

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED**  
**ABN 11 005 357 522**  
**CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT**  
**Year Ended 30 September 2000**

| <b>CONTENTS</b>   | <b>PAGE</b> |
|---|-------------|
| HIGHLIGHTS  | 1           |
| FINANCIAL HIGHLIGHTS                                    |             |
| PROFIT AND LOSS   | 2           |
| PERFORMANCE MEASUREMENTS                                | 3           |
| BALANCE SHEET   | 3           |
| ASSETS AND CAPITAL                                      | 4           |
| CHIEF FINANCIAL OFFICER'S REVIEW                        |             |
| OVERVIEW  | 5           |
| BUSINESS SEGMENTS                                       | 7           |
| GEOGRAPHIC SEGMENTS                                     | 17          |
| FIVE YEAR SUMMARY                                       | 21          |
| FINANCIAL STATEMENTS                                    | 22          |
| SUPPLEMENTARY FINANCIAL INFORMATION (Country Exposures) | 61          |
| DEFINITIONS   | 63          |
| ALPHABETICAL INDEX                                      | 65          |

All amounts are in Australian dollars unless otherwise stated. The information on which this announcement is based has been audited by the Group's auditors, KPMG. The Company has a formally constituted Audit Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 26 October 2000.

**Australia and New Zealand  
Banking Group Limited**

*ABN 11 005 357 522*

**Consolidated Financial Statements  
And  
Dividend Announcement**

**Year Ended  
30 September 2000**



## HIGHLIGHTS

### Operating result excluding abnormals

- Operating profit before abnormals, after tax \$1,703 million up 15% (\$1,480 million)
- Final dividend 35 cents per share, up 5 cents, fully franked
- Earnings per ordinary share up 15% to 103.9 cents, from 90.6 cents
- Asset growth of 20% in Personal Financial Services and 10% in Corporate Financial Services
- Return on ordinary shareholders' equity 18.3% (17.2%)
- Interest margins down from 3.05% to 2.87%
- Non interest income up to \$2,583 million (\$2,377 million)
- Cost income ratio down to 51.7% (54.5%)
- Operating expenses steady at \$3,314 million (\$3,300 million)
- Exposure to high risk countries reduced by US\$4.6 billion to US\$4.8 billion

*Comparatives are September 1999*

### Abnormals including sale of Grindlays businesses

- Profit on sale of Grindlays \$404 million
- Restructuring provision for eTransformation as part of new Specialist Business strategy \$245 million after tax
- Panin investment write down \$81 million
- Other items net \$34 million loss

### Operating result including abnormals

- Operating profit after tax and abnormals \$1,747 million
- Earnings per ordinary share 106.8 cents
- Return on ordinary shareholders' equity 18.8%

## FINANCIAL HIGHLIGHTS

### PROFIT & LOSS

|  | 2000         | 1999         | Movt       |
|--|--------------|--------------|------------|
|  | \$M          | \$M          | %          |
| Net interest income  | 3,801        | 3,655        | 4%         |
| Other operating income   | 2,583        | 2,377        | 9%         |
| Operating income   | 6,384        | 6,032        | 6%         |
| Operating expenses   | (3,314)      | (3,300)      | -          |
| Operating profit before debt provision                         | 3,070        | 2,732        | 12%        |
| Provision for doubtful debts                                   | (502)        | (510)        | -2%        |
| <b>Operating profit before income tax and abnormal items</b>   | <b>2,568</b> | <b>2,222</b> | <b>16%</b> |
| Income tax expense   | (863)        | (736)        | 17%        |
| Outside equity interests                                       | (2)          | (6)          | -67%       |
| <b>Operating profit after income tax before abnormal items</b> | <b>1,703</b> | <b>1,480</b> | <b>15%</b> |
| Abnormal items   |              |              |            |
| Abnormal profit  | 221          | -            | n/a        |
| Abnormal tax   | (177)        | -            | n/a        |
| Net abnormal profit  | 44           | -            | n/a        |
| <b>Operating profit after income tax</b>                       | <b>1,747</b> | <b>1,480</b> | <b>18%</b> |

### CONTINUING/DISCONTINUED OPERATIONS

|   |              |              |            |
|---|--------------|--------------|------------|
| <b>Operating profit after income tax</b>  |              |              |            |
| Continuing operations excluding abnormals | 1,594        | 1,365        | 17%        |
| Abnormals                                 | 44           | -            | n/a        |
| Operations of sold businesses             | 109          | 115          | -5%        |
|   | <b>1,747</b> | <b>1,480</b> | <b>18%</b> |



## FINANCIAL HIGHLIGHTS (continued)

### PERFORMANCE MEASUREMENTS

|  | 2000<br>Excluding<br>Abnormals | 2000<br>Including<br>Abnormals | 1999<br>Nil<br>Abnormals |
|--|--------------------------------|--------------------------------|--------------------------|
| <b>Profitability ratios</b>                        |                                |                                |                          |
| Return on:   |                                |                                |                          |
| Average ordinary shareholders' equity <sup>1</sup> | 18.3%                          | 18.8%                          | 17.2%                    |
| Average assets                                     | 1.03%                          | 1.05%                          | 0.97%                    |
| Average risk weighted assets                       | 1.36%                          | 1.39%                          | 1.26%                    |
| Total income                                       | 12.5%                          | 11.7%                          | 12.7%                    |
| Net interest average margin                        | 2.87%                          | 2.87%                          | 3.05%                    |
| <b>Efficiency ratios<sup>2</sup></b>               |                                |                                |                          |
| Operating expenses to operating income             | 51.7%                          | 56.5%                          | 54.5%                    |
| Operating expenses to average assets               | 2.0%                           | 2.6%                           | 2.2%                     |
| <b>Debt provisioning</b>                           |                                |                                |                          |
| Economic loss provisioning (\$M)                   | 502                            | 502                            | 510                      |
| Net specific provisions (\$M)                      | 383                            | 383                            | 482                      |
| <b>Earnings per ordinary share (cents)</b>         |                                |                                |                          |
| Earnings per ordinary share (basic)                | 103.9                          | 106.8                          | 90.6                     |
| Earnings per ordinary share (diluted)              | 103.5                          | 106.3                          | 90.3                     |
| <b>Ordinary share dividends (cents)</b>            |                                |                                |                          |
| Interim - 100% franked at 34% (1999: 75% franked)  | 29                             | 29                             | 26                       |
| Final - 100% franked at 34% (1999: 80% franked)    | 35                             | 35                             | 30                       |
| Dividend payout ratio                              | 60.8%                          | 59.1%                          | 62.1%                    |
| <b>Preference share dividend</b>                   |                                |                                |                          |
| Dividend paid (\$M)                                | 102                            | 102                            | 72                       |

<sup>1</sup> Ordinary shareholders' equity excluding outside equity interests

<sup>2</sup> Exclude goodwill amortisation

### BALANCE SHEET

|  | 2000<br>\$M    | 1999<br>\$M    | Movt<br>%  |
|--|----------------|----------------|------------|
| <b>Assets</b>  |                |                |            |
| Liquid assets  | 5,648          | 5,283          | 7%         |
| Due from other financial institutions                          | 5,822          | 3,472          | 68%        |
| Trading and investment securities                              | 7,132          | 8,954          | -20%       |
| Net loans and advances including acceptances                   | 131,797        | 118,921        | 11%        |
| Other  | 22,068         | 16,171         | 36%        |
| <b>Total assets</b>  | <b>172,467</b> | <b>152,801</b> | <b>13%</b> |
| <b>Liabilities</b>   |                |                |            |
| Due to other financial institutions                            | 12,247         | 9,001          | 36%        |
| Deposits and other borrowings                                  | 100,602        | 96,559         | 4%         |
| Liability for acceptances                                      | 15,482         | 14,858         | 4%         |
| Other  | 34,329         | 22,954         | 50%        |
| <b>Total liabilities</b>                                       | <b>162,660</b> | <b>143,372</b> | <b>13%</b> |
| <b>Total shareholders' equity and outside equity interests</b> | <b>9,807</b>   | <b>9,429</b>   | <b>4%</b>  |

## FINANCIAL HIGHLIGHTS (continued)

### ASSETS AND CAPITAL

|   | 2000           | 1999    | Movt<br>% |
|---|----------------|---------|-----------|
| <b>Total assets (\$M)</b>   | <b>172,467</b> | 152,801 | 13%       |
| <b>Risk weighted assets (\$M)</b>                                 | <b>129,688</b> | 118,037 | 10%       |
| <b>Shareholders' equity<sup>1,2</sup> (\$M)</b>                   | <b>9,795</b>   | 9,403   | 4%        |
| Total advances (\$M)  | <b>134,887</b> | 122,453 | 10%       |
| Specific provisions (\$M)   | <b>(709)</b>   | (907)   | -22%      |
| <b>Net advances (\$M)</b>   | <b>134,178</b> | 121,546 | 10%       |
| <b>Net tangible assets per ordinary share (\$)</b>                | <b>5.49</b>    | 5.21    | 5%        |
| Net tangible assets attributable to ordinary shareholders (\$M)   | <b>8,276</b>   | 8,149   | 2%        |
| Total number of ordinary shares (M)                               | <b>1,506.2</b> | 1,565.4 | -4%       |
| <b>Capital adequacy ratio (%)</b>                                 |                |         |           |
| - Inner Tier 1  | <b>6.4%</b>    | 6.9%    | n/a       |
| - Tier 1  | <b>7.4%</b>    | 7.9%    | n/a       |
| - Tier 2  | <b>3.4%</b>    | 3.3%    | n/a       |
| - Total   | <b>10.2%</b>   | 10.7%   | n/a       |
| <b>General provision (\$M)</b>                                    | <b>1,373</b>   | 1,395   | -2%       |
| General provision as a % of risk weighted assets                  | <b>1.1%</b>    | 1.2%    | n/a       |
| <b>Non-accrual loans (\$M)</b>                                    |                |         |           |
| Non-accrual loans   | <b>1,391</b>   | 1,543   | -10%      |
| Specific provisions   | <b>(692)</b>   | (886)   | -22%      |
| Net non-accrual loans   | <b>699</b>     | 657     | 6%        |
| Specific provision as a % of total non-accrual loans              | <b>49.7%</b>   | 57.4%   | n/a       |
| Net non-accrual loans as a % of net advances                      | <b>0.5%</b>    | 0.5%    | n/a       |
| Net non-accrual loans as a % of shareholders' equity <sup>3</sup> | <b>7.1%</b>    | 7.0%    | n/a       |
| <b>Other information</b>  |                |         |           |
| Full time equivalent staff (FTE's)                                | <b>23,134</b>  | 30,171  | -23%      |
| Profit per average FTE (\$)                                       | <b>62,783</b>  | 47,586  | 32%       |
| Assets per FTE (\$M)  | <b>7.5</b>     | 5.1     | 47%       |
| <b>Market capitalisation of ordinary shares (\$M)</b>             | <b>20,002</b>  | 16,045  | 25%       |

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

<sup>2</sup> Includes preference share capital of \$1,374 million (Sep 99: \$1,145 million)

<sup>3</sup> Includes outside equity interests

## CHIEF FINANCIAL OFFICER'S REVIEW

### OVERVIEW

Australia and New Zealand Banking Group Limited (ANZ) recorded a profit from operations of \$1,703 million for the year ended 30 September 2000. This excludes the net positive impact of \$44 million from abnormals and compares to a result for the year to September 1999 of \$1,480 million. Excluding abnormals, earnings per ordinary share were 103.9 cents, up 15% from 90.6 cents in September 1999. The return on ordinary shareholders' equity was 18.3% (September 1999 was 17.2%).

The second half profit before abnormals of \$885 million is an increase of 8% on the first half, and demonstrates the continuing growth in the Groups' operations.

Including abnormals, the Group recorded a profit after tax of \$1,747 million up 18% over the September 1999 year.

The year witnessed significant transformation with the sale of Grindlays refocusing the Group's operation on Australia, New Zealand, Asia and the Pacific. The sold businesses contributed \$109 million to profit after tax in the ten months prior to sale.

