (442)        |
| Other assets                          |                |                              |              |                |                              |              |
| Australia                             | (1)            | (80)                         | (81)         | (14)           | 14                           | –            |
| New Zealand                           | 15             | (1)                          | 14           | 8              | (20)                         | (12)         |
| Overseas markets                      | 34             | (131)                        | (97)         | (54)           | 13                           | (41)         |
| Intragroup assets                     |                |                              |              |                |                              |              |
| Overseas markets                      | (104)          | (221)                        | (325)        | 145            | (29)                         | 116          |
| Change in interest income             | 385            | (1,925)                      | (1,540)      | 585            | (462)                        | 123          |
| Intragroup elimination                | 104            | 221                          | 325          | (145)          | 29                           | (116)        |
|                                       | 489            | (1,704)                      | (1,215)      | 440            | (433)                        | 7            |

## Financial Information

### 3: Volume and Rate Analysis (continued)

|                                     | 2002 over 2001 |                              |              | 2001 over 2000 |                              |              |
|-------------------------------------|----------------|------------------------------|--------------|----------------|------------------------------|--------------|
|                                     | Volume<br>\$m  | Change due to<br>Rate<br>\$m | Total<br>\$m | Volume<br>\$m  | Change due to<br>Rate<br>\$m | Total<br>\$m |
| <b>Interest bearing liabilities</b> |                |                              |              |                |                              |              |
| Time deposits                       |                |                              |              |                |                              |              |
| Australia                           | 71             | (215)                        | (144)        | (299)          | (7)                          | (306)        |
| New Zealand                         | 29             | (92)                         | (63)         | 15             | 28                           | 43           |
| Overseas markets                    | 87             | (328)                        | (241)        | (117)          | (156)                        | (273)        |
| Savings deposits                    |                |                              |              |                |                              |              |
| Australia                           | 34             | (58)                         | (24)         | 12             | 10                           | 22           |
| New Zealand                         | 8              | (21)                         | (13)         | (2)            | 6                            | 4            |
| Overseas markets                    | 2              | (2)                          | –            | (29)           | (21)                         | (50)         |
| Other demand deposits               |                |                              |              |                |                              |              |
| Australia                           | 115            | (195)                        | (80)         | 148            | (57)                         | 91           |
| New Zealand                         | 13             | (17)                         | (4)          | 7              | 9                            | 16           |
| Overseas markets                    | (2)            | (7)                          | (9)          | (17)           | (15)                         | (32)         |
| Due to other financial institutions |                |                              |              |                |                              |              |
| Australia                           | 28             | (10)                         | 18           | 14             | 2                            | 16           |
| New Zealand                         | 1              | (4)                          | (3)          | –              | –                            | –            |
| Overseas markets                    | (122)          | (237)                        | (359)        | 70             | (73)                         | (3)          |
| Commercial paper                    |                |                              |              |                |                              |              |
| Australia                           | (72)           | (60)                         | (132)        | 1              | 2                            | 3            |
| Overseas markets                    | (71)           | (130)                        | (201)        | 121            | (27)                         | 94           |
| Borrowing corporations' debt        |                |                              |              |                |                              |              |
| Australia                           | (1)            | (48)                         | (49)         | 10             | 15                           | 25           |
| New Zealand                         | 9              | (9)                          | –            | 13             | 6                            | 19           |
| Loan capital, bonds and notes       |                |                              |              |                |                              |              |
| Australia                           | 171            | (148)                        | 23           | 220            | (41)                         | 179          |
| New Zealand                         | 3              | (2)                          | 1            | 6              | –                            | 6            |
| Overseas markets                    | (3)            | (17)                         | (20)         | 19             | (3)                          | 16           |
| Other liabilities                   |                |                              |              |                |                              |              |
| Australia                           | (47)           | 43                           | (4)          | 26             | 80                           | 106          |
| New Zealand                         | 12             | (74)                         | (62)         | (11)           | 15                           | 4            |
| Overseas markets                    | (12)           | (21)                         | (33)         | (95)           | 91                           | (4)          |
| Intragroup liabilities              |                |                              |              |                |                              |              |
| Australia                           | (75)           | (192)                        | (267)        | 151            | (42)                         | 109          |
| New Zealand                         | (29)           | (29)                         | (58)         | 2              | 5                            | 7            |
| Change in interest expense          | 149            | (1,873)                      | (1,724)      | 265            | (173)                        | 92           |
| Intragroup elimination              | 104            | 221                          | 325          | (153)          | 37                           | (116)        |
|                                     | 253            | (1,652)                      | (1,399)      | 112            | (136)                        | (24)         |
| Change in net interest income       | 236            | (52)                         | 184          | 328            | (297)                        | 31           |