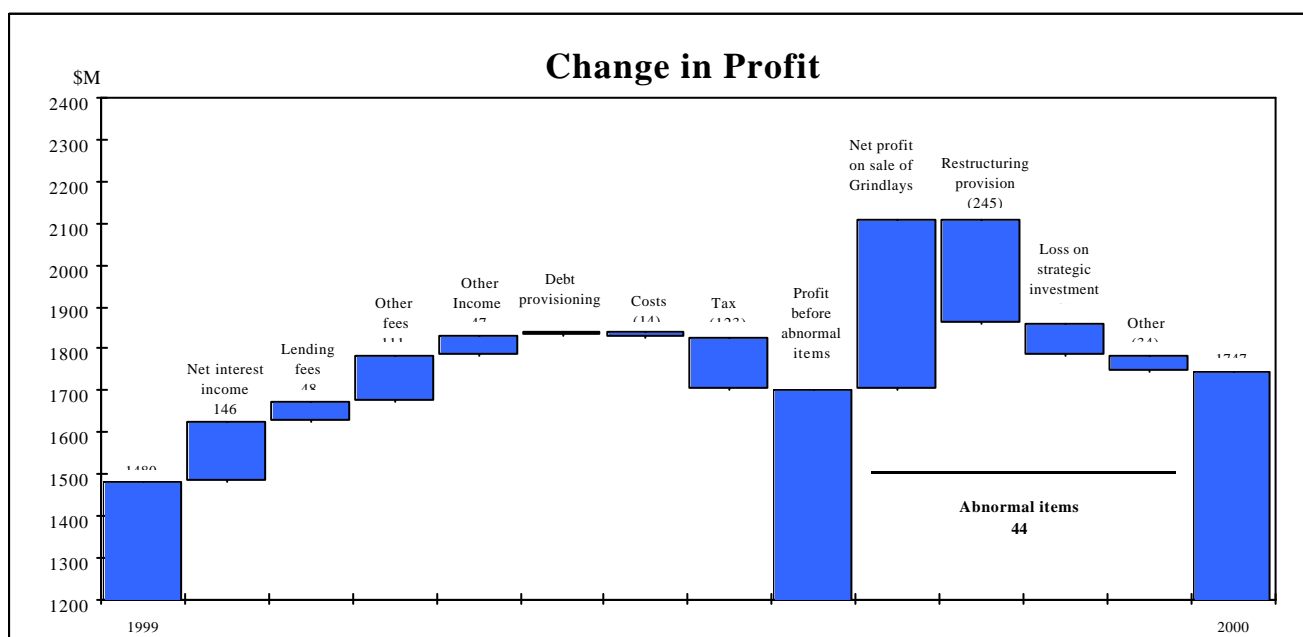
On 18 July we announced that our strategic direction would build upon specialisation, eTransformation and Growth. To execute our strategy we are committed to accelerating our cost efficiencies program, both to achieve a superior operating platform sooner, and to fund the growth investments we wish to make. We have made provision for a number of major abnormal items, as well as recognising the Grindlays' profit on sale of business:

- restructuring provision to accelerate cost efficiencies for the new specialist businesses and for eTransformation of the Group (\$245 million after tax)
- write down of investment in Panin Bank Indonesia (\$81 million)
- net profit on sale of Grindlays' businesses (\$404 million), including \$1,225 million income offset by the recognition of \$575 million for provisions relating to indemnities and restructuring on sale, and provision for income tax of \$246 million
- other (net charge of \$34 million)

Total earnings per share were 106.8 cents, up 16.2 cents from 1999, with net profit from abnormals contributing 2.9 cents. Return on ordinary shareholders' equity increased to 18.8% from 17.2% in 1999.

The cost income ratio from the operating result reduced to 51.7% (excludes impact of abnormals) from 54.5% in the year to September 1999, reflecting the results of a continued emphasis on cost efficiency and income growth. Reduction in cost income ratio is comfortably within the 53% target set publicly 3 years ago.

The 15% increase in the operating result (excluding abnormals) reflects strong growth in all major areas of income, flat costs and flat bad debt provisioning, with improvements in credit quality offsetting volume growth.



## **CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

### **Income**

Net interest income increased \$146 million over the previous year, with 11% growth in volumes being partly offset by reduced margins (down 18 basis points). Mortgage lending in Australia and New Zealand accounted for the majority of the lending growth however, competitive pressures and the delay in repricing customer loans as official cash rate increases impacted adversely on margins particularly in the first half.

Growth in fee income at 9% (11% excluding sold businesses) was strong and reflected increased lending fee volumes in Personal Financial Services, Structured Finance and Corporate and Institutional banking. Transaction fees in all areas continue to be reviewed and repriced as necessary to reflect the changing cost of providing services.

### **Expenses**

Operating expenses remained constant, reflecting the success of the Group's continued focus on cost containment and improved operating efficiency. Costs for the continuing businesses increased only 1% reflecting the acquisition of EFTPOS New Zealand and the introduction of GST. Implementation costs for the GST were \$23 million. Costs were kept 'flat' notwithstanding significant increases in eCommerce spend.

ANZ continues to build a robust and flexible IT infrastructure. Core systems and platforms are being rationalised to reduce software and hardware costs. The Group is leveraging off Win2000, Unix, and web based technologies to improve operating efficiencies with automated straight through processing.

### **Risk**

Risk levels have continued to reduce across the Group. The Economic Loss Provision charge as a percentage of average net lending assets declined from 0.43% in September 1999 to 0.39% reflecting improved risk profiles in Corporate Financial Services, and International, combined with strong growth in the mortgage portfolio. Non accrual loans reduced and net specific provisions fell 21% over the year to \$383 million from \$482 million. Notwithstanding a further \$56 million in specific provisions for Daewoo (\$46m in the March half year), overseas markets specific provisions were down \$194 million on September 1999. Specific provisions on high margin personal loans in Personal Financial Services exceeded expectations which coupled with strong growth in credit card and mortgage volumes saw a \$105 million increase in specific provisions in that division.

### **Capital management**

Reflecting our focus on capital management and strong balance sheet growth, the Group's Tier 1 position reduced to 7.4% with a corresponding reduction in surplus capital. Inner Tier 1 reduced to 6.4%, within our target range of 6.0% to 6.5%. This includes \$1,014 million share buybacks. The total capital adequacy ratio remains strong at 10.2%.

The Group is being managed to maximise value for our shareholders. Internally, performance against targets is measured through EVA™ (Economic Value Added). EVA™ is a measure of economic profit and is based on operating profits after tax adjusted for one off items, the cost of equity, the assessed value of imputation credits, and economic credit costs. EVA™ for the year ended 30 September 2000 was \$1,031 million up from \$828 million for the year ended 30 September 1999, using a cost of capital of 11%. This calculation excludes the effect of abnormal items.

### **Accounting policies**

The adoption of AASB1038 'Life Insurance Business' has resulted in the recognition of the \$4 billion of assets and liabilities in statutory funds. While there is no net profit and loss impact from the introduction of AASB 1038, the requirement to recognise life insurance income on a gross basis results in the recognition of an additional net \$58 million of income. This is offset by \$7 million operating expenses and \$51 million of income tax expense. Comparatives for 1999 have been restated. The Group uses the margin on services method for recognising income.



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### BUSINESS SEGMENT PERFORMANCE

On 18 July 2000 ANZ announced its intention to use technology to transform its existing businesses and focus on creating new growth opportunities. As part of the approach, which aims to prepare ANZ for the globalisation of financial services and the new economy, ANZ will:

- Reconceive ANZ as 21 specialist businesses, each to be developed strategically with a strong customer focus
- Become an "e-bank with a human face" by embracing new technology which transforms the economics of the business and enables ANZ to provide its customers with a multi-channel, personalised experience
- Create a portfolio of valuable growth businesses built around eCommerce and ANZ's other core capabilities

Management along the 21 specialist business lines commenced from 1 October 2000.

During the year ended 30 September 2000, ANZ managed its activities along the following lines of business: Personal Financial Services, Corporate Financial Services and International. Definitions of these business segments are included in the glossary.

Operations of Sold Business comprises the revenues and expenses of Grindlays and associated businesses sold to Standard Chartered Bank, to date of sale. Group includes the results of asset and liability management, earnings on central capital, and certain central costs.

This report is based on the 2000 business segments. The segment results exclude abnormal items.

#### Operating profit after service transfer pricing (equity standardised)<sup>1</sup>

|                               | 2000<br>\$M | 1999<br>\$M | Movt<br>% |
|-------------------------------|-------------|-------------|-----------|
| Personal Financial Services   | 772         | 616         | 25%       |
| Corporate Financial Services  | 647         | 562         | 15%       |
| International                 | 40          | 62          | -35%      |
| Operations of Sold Businesses | 109         | 115         | -5%       |
| Group                         | 135         | 125         | 8%        |
|                               | 1,703       | 1,480       | 15%       |
| Abnormals                     | 44          | -           | n/a       |
|                               | 1,747       | 1,480       | 18%       |

<sup>1</sup> Refer definitions on page 63

Personal Financial Services contributed \$772 million to the Group operating result. Continued strong growth in the mortgage lending and cards portfolios in Australia and New Zealand were partly offset by a reduction in lending margins following rises in wholesale interest rates. Fees rose in line with increased transaction levels, while continued focus on operating efficiencies kept costs flat.

Corporate Financial Services increased profits by 15% to \$647 million, and represents 38% of the Group's operating profit. The result reflects the growth in non-interest income, improved credit quality, and control of costs.

The continuing International network contributed \$40 million to the result, a 35% decrease since September 1999. This reflects the lower interest margins resulting from improved asset quality and reduced risk, increased costs associated with restructuring, and write off of deferred tax assets (\$10 million).

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### BUSINESS SEGMENT - PERSONAL FINANCIAL SERVICES

|   | 2000<br>\$M  | 1999<br>\$M | Movt<br>% |
|---|--------------|-------------|-----------|
| Net interest income                                   | 1,999        | 1,875       | 7%        |
| Fee income  | 960          | 843         | 14%       |
| Other operating income                                | 191          | 167         | 14%       |
| <b>Operating income</b>                               | <b>3,150</b> | 2,885       | 9%        |
| Operating expenses                                    | (1,749)      | (1,784)     | -2%       |
| <b>Operating profit before debt provisions</b>        | <b>1,401</b> | 1,101       | 27%       |
| Provision for doubtful debts                          | (171)        | (123)       | 39%       |
| Income tax expense                                    | (458)        | (362)       | 27%       |
| <b>Operating profit after income tax</b>              | <b>772</b>   | 616         | 25%       |
| <b>Operating profit after income tax</b>              |              |             |           |
| Personal Banking                                      | 673          | 526         | 28%       |
| Funds Management                                      | 99           | 90          | 10%       |
|   | <b>772</b>   | 616         | 25%       |
| Net interest average margin                           | 3.15%        | 3.57%       | n/a       |
| Return on assets                                      | 1.16%        | 1.12%       | n/a       |
| Return on risk weighted assets                        | 2.14%        | 1.99%       | n/a       |
| Operating expenses to operating income                | 55.2%        | 61.6%       | n/a       |
| Operating expenses to average assets                  | 2.62%        | 3.23%       | n/a       |
| Net specific provisions                               | 201          | 96          | large     |
| Net specific provision as a % of average net advances | 0.3%         | 0.2%        | n/a       |
| Net non-accrual loans                                 | 68           | 84          | -19%      |
| Net non-accrual loans as a % of net advances          | 0.1%         | 0.2%        | n/a       |
| Total employees                                       | 12,235       | 12,926      | -5%       |
| Total assets  | 71,673       | 59,709      | 20%       |

Personal Financial Services contributed \$772 million (45%) to the Group's operating result. This represents a 25% increase over the September 1999 result.

The key factors driving the result of Personal Financial Services were strong growth in:

- mortgage lending with total market share increasing from 13.7% to 15% in Australia and ANZ's share of originations increasing to 26%. ANZ was rated Home Loan Bank of the Year
- Cards transaction volumes with share of credit card spend of approximately 27% in Australia
- deposits with market share increasing to 18% in Australia
- fees through enhanced pricing and collections together with increased customer numbers and penetration pushing up non-mortgage lending, card and transaction volumes
- other income with increased revenue from E\*Trade and the sale of risk products

offset by

- lower margins on mortgage lending and cards, particularly in the first half year as cash rates increased. This margin decrease reduced net interest income by \$109 million although significant transaction volume growth across Personal Financial Services mitigated much of the effect of this margin reduction

A 2% reduction in total expenses, reflecting significant unit cost reductions from productivity improvement, increased use of lower cost electronic distribution channels and the continuing implementation of efficiency initiatives assisted profit growth.

Increased specific provisions arose from volume growth in Cards and Mortgages and significant changes in the Personal Loan portfolio. Lowered credit scoring cut offs and a strong marketing push for Personal Loans resulted in higher than expected specific provisions. Given the nature of this product, with its high margin, the net product loss was small.