## Financial Information

## 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.

|   | 2002                                   |                           | 2001                                   |                           | 2000                                   |                           |
|---|--|---------------------------|--|---------------------------|--|---------------------------|
|   | Loans and advances <sup>1</sup><br>\$m | Specific provision<br>\$m | Loans and advances <sup>1</sup><br>\$m | Specific provision<br>\$m | Loans and advances <sup>1</sup><br>\$m | Specific provision<br>\$m |
| <b>Australia</b>                          |  |                           |  |                           |  |                           |
| Agriculture, forestry, fishing and mining | 3,436                                  | 16                        | 3,500                                  | 104                       | 4,157                                  | 34                        |
| Business service                          | 2,120                                  | 5                         | 2,044                                  | 7                         | 2,206                                  | 6                         |
| Entertainment, leisure and tourism        | 2,465                                  | 28                        | 2,293                                  | 27                        | 2,062                                  | 4                         |
| Financial, investment and insurance       | 4,603                                  | 13                        | 4,311                                  | 3                         | 5,532                                  | 1                         |
| Government and official institutions      | 67                                     | –                         | 122                                    | –                         | 103                                    | –                         |
| Lease finance                             | 2,503                                  | 2                         | 2,524                                  | 5                         | 2,821                                  | 8                         |
| Manufacturing                             | 4,303                                  | 7                         | 4,034                                  | 11                        | 4,236                                  | 19                        |
| Personal <sup>2</sup>                     | 14,893                                 | 27                        | 13,435                                 | 36                        | 12,728                                 | 131                       |
| Real estate – construction                | 1,152                                  | 5                         | 1,198                                  | 11                        | 1,376                                  | 7                         |
| Real estate – mortgage <sup>3</sup>       | 57,049                                 | 32                        | 49,127                                 | 13                        | 43,912                                 | 9                         |
| Retail and wholesale trade                | 5,957                                  | 15                        | 6,017                                  | 16                        | 5,691                                  | 24                        |
| Other                                     | 3,990                                  | 61                        | 3,850                                  | 70                        | 4,196                                  | 17                        |
|   | 102,538                                | 211                       | 92,455                                 | 303                       | 89,020                                 | 260                       |
| <b>Overseas</b>                           |  |                           |  |                           |  |                           |
| Agriculture, forestry, fishing and mining | 2,526                                  | 3                         | 2,686                                  | 8                         | 2,429                                  | 12                        |
| Business service                          | 435                                    | 1                         | 214                                    | 1                         | 274                                    | 1                         |
| Entertainment, leisure and tourism        | 586                                    | 4                         | 361                                    | 1                         | 505                                    | 6                         |
| Financial, investment and insurance       | 1,561                                  | 21                        | 2,276                                  | 26                        | 1,952                                  | 128                       |
| Government and official institutions      | 212                                    | –                         | 372                                    | 27                        | 627                                    | 25                        |
| Lease finance                             | 844                                    | 1                         | 936                                    | 4                         | 504                                    | –                         |
| Manufacturing                             | 4,701                                  | 34                        | 5,153                                  | 30                        | 4,781                                  | 118                       |
| Personal <sup>2</sup>                     | 1,848                                  | 7                         | 1,804                                  | 18                        | 1,876                                  | 16                        |
| Real estate – construction                | 551                                    | 1                         | 921                                    | 9                         | 820                                    | 36                        |
| Real estate – mortgage <sup>3</sup>       | 11,956                                 | 5                         | 11,638                                 | 12                        | 10,628                                 | 16                        |
| Retail and wholesale trade                | 1,648                                  | 15                        | 2,021                                  | 18                        | 1,950                                  | 35                        |
| Other                                     | 5,943                                  | 282                       | 5,853                                  | 43                        | 4,266                                  | 56                        |
|   | 32,811                                 | 374                       | 34,235                                 | 197                       | 30,612                                 | 449                       |
| <b>Total portfolio</b>                    | <b>135,349</b>                         | <b>585</b>                | <b>126,690</b>                         | <b>500</b>                | <b>119,632</b>                         | <b>709</b>                |