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### BUSINESS SEGMENT - CORPORATE FINANCIAL SERVICES

|   | 2000<br>\$M   | 1999<br>\$M | Movt<br>% |
|---|---------------|-------------|-----------|
| Net interest income                                   | 1,022         | 984         | 4%        |
| Fee income  | 692           | 639         | 8%        |
| Other operating income                                | 347           | 328         | 6%        |
| <b>Operating income</b>                               | <b>2,061</b>  | 1,951       | 6%        |
| Operating expenses                                    | (964)         | (955)       | 1%        |
| <b>Operating profit before debt provisions</b>        | <b>1,097</b>  | 996         | 10%       |
| Provision for doubtful debts                          | (214)         | (221)       | -3%       |
| Income tax expense                                    | (236)         | (213)       | 11%       |
| <b>Operating profit after income tax</b>              | <b>647</b>    | 562         | 15%       |
| <b>Operating profit after income tax</b>              |               |             |           |
| Corporate Relationships                               | 455           | 379         | 20%       |
| Asset Finance   | 90            | 81          | 11%       |
| Foreign Exchange                                      | 68            | 63          | 8%        |
| Capital Markets                                       | 34            | 39          | -13%      |
|   | <b>647</b>    | 562         | 15%       |
| Net interest average margin                           | 1.87%         | 1.83%       | n/a       |
| Return on assets                                      | 0.88%         | 0.79%       | n/a       |
| Return on risk weighted assets                        | 0.87%         | 0.79%       | n/a       |
| Operating expenses to operating income                | 46.7%         | 48.8%       | n/a       |
| Operating expenses to average assets                  | 1.31%         | 1.33%       | n/a       |
| Net specific provisions                               | 41            | 125         | -67%      |
| Net specific provision as a % of average net advances | 0.1%          | 0.2%        | n/a       |
| Net non-accrual loans                                 | 376           | 335         | 12%       |
| Net non-accrual loans as a % of net advances          | 0.6%          | 0.6%        | n/a       |
| <b>Total employees</b>                                | <b>4,689</b>  | 4,880       | -4%       |
| <b>Total assets</b>                                   | <b>77,169</b> | 69,842      | 10%       |

Corporate Financial Services profits increased 15% to \$647 million over the September 1999 result. This represents 38% of the Group's operating result. The growth in profit reflects:

- increased net interest achieved largely through repricing existing customer loans, at the same time as improving the credit quality of the lending portfolio
- strong growth in fee income with increased transaction fees following a review of pricing and cost structures, growth in transaction fees associated with "ANZ OnLine", the PC based banking product for Corporate customers, and higher lending fees in Structured Finance and Corporate and Institutional banking
- increased foreign exchange revenue in the first half year with volatility in currency markets increasing customer activity
- lower economic loss provisioning, reflecting the improved credit quality in Corporate Financial Services
- increased profitability in Asset Finance driven by higher fee revenue despite buyer caution from May to August as customers awaited the introduction of GST, and competition causing a margin decline

## **CHIEF FINANCIAL OFFICER'S REVIEW (continued)**

offset by

- higher expenses driven by an increased investment in eCommerce and higher salary costs. However increased use of lower cost electronic distribution channels by customers and a 4% reduction in staff numbers assisted us to constrain cost increases
- lower capital markets trading profits with fewer trading opportunities available during the Y2K transition

Lower specific provisions reflect stable provisioning levels in Australia and New Zealand.

To improve the distribution of products, Corporate Financial Services has realigned its business into product and relationship management specialisations. Corporate and Institutional banking has been restructured along industry lines.

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### BUSINESS SEGMENT - INTERNATIONAL

|   | 2000<br>\$M  | 1999<br>\$M  | Movt<br>%   |
|---|--------------|--------------|-------------|
| Net interest income                                   | 159          | 185          | -14%        |
| Fee income  | 69           | 58           | 19%         |
| Other operating income                                | 60           | 70           | -14%        |
| <b>Operating income</b>                               | <b>288</b>   | <b>313</b>   | <b>-8%</b>  |
| Operating expenses                                    | (190)        | (168)        | 13%         |
| <b>Operating profit before debt provisions</b>        | <b>98</b>    | <b>145</b>   | <b>-32%</b> |
| Provision for doubtful debts                          | (22)         | (51)         | -57%        |
| Income tax expense                                    | (36)         | (32)         | 13%         |
| <b>Operating profit after income tax</b>              | <b>40</b>    | <b>62</b>    | <b>-35%</b> |
| Net interest average margin                           | 1.85%        | 2.05%        | n/a         |
| Return on assets                                      | 0.41%        | 0.68%        | n/a         |
| Return on risk weighted assets                        | 0.69%        | 1.11%        | n/a         |
| Operating expenses to operating income                | 65.6%        | 53.2%        | n/a         |
| Operating expenses to average assets                  | 1.96%        | 1.81%        | n/a         |
| Net specific provisions                               | 94           | 121          | -22%        |
| Net specific provision as a % of average net advances | 2.4%         | 3.3%         | n/a         |
| Net non-accrual loans                                 | 188          | 155          | 21%         |
| Net non-accrual loans as a % of net advances          | 3.9%         | 4.4%         | n/a         |
| <b>Total employees</b>                                | <b>1,961</b> | <b>2,211</b> | <b>-11%</b> |
| <b>Total assets</b>                                   | <b>8,011</b> | <b>5,814</b> | <b>38%</b>  |

The International business segment result is different from the Overseas Markets result included on page 20. International business segment results are equity standardised and reflect management of the continuing commercial International network. This segment excludes the operations of the Grindlays business in the 10 months prior to sale which are reported separately, and excludes the Investment Banking operations of the mature markets of UK, Europe and Americas, which are included in Corporate Financial Services.

The continuing International network contributed \$40 million to the Group result, down 35% over the September 1999 year. Key drivers of the result were:

- reduced interest margins in Asia as a result of the exit of higher risk accounts and increased proportion of low yielding structured finance assets, combined with a reduction in margins in the Pacific as the IMF injected funds into PNG
- increased fee revenue following a review of ANZ and competitor pricing
- significant asset growth from structured finance and business banking operations in Asia, combined with the impact of foreign exchange movements
- lower other income reflecting equity accounted start up costs in eAsia ventures (\$3 million)
- an increase in operating expenses as a result of restructuring costs in Asia, investment in eAsia, increased profit share costs and the amortisation of capitalised CBS software
- a reduction in expected loss factors due to an improvement in the credit quality of the lending portfolio in Asia with a significant reduction in off-balance sheet exposures and run off in higher risk loans
- increased income tax expense due to the write-off of deferred tax balances in China and Korea

The reduction in specific provisions demonstrates the improvement in the risk profile and the stabilisation of credit problems. The provision was dominated by \$56 million further provisioning on Daewoo, of which \$46 million was in the March half year, and a \$25 million provision on a single "exit account" where there was an unexpected deterioration in the financial position of the customer in the second half.

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### eCOMMERCE

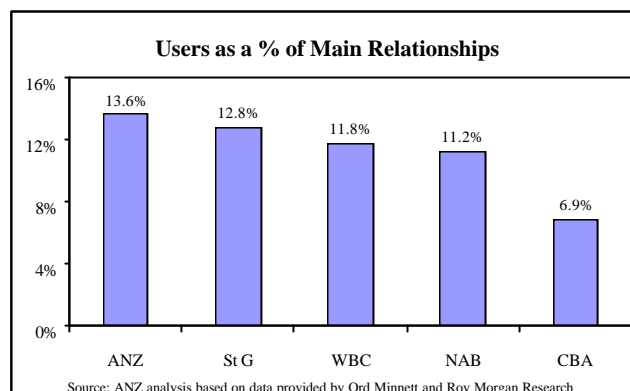
#### Personal eCommerce

ANZ has built a leading presence in the online financial services market for consumers and small business.

As at 30 September 2000 ANZ had in excess of 360,000 registered users in Australia and 60,000 users in New Zealand. ANZ's customer uptake of internet banking has also been the highest of any bank as shown below. With the launch of the "Internet Banking Blitz" in ANZ branches and the call centre, ANZ's month-on-month growth rate in September was also the highest of any bank.

Internet banking customers are very active users of the service. Active usage is very high relative to phone banking and 88% of customers are either satisfied or very satisfied with the service. More than 35% of all ANZ BPAY transactions are done over the internet, and we are seeing similarly strong growth in all value transactions.

ANZ has continued to add new market leading functionality. For instance, ANZ was the first bank to offer "Pay Anyone" functionality, allowing customers to transfer money to any Australian bank account.



In August we launched myANZ, a customised homepage which is unique in the market. This allows customers to view their account details and their share portfolio in one place, as well as providing personalised information such as news and weather. By 30 September we had exceeded our early forecasts with over 25,000 registrations. Going forward we will continue to add new features to differentiate our offer.

We have also built a strong sales capability, with the widest range of online applications of any bank. Sales are building, with over 7% of all ANZ credit card applications received over the net.

In the wider eCommerce space, ANZ's site ranking increased dramatically. According to A.C. Nielsen, we were in the top 30 of all sites visited by Australian internet users. This ranking includes global sites such as Yahoo! and Amazon.com. At the beginning of the year we were only in the top 100 sites.

ANZ has two main equity alliances: with E\*Trade Australia for online trading and MultiEmedia for the enablement of small business customers.

The ANZ alliance with E\*Trade Australia continues to perform very well. ANZ customers represent more than 50% of all new E\*Trade registrations. Their trading activity has helped strengthen E\*Trade's position as one of the two dominant on-line brokers in Australia. On 30 September, ANZ received an additional 8.4% equity from E\*Trade in line with our alliance agreement.

anz.com worked closely with MultiEmedia.com over the past seven months to develop ANZ BizSite. To allow ANZ to further develop the relationship, ANZ and MultiEmedia.com have announced a strategic alliance, which will see ANZ take a 15% stake in MultiEmedia.com with the option to expand the stake during the three year term of the alliance. As part of the alliance, ANZ committed to market ANZ BizSite to the ANZ's SME customer base, and will have exclusive access to MultiEmedia's technology within the Australian and New Zealand financial services sector.

#### Corporate eCommerce

ANZ is a leading provider of financial services in the business eCommerce marketplace, due to a strong and comprehensive set of solutions. For instance, ANZ OnLine, our PC-based electronic banking service for companies, has over 15,000 installed base stations with over 60,000 users, and processes over four million payments per month. Our solutions capability is being rapidly



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

enhanced across a broad range of services, including – online financial transaction systems, secure access facilities, trust and authentication services, treasury products, and e-procurement.

With business-to-business (B2B) eCommerce forecast to grow to \$200 billion in Australia by 2006, ANZ is well placed to maintain and strengthen its market position via the following three elements:

### *1) Web Enabling Existing Products*

By Internet enabling existing products, ANZ's objective is to create a rich corporate banking portal that improves customer financial decision-making and transacting. Offerings include:

- FX Online, which provides web-based real-time pricing and execution of foreign exchange spot, forward, extension and non-deliverable transactions
- ANZ Connect, which provides overseas banks with secure monitoring and equity facilities against their AUD (vostro) accounts
- New Issues Centre providing customers and staff with interactive access to ANZ's bond issues data

In addition, ANZ has partnered with SecureNet to provide a secure access and authentication system (SAAS) which gives customers a single point of access to ANZ online services via smart card based digital certificates and a single mechanism for managing customer employee access privileges.

### *2) Creating a New Range of E-Products*

ANZ's strategy is to build the most innovative range of financial e-products, including payment facilities and authentication services, to enable and enhance customer online trading. Initiatives include:

- ANZ's Internet-based payments gateway, ANZ eGate is utilised by customers involved in industries such as subscription services, e-tailing, wireless applications, and freeway operation and toll collection
- 2.3% equity investment in and Board membership of Identrus, the world's leading provider of authentication and trust services for global B2B internet commerce – a strategic move that will underpin ANZ's authentication and transaction assurance capabilities
- Selection of Baltimore Technologies to provide ANZ with digital certificate technology

### *3) Turnkey Trading Solutions*

ANZ is developing turnkey online trading solutions for its customers with complementary partners where integration of financial services and ANZ's distribution capability add value to the overall proposition. Among the trading solutions and partnerships developed to date, ANZ has:

- Established an indirect procurement service (anzebiz.com) in partnership with MRO.com, to provide an online marketplace delivering secure purchasing and lower processing costs for buyers and suppliers. In addition, we have in principle agreement with corProcure to link anzebiz.com with corProcure's e-marketplace extending the reach of both services and the benefits enjoyed by customers of both market places
- Agreed in principle to form a new Trade Services transaction processing joint venture with AMS, Bank of Montreal and Barclays PLC. The new company will allow the partners as well as other banks around the world to utilise a new business model and internet based technology to initiate and process trade services transactions. This will create new benchmarks for processing efficiency
- Launched eauto, Esanda's online automotive and trading service, which has more than 700 new car dealer franchises and over 19,000 used cars online

## **e.Asia**

In July ANZ and Overseas-Chinese Banking Corporation (OCBC) announced an innovative e-commerce joint venture to create Asia's leading internet bank with a regional network. The regional internet bank will target the 40 million 'wired affluent' consumers that are expected in Asia by 2005. The business model has been developed after extensive study of existing pure internet banks in North America and the United Kingdom.