1 Loans and advances exclude acceptances

2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances

3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

## Financial Information

### 4: Concentrations of Credit Risk (continued)

|   | 1999                      |                           | 1998                                   |                           |
|---|---------------------------|---------------------------|--|---------------------------|
|   | Loans and advances<br>\$m | Specific provision<br>\$m | Loans and advances <sup>1</sup><br>\$m | Specific provision<br>\$m |
| <b>Australia</b>                          |                           |                           |  |                           |
| Agriculture, forestry, fishing and mining | 4,288                     | 12                        | 3,648                                  | 11                        |
| Business service                          | 1,717                     | 5                         | 2,632                                  | 3                         |
| Entertainment, leisure and tourism        | 2,007                     | 25                        | 1,952                                  | 19                        |
| Financial, investment and insurance       | 4,438                     | 5                         | 4,501                                  | 3                         |
| Government and official institutions      | 106                       | –                         | 63                                     | –                         |
| Lease finance                             | 3,585                     | 5                         | 3,505                                  | 4                         |
| Manufacturing                             | 3,815                     | 19                        | 2,586                                  | 24                        |
| Personal <sup>2</sup>                     | 9,280                     | 94                        | 7,112                                  | 96                        |
| Real estate – construction                | 1,376                     | 6                         | 1,293                                  | 6                         |
| Real estate – mortgage <sup>3</sup>       | 35,862                    | 48                        | 28,924                                 | 64                        |
| Retail and wholesale trade                | 4,946                     | 23                        | 4,860                                  | 19                        |
| Other                                     | 3,835                     | 39                        | 3,599                                  | 48                        |
|   | 75,255                    | 281                       | 64,675                                 | 297                       |
| <b>Overseas</b>                           |                           |                           |  |                           |
| Agriculture, forestry, fishing and mining | 2,131                     | 17                        | 2,118                                  | 27                        |
| Business service                          | 550                       | 7                         | 536                                    | 8                         |
| Entertainment, leisure and tourism        | 665                       | 4                         | 657                                    | 3                         |
| Financial, investment and insurance       | 2,214                     | 156                       | 2,843                                  | 66                        |
| Government and official institutions      | 750                       | –                         | 821                                    | 30                        |
| Lease finance                             | 405                       | 1                         | 115                                    | –                         |
| Manufacturing                             | 6,493                     | 213                       | 6,733                                  | 193                       |
| Personal <sup>2</sup>                     | 2,304                     | 35                        | 3,509                                  | 20                        |
| Real estate – construction                | 753                       | 32                        | 799                                    | 41                        |
| Real estate – mortgage <sup>3</sup>       | 9,645                     | 25                        | 8,825                                  | 19                        |
| Retail and wholesale trade                | 2,010                     | 72                        | 2,180                                  | 37                        |
| Other                                     | 4,376                     | 64                        | 4,100                                  | 78                        |
|   | 32,296                    | 626                       | 33,236                                 | 522                       |
| <b>Total portfolio</b>                    | <b>107,551</b>            | <b>907</b>                | <b>97,911</b>                          | <b>819</b>                |