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

The ANZ-OCBC joint venture will be branded separately to reflect the unique proposition it will offer customers and is expected to be earnings positive by 2003 through a combination of regional growth, significantly reduced customer acquisition costs and scalable technology. The joint venture will also make selective strategic equity investments in a range of partner companies involved in e-financial services, on-line content provision and other internet-based services.

ANZ and OCBC Bank are planning to invest a total of US\$100 million (\$190 million) over three years, including investments in strategic partner companies and start up development costs.

### eCommerce results

|                              | Full year September 2000 |                          |                                    |
|------------------------------|--------------------------|--------------------------|------------------------------------|
|                              | Total<br>income<br>\$M   | Total<br>expenses<br>\$M | Profit (loss)<br>before tax<br>\$M |
| Personal Financial Services  | 27                       | 48                       | (21)                               |
| Corporate Financial Services | 36                       | 41                       | (5)                                |
| International                | -                        | 7                        | (7)                                |
|                              | <hr/> 63                 | <hr/> 96                 | <hr/> (33)                         |



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### CONTINUING OPERATIONS EXCLUDING ABNORMALS AND OPERATIONS OF SOLD GRINDLAYS OPERATIONS

The pro-forma financial data below shows the Group results after excluding the sold Grindlays and associated businesses, costs from the sale and abnormal items disclosed in the abnormal note.

|   | 2000<br>\$M  | 1999<br>\$M  | Movt<br>%  |
|---|--------------|--------------|------------|
| Net interest income                                   | 3,465        | 3,310        | 5%         |
| Fee income  | 1,727        | 1,552        | 11%        |
| Other operating income                                | 617          | 601          | 3%         |
| <b>Operating income</b>                               | <b>5,809</b> | <b>5,463</b> | <b>6%</b>  |
| Operating expenses                                    | (3,026)      | (3,000)      | 1%         |
| <b>Operating profit before debt provisions</b>        | <b>2,783</b> | <b>2,463</b> | <b>13%</b> |
| Provision for doubtful debts                          | (440)        | (427)        | 3%         |
| Income tax expense                                    | (747)        | (669)        | 12%        |
| Outside equity interests                              | (2)          | (2)          | -          |
| <b>Operating profit after income tax</b>              | <b>1,594</b> | <b>1,365</b> | <b>17%</b> |
| Net interest average margin                           | 2.76%        | 2.94%        | n/a        |
| Return on assets                                      | 1.02%        | 0.97%        | n/a        |
| Return on risk weighted assets                        | 1.35%        | 1.24%        | n/a        |
| Operating expenses to net operating income            | 51.9%        | 54.7%        | n/a        |
| Operating expenses to average assets                  | 1.92%        | 2.13%        | n/a        |
| Net specific provisions                               | 337          | 349          | -3%        |
| Net specific provision as a % of average net advances | 0.3%         | 0.3%         | n/a        |
| Net non-accrual loans                                 | 631          | 572          | 10%        |
| Net non-accrual loans as a % of net advances          | 0.5%         | 0.5%         | n/a        |
| Total employees (FTE's)                               | 23,134       | 24,330       | -5%        |
| Profit per average FTE (\$)                           | 68,217       | 54,273       | 26%        |
| Assets per FTE (\$M)                                  | 7.4          | 5.9          | 25%        |
| Total assets  | 171,555      | 143,091      | 20%        |

The continuing operations of the Group showed a profit improvement of 17%, resulting from:

- higher net interest income, as volume increases compensated for lower margins
- strong growth in fee income
- steady costs adjusted for \$11 million for EFTPOS NZ acquisition in June 2000 and \$7 million in GST

Costs in 2001 will be adversely impacted by a full year of GST (estimated at \$50 million), goodwill amortisation and operating expenses from the purchase of EFTPOS NZ (estimated at \$36 million).

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### OPERATIONS OF SOLD BUSINESSES

|   | 2000<br>\$M<br>at balance<br>date | 2000<br>\$M<br>10 months/at<br>completion | 1999<br>\$M | Movt<br>% |
|---|-----------------------------------|---|-------------|-----------|
| Net interest income                                   |                                   | 336                                       | 345         | -3%       |
| Fee income  |                                   | 133                                       | 149         | -11%      |
| <u>Other operating income</u>                         |                                   | <u>106</u>                                | 75          | 41%       |
| <b>Operating income</b>                               |                                   | <b>575</b>                                | 569         | 1%        |
| <u>Operating expenses</u>                             |                                   | <u>(288)</u>                              | (300)       | -4%       |
| <b>Operating profit before debt provisions</b>        |                                   | <b>287</b>                                | 269         | 7%        |
| Provision for doubtful debts                          |                                   | (62)                                      | (83)        | -25%      |
| Income tax expense                                    |                                   | (116)                                     | (67)        | 73%       |
| <u>Outside equity interests</u>                       |                                   | <u>-</u>                                  | (4)         | -100%     |
| <b>Operating profit after income tax</b>              |                                   | <b>109</b>                                | 115         | -5%       |
| Net interest average margin                           |                                   | 3.33%                                     | 3.14%       | n/a       |
| Return on assets                                      |                                   | 1.27%                                     | 1.13%       | n/a       |
| Return on risk weighted assets                        |                                   | 1.57%                                     | 1.52%       | n/a       |
| Operating expenses to net operating income            |                                   | 50.0%                                     | 52.7%       | n/a       |
| <u>Operating expenses to average assets</u>           |                                   | <u>3.35%</u>                              | 2.95%       | n/a       |
| Net specific provisions                               |                                   | 46  | 133         | -65%      |
| Net specific provision as a % of average net advances |                                   | 0.8%                                      | 2.2%        | n/a       |
| Net non-accrual loans                                 | 68                                | 95  | 85          | 12%       |
| Net non-accrual loans as a % of net advances          | n/a                               | 1.6%                                      | 1.5%        | n/a       |
| <u>Total employees</u>                                | <u>-</u>                          | <u>5,162</u>                              | 5,841       | -12%      |
| Total assets  | 912                               | 9,530                                     | 9,710       | -2%       |
| <u>Risk weighted assets</u>                           | <u>761</u>                        | <u>7,975</u>                              | 7,309       | 9%        |

On 31 July 2000, the Group sold ANZ Grindlays Bank Limited and its international Private Banking operation to Standard Chartered PLC, a United Kingdom registered bank, for \$2.3 billion in cash, realising a net profit of \$404 million.

As part of the transaction, the Group provided Standard Chartered PLC with indemnities on credit and litigation matters, including National Housing Bank. Provision has been made for all potential claims under the indemnities together with costs and tax liabilities arising on the transaction.

The results shown reflect financial data for the 10 months to July 2000 compared with the full year for 1999. The underlying improvements reflect the success of the change program put in place over the last 18 months. Higher tax in part relates to the higher pre-tax profit generated in the business, the revaluation of deferred tax assets in the first half, and tax charges relating to the repatriation of dividends to Australia.

The sale was a significant step in refocusing our business on Australia, New Zealand and the Asia Pacific region, strengthened by our Foreign Exchange, International Trade and Global Structured Finance businesses around the world. The sale reduces the Group's overall risk profile, with the economic loss provisioning in the sold operations, representing 1.13% of net lending assets, compared to the Group average of 0.39%.

ANZ will continue to maintain its foreign exchange and capital markets presence in Asia, London and New York and its Global Structured Finance business. In addition, as part of the Grindlays sale, a co-operation agreement has been entered into with Standard Chartered to service ANZ's international customers in India, the Middle East and South Asia.



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### GEOGRAPHIC SEGMENT PERFORMANCE

|  | Full<br>year<br>Sep 00<br>\$M | Contribution<br>to profit<br>% | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% |
|--|-------------------------------|--------------------------------|-------------------------------|----------------------------------|
| <b>Operating profit after income tax before abnormal items</b> |                               |                                |                               |                                  |
| Australia  | 1,200                         | 70%                            | 1,042                         | 15%                              |
| New Zealand  | 241                           | 14%                            | 199                           | 21%                              |
| <b>Domestic Markets</b>  | <b>1,441</b>                  | <b>85%</b>                     | <b>1,241</b>                  | <b>16%</b>                       |
| UK and Europe  | 25                            | 1%                             | 41                            | -39%                             |
| Asia   | 11                            | 1%                             | 14                            | -21%                             |
| Pacific  | 50                            | 3%                             | 37                            | 35%                              |
| South Asia   | 96                            | 6%                             | 68                            | 41%                              |
| Americas   | 56                            | 3%                             | 52                            | 8%                               |
| Middle East  | 24                            | 1%                             | 27                            | -11%                             |
| <b>Overseas Markets</b>  | <b>262</b>                    | <b>15%</b>                     | <b>239</b>                    | <b>10%</b>                       |
|  | <b>1,703</b>                  | <b>100%</b>                    | <b>1,480</b>                  | <b>15%</b>                       |

|                             | As at<br>Sep 00<br>\$M | As at<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% |
|-----------------------------|------------------------|------------------------|----------------------------------|
| <b>Total assets</b>         |                        |                        |                                  |
| Australia                   | 127,306                | 107,551                | 18%                              |
| New Zealand                 | 20,354                 | 19,730                 | 3%                               |
| <b>Domestic Markets</b>     | <b>147,660</b>         | <b>127,281</b>         | <b>16%</b>                       |
| UK and Europe               | 9,147                  | 6,444                  | 42%                              |
| Asia                        | 6,736                  | 4,582                  | 47%                              |
| Pacific                     | 1,156                  | 1,040                  | 11%                              |
| South Asia                  | 9                      | 4,802                  | -100%                            |
| Americas                    | 7,625                  | 4,988                  | 53%                              |
| Middle East                 | 134                    | 3,664                  | -96%                             |
| <b>Overseas Markets</b>     | <b>24,807</b>          | <b>25,520</b>          | <b>-3%</b>                       |
|                             | <b>172,467</b>         | <b>152,801</b>         | <b>13%</b>                       |
| <b>Risk weighted assets</b> |                        |                        |                                  |
| Australia                   | 93,809                 | 80,462                 | 17%                              |
| New Zealand                 | 13,578                 | 13,546                 | -                                |
| <b>Domestic Markets</b>     | <b>107,387</b>         | <b>94,008</b>          | <b>14%</b>                       |
| UK and Europe               | 8,764                  | 6,733                  | 30%                              |
| Asia                        | 5,837                  | 4,203                  | 39%                              |
| Pacific                     | 885                    | 880                    | 1%                               |
| South Asia                  | 9                      | 3,919                  | -100%                            |
| Americas                    | 6,539                  | 4,786                  | 37%                              |
| Middle East                 | 267                    | 3,508                  | -92%                             |
| <b>Overseas Markets</b>     | <b>22,301</b>          | <b>24,029</b>          | <b>-7%</b>                       |
|                             | <b>129,688</b>         | <b>118,037</b>         | <b>10%</b>                       |

## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### GEOGRAPHIC SEGMENT - AUSTRALIA

|  | 2000<br>\$M    | 1999<br>\$M    | Movt<br>%  |
|--|----------------|----------------|------------|
| Net interest income  | 2,623          | 2,457          | 7%         |
| Fee income   | 1,268          | 1,135          | 12%        |
| Other operating income   | 465            | 417            | 12%        |
| <b>Operating income</b>  | <b>4,356</b>   | <b>4,009</b>   | <b>9%</b>  |
| <b>Operating expenses</b>                                      | <b>(2,226)</b> | <b>(2,167)</b> | <b>3%</b>  |
| <b>Operating profit before debt provisions</b>                 | <b>2,130</b>   | <b>1,842</b>   | <b>16%</b> |
| Provision for doubtful debts                                   | (349)          | (288)          | 21%        |
| Income tax expense   | (581)          | (512)          | 13%        |
| <b>Operating profit after income tax before abnormal items</b> | <b>1,200</b>   | <b>1,042</b>   | <b>15%</b> |
| Net abnormal profit after tax (refer page 34)                  | 90             | -              | n/a        |
| <b>Operating profit after income tax and abnormal items</b>    | <b>1,290</b>   | <b>1,042</b>   | <b>24%</b> |
| <b>Ratios exclude abnormal items</b>                           |                |                |            |
| Net interest average margin                                    | 2.95%          | 3.18%          | n/a        |
| Return on ordinary book equity                                 | 19.8%          | 18.5%          | n/a        |
| Return on risk weighted assets                                 | 1.39%          | 1.33%          | n/a        |
| Operating expenses to operating income                         | 50.9%          | 53.8%          | n/a        |
| Operating expenses to average assets                           | 1.89%          | 2.12%          | n/a        |
| Net specific provision   | 238            | 167            | 43%        |
| Net specific provision as a % of average net advances          | 0.2%           | 0.2%           | n/a        |
| Net non-accrual loans  | 393            | 345            | 14%        |
| Net non-accrual loans as a % of net advances                   | 0.4%           | 0.4%           | n/a        |
| Total employees  | 16,570         | 17,146         | -3%        |
| Lending growth   | 16.0%          | 12.6%          | n/a        |
| Total assets   | 127,306        | 107,551        | 18%        |
| Risk weighted assets   | 93,809         | 80,462         | 17%        |

Profit after tax excluding abnormals in Australia increased 15% over the previous year.

The main influences on this result were:

- increased net interest income with the 16% increased lending volumes (particularly mortgages) offset by a contraction in margins due to:
  - margin pressure and the lag in passing on the impact of higher interest rates to mortgage and cards customers reducing net interest by \$93 million
  - competitive pressures on margins in Esanda; and
  - a significant interest recovery in September 1999
- good growth in non-lending fee income in Personal and Corporate Financial Services, due to transaction volume growth and revised fee structures

offset by

- higher expenses resulting from expansion in eCommerce, an additional \$7 million irrecoverable GST, more focused marketing costs and brand advertising, higher software amortisation, profit share and higher restructuring costs
- increased economic loss provision charge reflecting strong Cards and Mortgage volume growth and an increase in loss rates on the non mortgage lending book in Personal Financial Services
- growth in specific provisions was caused by volume growth in Cards and higher than expected losses on Personal Loans



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### GEOGRAPHIC SEGMENT - NEW ZEALAND

|  | 2000<br>\$M | 1999<br>\$M | Movt<br>%  |
|--|-------------|-------------|------------|
| Net interest income  | 477         | 477         | -          |
| Fee income   | 273         | 240         | 14%        |
| Other operating income   | 63          | 71          | -11%       |
| <b>Operating income</b>  | <b>813</b>  | <b>788</b>  | <b>3%</b>  |
| Operating expenses   | (450)       | (469)       | -4%        |
| <b>Operating profit before debt provisions</b>                 | <b>363</b>  | <b>319</b>  | <b>14%</b> |
| Provision for doubtful debts                                   | (35)        | (40)        | -13%       |
| Income tax expense   | (87)        | (80)        | 9%         |
| <b>Operating profit after income tax before abnormal items</b> | <b>241</b>  | <b>199</b>  | <b>21%</b> |
| Net abnormal profit after tax (refer page 34)                  | (31)        | -           | n/a        |
| <b>Operating profit after income tax and abnormal items</b>    | <b>210</b>  | <b>199</b>  | <b>6%</b>  |
| <b>Ratios exclude abnormal items</b>                           |             |             |            |
| Net interest average margin                                    | 2.63%       | 2.73%       | n/a        |
| Return on ordinary book equity                                 | 24.4%       | 24.3%       | n/a        |
| Return on risk weighted assets                                 | 1.70%       | 1.44%       | n/a        |
| Operating expenses to operating income                         | 54.9%       | 59.4%       | n/a        |
| Operating expenses to average assets                           | 2.19%       | 2.42%       | n/a        |
| Net specific provision   | 42          | 18          | large      |
| Net specific provision as a % of average net advances          | 0.3%        | 0.1%        | n/a        |
| Net non-accrual loans  | 33          | 30          | 10%        |
| Net non-accrual loans as a % of net advances                   | 0.2%        | 0.2%        | n/a        |
| Total employees  | 3,918       | 4,290       | -9%        |
| Lending growth (including FX impact)                           | 5.1%        | 1.4%        | n/a        |
| Lending growth (excluding FX impact)                           | 11.1%       | 7.7%        | n/a        |
| Total assets   | 20,354      | 19,730      | 3%         |
| Risk weighted assets   | 13,578      | 13,546      | -          |

New Zealand contributed \$241 million (14%) to the Group's operating result before abnormals. This represented a 21% increase over the previous year and reflects:

- modest lending volume growth, although net interest income has been constrained by competitive pressures on margins
- increased fee income from new products, changes to fee structures, and growth in funds management activities
- containment of operating costs, in particular personnel costs, reflecting the benefits of restructuring programs undertaken
- improved credit quality in corporate lending, partly offset by increased provisioning in personal loans and cards receivables. Similarly, the growth in specific provisions principally relates to personal loans and higher credit card receivables

The New Zealand result was impacted by the depreciation in the NZD over the year. In NZD terms, total income increased by 8%, expenses increased marginally (1%) and profit after abnormals was 26% higher than in 1999.

The operating cost to income ratio has reduced to 54.9% from 59.4% in the previous year.

During the year, the Group strengthened its position in NZ eCommerce by the purchase of EFTPOS NZ Limited. EFTPOS NZ supplies EFTPOS terminals and merchant related services to over 20,000 businesses.



## CHIEF FINANCIAL OFFICER'S REVIEW (continued)

### GEOGRAPHIC SEGMENT - OVERSEAS MARKETS

|  | 2000<br>\$M  | 1999<br>\$M | Movt<br>% |
|--|--------------|-------------|-----------|
| Net interest income  | 701          | 721         | -3%       |
| Fee income   | 319          | 326         | -2%       |
| Other operating income   | 195          | 188         | 4%        |
| <b>Operating income</b>  | <b>1,215</b> | 1,235       | -2%       |
| Operating expenses   | (638)        | (664)       | -4%       |
| <b>Operating profit before debt provisions</b>                 | <b>577</b>   | 571         | 1%        |
| Provision for doubtful debts                                   | (118)        | (182)       | -35%      |
| Income tax expense   | (195)        | (144)       | 35%       |
| Outside equity interests                                       | (2)          | (6)         | -67%      |
| <b>Operating profit after income tax before abnormal items</b> | <b>262</b>   | 239         | 10%       |
| Net abnormal profit after tax (refer page 34)                  | (15)         | -           | n/a       |
| <b>Operating profit after income tax and abnormal items</b>    | <b>247</b>   | 239         | 3%        |
| <b>Ratios exclude abnormal items</b>                           |              |             |           |
| Net interest average margin                                    | 2.06%        | 2.25%       | n/a       |
| Return on ordinary book equity                                 | 11.8%        | 11.2%       | n/a       |
| Return on risk weighted assets                                 | 1.04%        | 0.93%       | n/a       |
| Operating expenses to operating income                         | 52.5%        | 53.7%       | n/a       |
| Operating expenses to average assets                           | 1.72%        | 1.75%       | n/a       |
| Net specific provision   | 103          | 297         | -65%      |
| Net specific provision as a % of average net advances          | 0.6%         | 1.8%        | n/a       |
| Net non-accrual loans  | 273          | 282         | -3%       |
| Net non-accrual loans as a % of net advances                   | 2.0%         | 1.7%        | n/a       |
| <b>Total employees</b>   | <b>2,646</b> | 8,735       | -70%      |
| Lending growth (including FX impact)                           | (15.4%)      | (9.0%)      | n/a       |
| Lending growth (excluding FX impact)                           | (24.5%)      | 0.7%        | n/a       |
| Total assets   | 24,807       | 25,520      | -3%       |
| Risk weighted assets   | 22,301       | 24,029      | -7%       |

Overseas markets increased profit before abnormals by 10% on the 1999 result to \$262 million. The increase reflects:

- increase in other income from the sales of Guernsey and Qatar
  - higher trading results in the UK and South Asia
  - lower operating costs reflecting only 10 months of costs from sold businesses, partially offset by an adverse exchange rate movement
- offset by
- reduced profit as a result of the Grindlays businesses being sold two months before the end of the year
  - reduced margins in Asia, the Middle East and South Asia as credit quality improved and competitive pressures increased
  - write off of tax assets in some countries



## FIVE YEAR SUMMARY

|   | 2000         | 1999         | 1998         | 1997         | 1996         |
|---|--------------|--------------|--------------|--------------|--------------|
|   | \$M          | \$M          | \$M          | \$M          | \$M          |
| <b>Profit and loss</b>  |              |              |              |              |              |
| Net interest income   | 3,801        | 3,655        | 3,547        | 3,437        | 3,327        |
| Other operating income  | 2,583        | 2,377        | 2,099        | 2,110        | 1,839        |
| Operating expenses  | (3,314)      | (3,300)      | (3,438)      | (3,502)      | (3,397)      |
| Provision for doubtful debts  | (502)        | (510)        | (487)        | (400)        | (175)        |
| Operating profit before tax   | 2,568        | 2,222        | 1,721        | 1,645        | 1,594        |
| Income tax expense  | (863)        | (736)        | (537)        | (466)        | (469)        |
| Outside equity interests  | (2)          | (6)          | (9)          | (8)          | (9)          |
| Operating profit after tax<br>before abnormal items                   | 1,703        | 1,480        | 1,175        | 1,171        | 1,116        |
| Net abnormal profit(loss)   | 44           | -            | (69)         | (147)        | -            |
| <b>Operating profit after tax</b>                                     | <b>1,747</b> | <b>1,480</b> | <b>1,106</b> | <b>1,024</b> | <b>1,116</b> |
| <b>Balance Sheet</b>  |              |              |              |              |              |
| Assets  | 172,467      | 152,801      | 149,720      | 138,241      | 127,604      |
| Net Assets  | 9,807        | 9,429        | 8,391        | 6,993        | 6,336        |
| <b>Ratios (after abnormals)</b>                                       |              |              |              |              |              |
| Return on average ordinary equity                                     | 18.8%        | 17.2%        | 14.6%        | 14.8%        | 18.3%        |
| Return on average assets  | 1.1%         | 1.0%         | 0.7%         | 0.7%         | 0.9%         |
| Tier 1 capital ratio  | 7.4%         | 7.9%         | 7.2%         | 6.6%         | 6.7%         |
| <b>Ratios (before abnormals)</b>                                      |              |              |              |              |              |
| Cost to income <sup>1</sup>   | 51.7%        | 54.5%        | 60.9%        | 63.1%        | 65.8%        |
| <b>Shareholder value - ordinary shares</b>                            |              |              |              |              |              |
| Total return to shareholders<br>(share price movement plus dividends) | 35.3%        | 19.6%        | -15.6%       | 62.4%        | 33.9%        |
| Market capitalisation   | 20,002       | 16,045       | 13,885       | 17,017       | 10,687       |
| Dividend  | 64.0c        | 56.0c        | 52.0c        | 48.0c        | 42.0c        |
| Franked portion - interim   | 100%         | 75%          | 60%          | 100%         | 50%          |
| - final   | 100%         | 80%          | 60%          | 100%         | 100%         |
| Share price   |              |              |              |              |              |
| - high  | \$13.46      | \$12.45      | \$11.88      | \$11.58      | \$7.28       |
| - low   | \$9.60       | \$8.58       | \$8.45       | \$7.10       | \$5.41       |
| - closing   | \$13.28      | \$10.25      | \$9.02       | \$11.28      | \$7.23       |
| <b>Share information (per fully paid ordinary share)</b>              |              |              |              |              |              |
| Earnings per share - basic (after abnormals)                          | 106.8c       | 90.6c        | 72.6c        | 68.6c        | 76.3c        |
| Dividend payout ratio   | 59.1%        | 62.1%        | 67.8%        | 61.6%        | 55.5%        |
| Net tangible assets   | \$5.49       | \$5.21       | \$4.98       | \$4.59       | \$4.24       |
| <b>Number of fully paid ordinary shares</b>                           |              |              |              |              |              |
| on issue (millions)   | 1,506.2      | 1,565.4      | 1,539.4      | 1,508.6      | 1,478.1      |
| <b>Other information</b>  |              |              |              |              |              |
| Permanent employees (FTE's)   | 21,774       | 28,744       | 30,827       | 35,926       | 39,721       |
| Temporary employees (FTE's)   | 1,360        | 1,427        | 1,245        | 904          | n/a          |
| Total employees   | 23,134       | 30,171       | 32,072       | 36,830       | n/a          |
| Points of representation  | 1,087        | 1,147        | 1,205        | 1,473        | 1,744        |
| Number of shareholders  | 200,798      | 214,151      | 151,564      | 132,450      | 121,847      |