1 Loans and advances exclude acceptances

2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances

3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

## 5: Doubtful Debts – Industry Analysis

|  | 2002<br>\$m  | 2001<br>\$m  | 2000<br>\$m  | 1999<br>\$m  | 1998<br>\$m  |
|--|--------------|--------------|--------------|--------------|--------------|
| Balance at start of year                                 | 1,886        | 2,082        | 2,302        | 2,220        | 1,883        |
| Adjustment for exchange rate fluctuations                | (28)         | 32           | 37           | (79)         | 34           |
| Bad debts written off (refer (i) below)                  | (697)        | (834)        | (539)        | (382)        | (221)        |
| Charge to statement of financial performance             | 860          | 531          | 502          | 510          | 487          |
| Recoveries (refer (ii) below)                            | 60           | 75           | 46           | 33           | 37           |
| Other <sup>1</sup>                                       | –            | –            | (266)        | –            | –            |
| <b>Total provisions for doubtful debts</b>               | <b>2,081</b> | <b>1,886</b> | <b>2,082</b> | <b>2,302</b> | <b>2,220</b> |
| <b>(i) Total write-offs by industry</b>                  |              |              |              |              |              |
| <b>Australia</b>   |              |              |              |              |              |
| Agriculture, forestry, fishing and mining                | (72)         | (14)         | (12)         | (6)          | (4)          |
| Business service   | (8)          | (6)          | (5)          | (4)          | (4)          |
| Entertainment, leisure and tourism                       | (4)          | (5)          | (10)         | (3)          | (3)          |
| Financial, investment and insurance                      | (8)          | (7)          | (3)          | (28)         | (3)          |
| Lease finance  | (7)          | (11)         | (9)          | (5)          | (5)          |
| Manufacturing  | (17)         | (22)         | (11)         | (18)         | (11)         |
| Personal <sup>2</sup>                                    | (237)        | (292)        | (133)        | (67)         | (81)         |
| Real estate – construction                               | (12)         | (13)         | (5)          | (8)          | (5)          |
| Real estate – mortgage <sup>3</sup>                      | (19)         | (13)         | (51)         | (16)         | (40)         |
| Retail and wholesale trade                               | (47)         | (97)         | (28)         | (19)         | (14)         |
| Other  | (37)         | (28)         | (8)          | (48)         | (4)          |
| <b>Overseas</b>  |              |              |              |              |              |
| Other  | (229)        | (326)        | (264)        | (160)        | (47)         |
| <b>Total write-offs</b>                                  | <b>(697)</b> | <b>(834)</b> | <b>(539)</b> | <b>(382)</b> | <b>(221)</b> |
| <b>(ii) Total recoveries by industry</b>                 |              |              |              |              |              |
| <b>Australia</b>   |              |              |              |              |              |
| Agriculture, forestry, fishing and mining                | 3            | 5            | 4            | –            | –            |
| Business service   | 1            | 1            | –            | –            | 3            |
| Entertainment, leisure and tourism                       | 2            | 1            | 1            | –            | 1            |
| Financial, investment and insurance                      | –            | 2            | 4            | 3            | 1            |
| Lease finance  | 2            | 1            | 2            | 2            | 3            |
| Manufacturing  | 3            | 2            | 5            | 1            | 4            |
| Personal <sup>2</sup>                                    | 27           | 30           | 9            | 8            | 10           |
| Real estate – construction                               | 2            | 1            | 1            | –            | 1            |
| Real estate – mortgage <sup>3</sup>                      | 4            | 3            | 4            | 1            | 2            |
| Retail and wholesale trade                               | 3            | 2            | 2            | –            | 1            |
| Other  | 1            | 1            | 2            | 2            | 1            |
| <b>Overseas</b>  |              |              |              |              |              |
| Other  | 12           | 26           | 12           | 16           | 10           |
| <b>Total recoveries</b>                                  | <b>60</b>    | <b>75</b>    | <b>46</b>    | <b>33</b>    | <b>37</b>    |
| Net write-offs   | (637)        | (759)        | (493)        | (349)        | (184)        |
| Ratio of net write-offs to average loans and acceptances | 0.4%         | 0.5%         | 0.4%         | 0.3%         | 0.2%         |

1 2000 includes \$266 million reduction from the sale of Grindlays

2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances

3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

## Financial Information

### 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, where it issues paper through ANZ (Delaware) Inc., and in Europe and Asia, where the Group issues paper direct.

|  | 2002<br>\$m | 2001<br>\$m | 2000<br>\$m |
|--|-------------|-------------|-------------|
| <b>Balance at end of year</b>                                  |             |             |             |
| Commercial paper – ANZ (Delaware) Inc.                         | 1,654       | 4,059       | 4,416       |
| Commercial paper – other                                       | 3,963       | 5,043       | 6,098       |
| Unsecured notes  | 12          | 28          | 98          |
| <b>Weighted average interest rate at end of year</b>           |             |             |             |
| Commercial paper – ANZ (Delaware) Inc.                         | 1.85%       | 4.67%       | 6.50%       |
| Commercial paper – other                                       | 4.92%       | 3.78%       | 6.20%       |
| Unsecured notes  | 6.22%       | 5.69%       | 5.57%       |
| <b>Maximum amount outstanding at any month end during year</b> |             |             |             |
| Commercial paper – ANZ (Delaware) Inc.                         | 5,541       | 7,096       | 5,503       |
| Commercial paper – other                                       | 5,647       | 7,193       | 6,209       |
| Unsecured notes  | 29          | 99          | 742         |
| <b>Average amount outstanding during year</b>                  |             |             |             |
| Commercial paper – ANZ (Delaware) Inc.                         | 3,641       | 5,408       | 3,079       |
| Commercial paper – other                                       | 3,888       | 5,275       | 5,256       |
| Unsecured notes  | 14          | 53          | 504         |
| <b>Weighted average interest rate during year</b>              |             |             |             |
| Commercial paper – ANZ (Delaware) Inc.                         | 2.00%       | 5.07%       | 5.84%       |
| Commercial paper – other                                       | 4.57%       | 5.87%       | 5.83%       |
| Unsecured notes  | 5.54%       | 5.73%       | 4.86%       |



**Asset Finance** operating under the Esanda and UDC brands, ANZ Asset Finance provides secured financing for motor vehicles and other assets, fleet management and vendor financing facilities, and fixed interest securities through the issue of debentures.