<sup>1</sup> Excludes the impact of goodwill amortisation

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED**

**FINANCIAL STATEMENTS**

**Year Ended  
30 September 2000**



## TABLE OF CONTENTS

|   | Page |  | Page |
|---|------|--|------|
| <b>Profit and loss account</b>                          | 24   | 21 Exchange rates  | 60   |
| <b>Balance sheet</b>                                    | 25   | 22 Significant events since balance date                           | 60   |
| <b>S'tment of changes in shareholders' equity</b>       | 26   | <b>Supplementary Financial Information<br/>(Country Exposures)</b> | 61   |
| <b>Statement of cash flows</b>                          | 27   | <b>Definitions</b>   | 63   |
| <b>Notes to the financial statement</b>                 |      | <b>Alphabetical index</b>  | 65   |
| 1 Accounting policies                                   | 28   |  |      |
| 2 Income  | 29   |  |      |
| 3 Operating expenses                                    | 32   |  |      |
| 4 Abnormal items  | 34   |  |      |
| 5 Income tax expense                                    | 37   |  |      |
| 6 Dividends   | 38   |  |      |
| 7 Earnings per ordinary share                           | 39   |  |      |
| 8 Investment securities                                 | 41   |  |      |
| 9 Net loans and advances                                | 41   |  |      |
| 10 Impaired assets                                      | 42   |  |      |
| 11 Provisions for doubtful debts                        | 46   |  |      |
| 12 Share capital  | 47   |  |      |
| 13 Capital adequacy                                     | 48   |  |      |
| 14 Average balance sheet and related interest           | 49   |  |      |
| 15 Interest spreads and net interest<br>average margins | 54   |  |      |
| 16 Segment analysis                                     | 55   |  |      |
| 17 Derivative financial instruments                     | 56   |  |      |
| 18 Contingent liabilities                               | 58   |  |      |
| 19 Notes to the statement of cash flows                 | 58   |  |      |
| 20 US GAAP reconciliation                               | 59   |  |      |

## PROFIT AND LOSS ACCOUNT

|   | Note | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|---|------|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Total income  | 2    | 12,824                        | 11,061                        | 16%                              | 6,761                         | 6,063                         | 12%                              |
| Interest income   |      | 10,241                        | 8,684                         | 18%                              | 5,468                         | 4,773                         | 15%                              |
| Interest expense  |      | (6,440)                       | (5,029)                       | 28%                              | (3,539)                       | (2,901)                       | 22%                              |
| Net interest income   |      | 3,801                         | 3,655                         | 4%                               | 1,929                         | 1,872                         | 3%                               |
| Other operating income  | 2    | 2,583                         | 2,377                         | 9%                               | 1,293                         | 1,290                         | -                                |
| Operating income  |      | 6,384                         | 6,032                         | 6%                               | 3,222                         | 3,162                         | 2%                               |
| Operating expenses  | 3    | (3,314)                       | (3,300)                       | -                                | (1,651)                       | (1,663)                       | -1%                              |
| Operating profit before debt provision  |      | 3,070                         | 2,732                         | 12%                              | 1,571                         | 1,499                         | 5%                               |
| Provision for doubtful debts  | 11   | (502)                         | (510)                         | -2%                              | (246)                         | (256)                         | -4%                              |
| <b>Operating profit before abnormal items</b>                                       |      | <b>2,568</b>                  | <b>2,222</b>                  | <b>16%</b>                       | <b>1,325</b>                  | <b>1,243</b>                  | <b>7%</b>                        |
| Abnormal profit   | 4    | 221                           | -                             | n/a                              | 158                           | 63                            | large                            |
| <b>Operating profit before income tax</b>   |      | <b>2,789</b>                  | <b>2,222</b>                  | <b>26%</b>                       | <b>1,483</b>                  | <b>1,306</b>                  | <b>14%</b>                       |
| Income tax expense  |      |                               |                               |                                  |                               |                               |                                  |
| Operating profit  |      | (863)                         | (736)                         | 17%                              | (439)                         | (424)                         | 4%                               |
| Abnormal profit   |      | (177)                         | -                             | n/a                              | (113)                         | (64)                          | 77%                              |
| Income tax expense  | 5    | (1,040)                       | (736)                         | 41%                              | (552)                         | (488)                         | 13%                              |
| Operating profit after income tax   |      | 1,749                         | 1,486                         | 18%                              | 931                           | 818                           | 14%                              |
| Outside equity interests  |      | (2)                           | (6)                           | -67%                             | (1)                           | (1)                           | -                                |
| <b>Operating profit after income tax<br/>attributable to members of the Company</b> |      | <b>1,747</b>                  | <b>1,480</b>                  | <b>18%</b>                       | <b>930</b>                    | <b>817</b>                    | <b>14%</b>                       |
| Retained profits at start of period   |      | 2,952                         | 2,412                         | 22%                              | 3,265                         | 2,952                         | 11%                              |
| Total available for appropriation   |      | 4,699                         | 3,892                         | 21%                              | 4,195                         | 3,769                         | 11%                              |
| Transfers (to)from reserves   |      | (48)                          | (54)                          | -11%                             | (20)                          | (28)                          | -29%                             |
| Ordinary share dividends provided for or paid                                       | 6    | (941)                         | (814)                         | 16%                              | (514)                         | (427)                         | 20%                              |
| Preference share dividends paid   | 6    | (102)                         | (72)                          | 42%                              | (53)                          | (49)                          | 8%                               |
| <b>Retained profits at end of period</b>  |      | <b>3,608</b>                  | <b>2,952</b>                  | <b>22%</b>                       | <b>3,608</b>                  | <b>3,265</b>                  | <b>11%</b>                       |

The notes appearing on pages 28 to 60 form an integral part of these financial statements

### Earnings per ordinary share (cents)

| <b>Basic</b>          |  |       |      |     |      |      |     |
|-----------------------|--|-------|------|-----|------|------|-----|
| Before abnormal items |  | 103.9 | 90.6 | 15% | 54.7 | 49.3 | 11% |
| After abnormal items  |  | 106.8 | 90.6 | 18% | 57.6 | 49.3 | 17% |
| <b>Diluted</b>        |  |       |      |     |      |      |     |
| Before abnormal items |  | 103.5 | 90.3 | 15% | 54.4 | 49.1 | 11% |
| After abnormal items  |  | 106.3 | 90.3 | 18% | 57.3 | 49.1 | 17% |



## BALANCE SHEET

|  | Note | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% |
|--|------|------------------------|------------------------|------------------------|----------------------------------|
| <b>Assets</b>  |      |                        |                        |                        |                                  |
| Liquid assets  |      | 5,648                  | 5,410                  | 5,283                  | 7%                               |
| Due from other financial institutions                                |      | 5,822                  | 4,543                  | 3,472                  | 68%                              |
| Trading securities <sup>1</sup>                                      |      | 4,126                  | 4,871                  | 4,259                  | -3%                              |
| Investment securities  | 8    | 3,006                  | 4,409                  | 4,695                  | -36%                             |
| Net loans and advances   | 9    | 116,315                | 114,022                | 104,063                | 12%                              |
| Customers' liability for acceptances                                 |      | 15,482                 | 15,364                 | 14,858                 | 4%                               |
| Life insurance investment assets                                     |      | 4,739                  | 4,443                  | 4,063                  | 17%                              |
| Regulatory deposits  |      | 103                    | 608                    | 616                    | -83%                             |
| Shares in associates   |      | 29                     | 44                     | 32                     | -9%                              |
| Other assets   |      | 15,938                 | 11,760                 | 10,036                 | 59%                              |
| Premises and equipment   |      | 1,259                  | 1,484                  | 1,424                  | -12%                             |
| <b>Total assets</b>  |      | <b>172,467</b>         | <b>166,958</b>         | <b>152,801</b>         | <b>13%</b>                       |
| <b>Liabilities</b>   |      |                        |                        |                        |                                  |
| Due to other financial institutions                                  |      | 12,247                 | 8,796                  | 9,001                  | 36%                              |
| Deposits and other borrowings  |      | 100,602                | 106,157                | 96,559                 | 4%                               |
| Liability for acceptances  |      | 15,482                 | 15,364                 | 14,858                 | 4%                               |
| Income tax liability   |      | 1,303                  | 1,021                  | 1,051                  | 24%                              |
| Creditors and other liabilities                                      |      | 13,371                 | 10,697                 | 9,421                  | 42%                              |
| Provisions   |      | 2,089                  | 979                    | 1,010                  | large                            |
| Life insurance policy liabilities                                    |      | 4,360                  | 3,978                  | 3,795                  | 15%                              |
| Bonds and notes  |      | 9,519                  | 6,910                  | 4,456                  | large                            |
| Loan capital   |      | 3,687                  | 3,394                  | 3,221                  | 14%                              |
| <b>Total liabilities</b>   |      | <b>162,660</b>         | <b>157,296</b>         | <b>143,372</b>         | <b>13%</b>                       |
| <b>Net assets</b>  |      | <b>9,807</b>           | <b>9,662</b>           | <b>9,429</b>           | <b>4%</b>                        |
| <b>Shareholders' equity</b>  |      |                        |                        |                        |                                  |
| Ordinary share capital   |      | 4,028                  | 4,399                  | 4,770                  | -16%                             |
| Preference share capital   |      | 1,374                  | 1,232                  | 1,145                  | 20%                              |
| Reserves   |      | 785                    | 753                    | 536                    | 46%                              |
| Retained profits   |      | 3,608                  | 3,265                  | 2,952                  | 22%                              |
| Share capital and reserves attributable<br>to members of the Company |      | 9,795                  | 9,649                  | 9,403                  | 4%                               |
| Outside equity interests   |      | 12                     | 13                     | 26                     | -54%                             |
| <b>Total shareholders' equity and<br/>outside equity interests</b>   |      | <b>9,807</b>           | <b>9,662</b>           | <b>9,429</b>           | <b>4%</b>                        |
| Derivative financial instruments                                     | 17   |                        |                        |                        |                                  |
| Contingent liabilities   | 18   |                        |                        |                        |                                  |

<sup>1</sup> Includes bills held in portfolio (Sep 2000: \$1,009 million, Sep 1999: \$1,229 million) which are part of net advances  
The notes appearing on pages 28 to 60 form an integral part of these financial statements

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

|  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|--|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| <b>Share capital</b>   |                               |                               |                                  |                               |                               |                                  |
| Balance at start of period   | 5,915                         | 5,226                         | 13%                              | 5,631                         | 5,915                         | -5%                              |
| Ordinary share   |                               |                               |                                  |                               |                               |                                  |
| Dividend reinvestment plan   | 236                           | 176                           | 34%                              | 123                           | 113                           | 9%                               |
| Group employee share acquisition scheme                                      | 26                            | 4                             | large                            | 6                             | 20                            | -70%                             |
| Group share option scheme  | 10                            | 9                             | 11%                              | 6                             | 4                             | 50%                              |
| Group share purchase scheme  | #                             | #                             | n/a                              | #                             | #                             | n/a                              |
| Share buyback  | (1,014)                       | -                             | n/a                              | (505)                         | (509)                         | -1%                              |
| Preference shares  | -                             | 578                           | -100%                            | -                             | -                             | n/a                              |
| Retranslation of preference shares   | 229                           | (78)                          | n/a                              | 141                           | 88                            | 60%                              |
| <b>Total share capital</b>   | <b>5,402</b>                  | <b>5,915</b>                  | <b>-9%</b>                       | <b>5,402</b>                  | <b>5,631</b>                  | <b>-4%</b>                       |
| <b>Foreign currency translation reserve</b>                                  |                               |                               |                                  |                               |                               |                                  |
| Balance at start of period   | (152)                         | 63                            | n/a                              | 6                             | (152)                         | n/a                              |
| Currency translation adjustments,<br>net of hedges after tax                 | 170                           | (215)                         | n/a                              | 12                            | 158                           | -92%                             |
|  | 18                            | (152)                         | n/a                              | 18                            | 6                             | large                            |
| <b>Asset revaluation reserve</b>   |                               |                               |                                  |                               |                               |                                  |
| Balance at start of period   | -                             | -                             | n/a                              | 31                            | -                             | n/a                              |
| Revaluation of properties  | 31                            | -                             | n/a                              | -                             | 31                            | -100%                            |
|  | 31                            | -                             | n/a                              | 31                            | 31                            | -                                |
| <b>General reserve</b>   |                               |                               |                                  |                               |                               |                                  |
| Balance at start of period   | 539                           | 485                           | 11%                              | 567                           | 539                           | 5%                               |
| Transfers from retained profits  | 48                            | 54                            | -11%                             | 20                            | 28                            | -29%                             |
|  | 587                           | 539                           | 9%                               | 587                           | 567                           | 4%                               |
| <b>Capital reserve</b>   | <b>149</b>                    | <b>149</b>                    | <b>-</b>                         | <b>149</b>                    | <b>149</b>                    | <b>-</b>                         |
| <b>Total reserves</b>  | <b>785</b>                    | <b>536</b>                    | <b>46%</b>                       | <b>785</b>                    | <b>753</b>                    | <b>4%</b>                        |
| <b>Retained profits</b>  |                               |                               |                                  |                               |                               |                                  |
| Balance at start of period   | 2,952                         | 2,412                         | 22%                              | 3,265                         | 2,952                         | 11%                              |
| Operating profit after income tax<br>attributable to members of the Company  | 1,747                         | 1,480                         | 18%                              | 930                           | 817                           | 14%                              |
| Total available for appropriation  | 4,699                         | 3,892                         | 21%                              | 4,195                         | 3,769                         | 11%                              |
| Transfers to reserves  | (48)                          | (54)                          | -11%                             | (20)                          | (28)                          | -29%                             |
| Ordinary share dividends provided for or paid                                | (941)                         | (814)                         | 16%                              | (514)                         | (427)                         | 20%                              |
| Preference share dividends paid  | (102)                         | (72)                          | 42%                              | (53)                          | (49)                          | 8%                               |
| <b>Retained profits at end of period</b>                                     | <b>3,608</b>                  | <b>2,952</b>                  | <b>22%</b>                       | <b>3,608</b>                  | <b>3,265</b>                  | <b>11%</b>                       |
| <b>Total shareholders' equity attributable to<br/>members of the Company</b> | <b>9,795</b>                  | <b>9,403</b>                  | <b>4%</b>                        | <b>9,795</b>                  | <b>9,649</b>                  | <b>2%</b>                        |

# Amounts less than \$500,000

The notes appearing on pages 28 to 60 form an integral part of these financial statements



## STATEMENT OF CASH FLOWS

|  | Full<br>year<br>Sep 00       | Half<br>year<br>Sep 00       | Half<br>year<br>Mar 00       | Full<br>year<br>Sep 99       |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| Note   | Inflows<br>(Outflows)<br>\$M | Inflows<br>(Outflows)<br>\$M | Inflows<br>(Outflows)<br>\$M | Inflows<br>(Outflows)<br>\$M |
| <b>Cash flows from operating activities</b>                      |                              |                              |                              |                              |
| Interest received  | 9,916                        | 5,484                        | 4,432                        | 8,679                        |
| Dividends received   | 192                          | 101                          | 91                           | 157                          |
| Fees and other income received                                   | 2,460                        | 1,235                        | 1,225                        | 2,089                        |
| Interest paid  | (6,108)                      | (3,448)                      | (2,660)                      | (5,039)                      |
| Personnel expenses paid  | (1,735)                      | (805)                        | (930)                        | (1,840)                      |
| Premises expenses paid   | (283)                        | (144)                        | (139)                        | (282)                        |
| Other operating expenses paid                                    | (1,199)                      | (680)                        | (519)                        | (977)                        |
| Income taxes paid  |                              |                              |                              |                              |
| Australia  | (443)                        | (178)                        | (265)                        | (303)                        |
| Overseas   | (311)                        | (152)                        | (159)                        | (232)                        |
| Goods and services tax received                                  | 4                            | 4                            | -                            | -                            |
| Net (increase)decrease in trading securities                     | (25)                         | 549                          | (574)                        | 1,442                        |
| <b>Net cash provided by operating activities</b>                 | 19<br><b>2,468</b>           | <b>1,966</b>                 | 502                          | 3,694                        |
| <b>Cash flows from investing activities</b>                      |                              |                              |                              |                              |
| Net decrease(increase)   |                              |                              |                              |                              |
| Due from other financial institutions                            | (792)                        | (563)                        | (229)                        | 616                          |
| Regulatory deposits  | (90)                         | (141)                        | 51                           | 828                          |
| Loans and advances   | (17,633)                     | (8,272)                      | (9,361)                      | (12,936)                     |
| Shares in controlled entities and associates                     | (50)                         | (50)                         | -                            | -                            |
| Investment securities  |                              |                              |                              |                              |
| Purchases  | (8,109)                      | (4,250)                      | (3,859)                      | (5,527)                      |
| Proceeds from sale or maturity                                   | 8,553                        | 4,194                        | 4,359                        | 4,670                        |
| Controlled entities and associates                               |                              |                              |                              |                              |
| Purchased (net of cash acquired)                                 | (43)                         | (43)                         | -                            | (2)                          |
| Proceeds from sale (net of cash disposed)                        | 1,510                        | 1,456                        | 54                           | -                            |
| Transferred from controlled entities to associates (net of cash) | -                            | -                            | -                            | (94)                         |
| Premises and equipment   |                              |                              |                              |                              |
| Purchases  | (275)                        | (112)                        | (163)                        | (177)                        |
| Proceeds from sale   | 249                          | 196                          | 53                           | 142                          |
| Other  | (3,157)                      | (2,347)                      | (810)                        | (610)                        |
| <b>Net cash (used in) investing activities</b>                   | <b>(19,837)</b>              | <b>(9,932)</b>               | (9,905)                      | (13,090)                     |
| <b>Cash flows from financing activities</b>                      |                              |                              |                              |                              |
| Net (decrease)increase   |                              |                              |                              |                              |
| Due to other financial institutions                              | 3,111                        | 3,767                        | (656)                        | (779)                        |
| Deposits and other borrowings                                    | 12,763                       | 4,442                        | 8,321                        | 5,202                        |
| Creditors and other liabilities                                  | (843)                        | (499)                        | (344)                        | 743                          |
| Bonds and notes  |                              |                              |                              |                              |
| Issue proceeds   | 5,555                        | 2,696                        | 2,859                        | 4,330                        |
| Redemptions  | (1,341)                      | (666)                        | (675)                        | (479)                        |
| Loan capital   |                              |                              |                              |                              |
| Issue proceeds   | 152                          | 75                           | 77                           | -                            |
| Redemptions  | (147)                        | (75)                         | (72)                         | (256)                        |
| Decrease in outside equity interests                             | (19)                         | (5)                          | (14)                         | (1)                          |
| Dividends paid   | (752)                        | (364)                        | (388)                        | (671)                        |
| Share capital issues   | 36                           | 36                           | -                            | 591                          |
| Share buyback  | (1,014)                      | (505)                        | (509)                        | -                            |
| <b>Net cash provided by financing activities</b>                 | <b>17,501</b>                | <b>8,902</b>                 | 8,599                        | 8,680                        |
| Net cash provided by operating activities                        | 2,468                        | 1,966                        | 502                          | 3,694                        |
| Net cash (used in) investing activities                          | (19,837)                     | (9,932)                      | (9,905)                      | (13,090)                     |
| <b>Net cash provided by financing activities</b>                 | <b>17,501</b>                | <b>8,902</b>                 | 8,599                        | 8,680                        |
| Net increase(decrease) in cash and cash equivalents              | 132                          | 936                          | (804)                        | (716)                        |
| Cash and cash equivalents at beginning of period                 | 6,634                        | 6,697                        | 6,634                        | 8,981                        |
| Foreign currency translation on opening balances                 | (304)                        | (1,171)                      | 867                          | (1,631)                      |
| <b>Cash and cash equivalents at end of period</b>                | 19<br><b>6,462</b>           | <b>6,462</b>                 | 6,697                        | 6,634                        |

The notes appearing on pages 28 to 60 form an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

This report has been based on financial data which has been prepared in compliance with the accounting provisions of the Banking Act, the Corporations Law, applicable Australian Accounting Standards and Urgent Issues Group Consensus Views and should be read in conjunction with the September 2000 Financial Report. Where necessary, amounts shown for previous periods have been reclassified to facilitate comparison.

The accounting policies are consistent with those of the previous financial year except for the change disclosed.

#### **Change in Accounting Policy**

The Group conducts life insurance business through ANZ Life Assurance Company Limited (ANZ Life). A new Accounting Standard AASB 1038 'Life Insurance Business', was applied from 1 October 1999. This standard requires the first time consolidation of approximately \$4 billion of assets and liabilities in the statutory funds of ANZ Life which relate to policyholders. Previously, only the Group's interest in the actuarially assessed surplus of ANZ Life's statutory funds, after allowing for increases in policyholder reserves determined under the margin on services methodology, together with the assets and liabilities of the shareholders funds of ANZ, were included.

AASB 1038 requires all assets held by ANZ Life, including subsidiary companies, to be marked to market however this requirement, under the current structure, has nil impact on the Group. Accordingly no appraisal or embedded values for subsidiary companies have been booked in these accounts.

AASB 1038 also requires the Group to consolidate income, expenses and the income tax expense relating to the statutory funds. This resulted in an increase to other income of \$58 million, an increase to other expenses of \$7 million and an increase of \$51 million in income tax expenses in the twelve months to September 2000. Payments between ANZ Life and other Group entities have been eliminated on consolidation. The net contribution from ANZ Life for the year was \$49 million (September 1999, \$54 million). This net contribution was calculated using margin on services methodology and was unaffected by the adoption of AASB 1038. Comparative figures have been restated.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. INCOME

|                            | 2000<br>\$M  | 1999<br>\$M  | Movt<br>% |
|----------------------------|--------------|--------------|-----------|
| Interest income            | 10,241       | 8,684        | 18%       |
| Interest expense           | (6,440)      | (5,029)      | 28%       |
| <b>Net interest income</b> | <b>3,801</b> | <b>3,655</b> | <b>4%</b> |

#### Interest spread and net interest average margin

|   |             |             |            |
|---|-------------|-------------|------------|
| Gross interest spread                                   | 2.30        | 2.58        | n/a        |
| Interest forgone on impaired assets                     | (0.07)      | (0.10)      | n/a        |
| Net interest spread                                     | 2.23        | 2.48        | n/a        |
| Interest attributable to net non-interest bearing items | 0.64        | 0.57        | n/a        |
| <b>Net interest average margin</b>                      | <b>2.87</b> | <b>3.05</b> | <b>n/a</b> |
| Average interest earning assets (\$M)                   | 133,158     | 120,191     | 11%        |

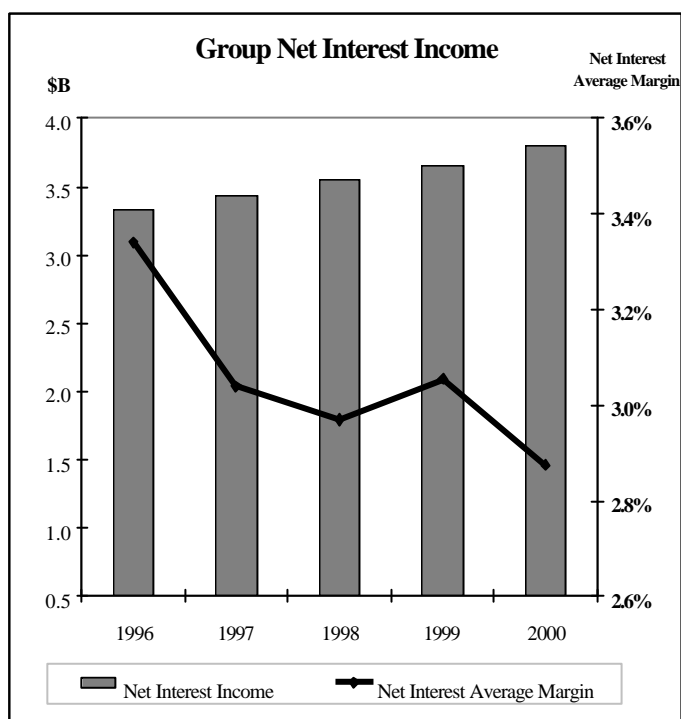
Net interest income increased 4% since September 1999 with lending growth offsetting margin decline. Growth was principally in mortgage lending volumes in Australia and New Zealand (\$9 billion since September 1999), combined with increased Corporate lending (\$2.5 billion)

The Group net interest margin reduced 18 basis points since September 1999 reflecting:

- competitive pressure on margins as wholesale interest rates rose ahead of cash rates which drove mortgage rates
- volume growth in lower margin third party originated mortgages
- two months without the high margin Grindlays business
- funding cost of equity holdings

Offset by:

- reduced interest forgone on non-accrual loans
- increased benefit from higher NBI volumes and higher interest rates although this was constrained by the share buyback