**Consumer Finance** provides consumer and commercial credit cards, ePayment products, personal loans, and merchant payment facilities in Australia, New Zealand and selected overseas markets.

**Corporate Banking** provides financial products and develops product strategies for medium sized businesses (turnover \$10 million to \$100 million) in Australasia.

**Economic loss provisioning (ELP)** charge is determined based on the expected average annual loss of principal over the economic cycle for the current risk profile of the lending portfolio.

**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.

**Impaired assets** are loans or other credit facilities 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.

**Investment Banking** comprises Global Foreign Exchange, Global Capital Markets, Global Structured Finance and Corporate Financing & Advisory.

**Mortgages** provision of mortgage finance secured by residential real estate in Australia and New Zealand.

**Net advances** include gross loans and advances, acceptances and ANZ accepted bills held as part of trading securities less income yet to mature and specific provisions (for both as at and average volumes).

**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**, referred to in the analysis of interest spread and net interest average margin, includes shareholders' equity, provisions for doubtful debts, and deposits not bearing interest and other liabilities not bearing interest, offset by premises and equipment and other non-interest earning assets. Non-accrual loans are included within interest bearing loans, advances and bills discounted.

**Net specific provision** is the transfer from the general provision to the specific provision (representing new and increased specific provisions less specific provision releases) less recoveries.

**Operating expenses** exclude charge for doubtful debts.

**Operations, Technology & Shared Services** comprises technology and payments operations, central support units and costs relating to hedging overseas revenue and capital positions. Also includes the residual results of discontinued businesses.

**Overseas** geographic segment includes the results of all operations outside Australia and New Zealand.

**Overseas markets** includes the results of operations in the UK and Europe, Asia, Pacific and Americas. The Group's geographic segments are Australia, New Zealand and Overseas markets.

**Personal Banking and Wealth** comprises Personal Banking Australia, New Zealand and Pacific Asia and Wealth Management and the INGA joint venture. Personal Banking Australia provides a full range of banking services for personal and rural small business customers in Australia through branches, call centres and on line banking. Personal Banking New Zealand provides a full range of banking and wealth management services for consumers across New Zealand. Personal Banking Pacific Asia provides retail banking services in the Pacific Region and Asia, including ANZ's share of PT Panin Bank in Indonesia. Wealth Management delivers comprehensive financial advisory and distribution services to high net worth customers in Australia covering investment, risk, lending and banking. ING Australia, the joint venture between ANZ and the ING Group, provides integrated manufacture and distribution of wealth creation, management and protection products and services aligned to ANZ distribution and the open market.

**Service transfer pricing** is in use throughout the Group, whereby business and support units recover the cost of services provided to other units. The basis of pricing for internal services varies from cost recovery, to market equivalent. There are some head office costs which are not recharged.

**Small to Medium Business** provides a full range of banking services for metropolitan based small to medium business in Australia and New Zealand with turnover up to \$10 million.

**Total advances** include gross loans and advances, acceptances and ANZ accepted bills held as part of trading securities less income yet to mature (for both as at and average volumes).

**Group Treasury** is the banker to all ANZ businesses. Charged with providing cash flow support, ensuring liquidity, managing interest rate risk and providing capital to the businesses.

**Unproductive facilities** comprises standby letters of credit, bill endorsements, documentary letters of credit and guarantees to third parties, undrawn facilities to which the Group is irrevocably committed and market related exposures.

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Australia and New Zealand Banking Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Australia and New Zealand Banking Group Limited  
Level 6, 100 Queen Street Melbourne,  
Victoria 3000 Australia

The principal activities of the Group during the year were general banking, mortgage lending, life insurance, leasing, hire purchase and general finance, international and investment banking, investment and portfolio management and advisory services, nominee and custodian services and executor and trustee services.

The number of employees (full time equivalents) as at 30 September 2002 was 22,482.