## NOTES TO THE FINANCIAL STATEMENTS

### 2. INCOME (continued)

|   | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|---|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| <b>Interest income</b>  | <b>10,241</b>                 | 8,684                         | 18%                              | <b>5,468</b>                  | 4,773                         | 15%                              |
| <b>Other operating income</b>                                       |                               |                               |                                  |                               |                               |                                  |
| Fee income  |                               |                               |                                  |                               |                               |                                  |
| Lending   | 727                           | 679                           | 7%                               | 361                           | 366                           | -1%                              |
| Other, commissions <sup>1</sup>                                     | 1,133                         | 1,022                         | 11%                              | 572                           | 561                           | 2%                               |
| <b>Total fee income</b>   | <b>1,860</b>                  | 1,701                         | 9%                               | <b>933</b>                    | 927                           | 1%                               |
| Other income  |                               |                               |                                  |                               |                               |                                  |
| Foreign exchange earnings   | 342                           | 340                           | 1%                               | 170                           | 172                           | -1%                              |
| Profit on trading instruments                                       | 87                            | 89                            | -2%                              | 36                            | 51                            | -29%                             |
| Life insurance margin on services<br>operating income (refer below) | 175                           | 174                           | 1%                               | 77                            | 98                            | -21%                             |
| Rental income   | 7                             | 10                            | -30%                             | 3                             | 4                             | -25%                             |
| Profit on sale of premises  | 13                            | 16                            | -19%                             | 10                            | 3                             | large                            |
| Dividend income from strategic investments                          | 19                            | -                             | n/a                              | 10                            | 9                             | 11%                              |
| Other   | 80                            | 47                            | 70%                              | 54                            | 26                            | large                            |
| <b>Total other income</b>   | <b>723</b>                    | 676                           | 7%                               | <b>360</b>                    | 363                           | -1%                              |
| <b>Total other operating income</b>                                 | <b>2,583</b>                  | 2,377                         | 9%                               | <b>1,293</b>                  | 1,290                         | -                                |
| <b>Total income<sup>2</sup></b>                                     | <b>12,824</b>                 | 11,061                        | 16%                              | <b>6,761</b>                  | 6,063                         | 12%                              |

<sup>1</sup> Includes commissions from funds management business

<sup>2</sup> Includes dividend income of \$192 million (Sep 99: \$157 million)

#### Life insurance margin on services operating income

|                                      |         |       |     |       |       |      |
|--------------------------------------|---------|-------|-----|-------|-------|------|
| Premium and related revenue          | 1,689   | 1,295 | 30% | 1,036 | 653   | 59%  |
| Investment revenue                   | 369     | 222   | 66% | 138   | 231   | -40% |
| Claims expense                       | (1,249) | (932) | 34% | (718) | (531) | 35%  |
| Insurance policy liabilities expense | (634)   | (411) | 54% | (379) | (255) | 49%  |
|                                      | 175     | 174   | 1%  | 77    | 98    | -21% |

#### Life insurance profit after tax arose from

|  |           |     |       |           |    |      |
|--|-----------|-----|-------|-----------|----|------|
| <b>Movement in policy liabilities separated between</b>                  |           |     |       |           |    |      |
| Planned margins of revenues<br>over expenses released                    | 36        | 42  | -14%  | 18        | 18 | -    |
| Difference between actual and<br>assumed experience                      | (4)       | (1) | large | (5)       | 1  | n/a  |
| <b>Investment earnings of assets in excess<br/>of policy liabilities</b> | <b>17</b> | 13  | 31%   | <b>8</b>  | 9  | -11% |
| <b>Operating profit after income tax</b>                                 | <b>49</b> | 54  | -9%   | <b>21</b> | 28 | -25% |



## NOTES TO THE FINANCIAL STATEMENTS

### OTHER OPERATING INCOME

The 9% growth (continuing businesses: 9%) in other operating income (excluding the one-off income items reported as abnormal in note 4) since September 1999 reflects the Group's commitment to reduce reliance on net interest income, diversify income streams and grow the business. Foreign exchange movements had a negligible impact on other income growth.

Overall lending fees increased 7% (continuing businesses: 8%) from September 1999, as a result of:

- increased volumes
- higher front-end fees from Structured Finance, Corporate & Institutional lending
- improved collection procedures and realignment of fee structures across businesses, in particular Personal Financial Services and Asset Based Finance

Non-lending fees were up 11% (continuing businesses: 14%) over September 1999 with:

- increased volumes and realignment of fee structures to better reflect the cost of providing services
- growth in "ANZ OnLine", the PC based banking products for Corporate customers

Other income increased by 7% over September 1999:

- foreign exchange income increased slightly over September 1999. Foreign exchange earnings are derived from customer trades, and increase in periods of currency volatility. The high level of earnings that resulted from volatility of Asian currencies in 1999 has been maintained in 2000 with strong earnings from foreign currency options
- profit and loss on trading instruments was flat compared to September 1999 with the reduced customer activity post year 2000, reflecting the easing of uncertainty in interest rate markets
- the sale of ANZ businesses in Guernsey and Qatar, prior to the sale of the Grindlays businesses
- dividends received on strategic holdings of equities
- income from associates (Nepal, Bahrain)

A reduction in the profit generated from the Life business has occurred over the second half year due to the impact of the tax reform which taxed planned margins at the full corporate tax rate from 1 July 2000, and a revaluation loss on an annuity fund.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. OPERATING EXPENSES

|  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|--|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| <b>Personnel</b>                           |                               |                               |                                  |                               |                               |                                  |
| Employee taxes                             |                               |                               |                                  |                               |                               |                                  |
| Fringe benefits tax                        | 33                            | 38                            | -13%                             | 15                            | 18                            | -17%                             |
| Payroll tax                                | 68                            | 63                            | 8%                               | 32                            | 36                            | -11%                             |
| Pension fund                               | 99                            | 95                            | 4%                               | 48                            | 51                            | -6%                              |
| Provision for employee entitlements        | 33                            | 33                            | -                                | 15                            | 18                            | -17%                             |
| Salaries and wages                         | 1,201                         | 1,237                         | -3%                              | 580                           | 621                           | -7%                              |
| Other                                      | 324                           | 266                           | 22%                              | 175                           | 149                           | 17%                              |
| <b>Total personnel expenses</b>            | <b>1,758</b>                  | <b>1,732</b>                  | <b>2%</b>                        | <b>865</b>                    | <b>893</b>                    | <b>-3%</b>                       |
| <b>Premises</b>                            |                               |                               |                                  |                               |                               |                                  |
| Amortisation of leasehold improvements     | 13                            | 14                            | -7%                              | 7                             | 6                             | 17%                              |
| Depreciation of buildings and integrals    | 23                            | 31                            | -26%                             | 9                             | 14                            | -36%                             |
| Rent                                       | 145                           | 159                           | -9%                              | 73                            | 72                            | 1%                               |
| Utilities and other outgoings              | 101                           | 102                           | -1%                              | 48                            | 53                            | -9%                              |
| Other                                      | 12                            | 8                             | 50%                              | 5                             | 7                             | -29%                             |
| <b>Total premises expenses</b>             | <b>294</b>                    | <b>314</b>                    | <b>-6%</b>                       | <b>142</b>                    | <b>152</b>                    | <b>-7%</b>                       |
| <b>Computer</b>                            |                               |                               |                                  |                               |                               |                                  |
| Computer contractors                       | 34                            | 32                            | 6%                               | 9                             | 25                            | -64%                             |
| Data communications                        | 41                            | 43                            | -5%                              | 19                            | 22                            | -14%                             |
| Depreciation and amortisation              | 96                            | 94                            | 2%                               | 50                            | 46                            | 9%                               |
| Rentals and repairs                        | 71                            | 65                            | 9%                               | 35                            | 36                            | -3%                              |
| Other                                      | 101                           | 110                           | -8%                              | 58                            | 43                            | 35%                              |
| <b>Total computer expenses</b>             | <b>343</b>                    | <b>344</b>                    | <b>-</b>                         | <b>171</b>                    | <b>172</b>                    | <b>-1%</b>                       |
| <b>Other</b>                               |                               |                               |                                  |                               |                               |                                  |
| Advertising and public relations           | 103                           | 84                            | 23%                              | 55                            | 48                            | 15%                              |
| Amortisation of goodwill                   | 12                            | 10                            | 20%                              | 7                             | 5                             | 40%                              |
| Audit fees                                 | 3                             | 3                             | -                                | 1                             | 2                             | -50%                             |
| Depreciation of furniture and equipment    | 42                            | 46                            | -9%                              | 20                            | 22                            | -9%                              |
| Freight and cartage                        | 28                            | 29                            | -3%                              | 15                            | 13                            | 15%                              |
| Loss on disposal of premises and equipment | 6                             | 6                             | -                                | 4                             | 2                             | 100%                             |
| Non-lending losses, frauds and forgeries   | 55                            | 53                            | 4%                               | 35                            | 20                            | 75%                              |
| Postage                                    | 45                            | 44                            | 2%                               | 23                            | 22                            | 5%                               |
| Professional fees                          | 136                           | 130                           | 5%                               | 70                            | 66                            | 6%                               |
| Stationery                                 | 63                            | 61                            | 3%                               | 32                            | 31                            | 3%                               |
| Telephone                                  | 79                            | 90                            | -12%                             | 39                            | 40                            | -3%                              |
| Travel                                     | 83                            | 77                            | 8%                               | 44                            | 39                            | 13%                              |
| Other                                      | 157                           | 186                           | -16%                             | 74                            | 83                            | -11%                             |
| <b>Total other expenses</b>                | <b>812</b>                    | <b>819</b>                    | <b>-1%</b>                       | <b>419</b>                    | <b>393</b>                    | <b>7%</b>                        |
| <b>Restructuring</b>                       | <b>107</b>                    | <b>91</b>                     | <b>18%</b>                       | <b>54</b>                     | <b>53</b>                     | <b>2%</b>                        |
| <b>Total operating expenses</b>            | <b>3,314</b>                  | <b>3,300</b>                  | <b>-</b>                         | <b>1,651</b>                  | <b>1,663</b>                  | <b>-1%</b>                       |
| Permanent employees (FTE's)                | 21,774                        | 28,744                        | -24%                             | 21,774                        | 27,703                        | -21%                             |
| Temporary employees (FTE's)                | 1,360                         | 1,427                         | -5%                              | 1,360                         | 1,237                         | 10%                              |
| <b>Total employees</b>                     | <b>23,134</b>                 | <b>30,171</b>                 | <b>-23%</b>                      | <b>23,134</b>                 | <b>28,940</b>                 | <b>-20%</b>                      |

## NOTES TO THE FINANCIAL STATEMENTS

### 3. OPERATING EXPENSES (continued)

#### Total operating expenses by geographic segmentation

|                  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|------------------|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Australia        | 2,226                         | 2,167                         | 3%                               | 1,112                         | 1,114                         | -                                |
| New Zealand      | 450                           | 469                           | -4%                              | 223                           | 227                           | -2%                              |
| Overseas markets | 638                           | 664                           | -4%                              | 316                           | 322                           | -2%                              |
|                  | <b>3,314</b>                  | 3,300                         | -                                | <b>1,651</b>                  | 1,663                         | -1%                              |

Operating expenses were flat compared to September 1999. The Group continues to fund its investment in eCommerce by generating cost efficiencies with the use of straight through processing technology, the shift of customer transactions to electronic distribution channels, and constant review of work practices.

The increase in Australia costs is driven largely by increased investment in eCommerce, in marketing the ANZ brand, and in our use of expert external advisors who are assisting us to eTransform the business.

The slight increase in personnel costs (2% over September 1999) reflects a change in the composition of remuneration with a 5% reduction in staff in continuing businesses offsetting wage increases but increased focus on variable pay for performance and sales incentives increasing other personnel costs.

Premises costs were down 6% (1% excluding the impact of sold businesses) as the Group has continued to review its property requirements, to sell and lease back branches, and to exit surplus premises.

Computer expenses were flat compared to September 1999 reflecting a reduced Y2K spend offsetting software amortisation and continued investment in technology infrastructure, electronic distribution channels and products, development of straight through processes, and web-enablement of our employees.

Overall, other expenses reduced 1% from September 1999. Within other expenses, advertising and public relations expenditure increased, particularly in eCommerce and the successful "Grow with ANZ" campaign.

Restructuring expenses increased by \$16 million over September 1999. The major areas of restructure were the Australian and New Zealand branch network, support areas in Personal Financial Services, centralisation of Australian processing functions and rationalisation of the London office within Corporate Financial Services and Grindlays' operations in the Middle East prior to the sale.

Foreign exchange movements had a negligible net effect (less than 1%) on operating expenses.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. ABNORMAL ITEMS

|   | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|---|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Profit before tax   |                               |                               |                                  |                               |                               |                                  |
| Revaluation of properties   | 30                            | -                             | n/a                              | -                             | 30                            | -100%                            |
| Gain on sale of investment in Colonial                              | 33                            | -                             | n/a                              | -                             | 33                            | -100%                            |
| Income from sale of Grindlays and<br>associated businesses          | 1,225                         | -                             | n/a                              | 1,225                         | -                             | n/a                              |
| (Loss) before tax   |                               |                               |                                  |                               |                               |                                  |
| Provisions raised on sale of Grindlays and<br>associated businesses | (575)                         | -                             | n/a                              | (575)                         | -                             | n/a                              |
| Restructuring provision   | (361)                         | -                             | n/a                              | (361)                         | -                             | n/a                              |
| Provision for litigation  | (50)                          | -                             | n/a                              | (50)                          | -                             | n/a                              |
| Writedown of investment in Panin                                    | (81)                          | -                             | n/a                              | (81)                          | -                             | n/a                              |
| <b>Total abnormal profit(loss) before tax</b>                       | <b>221</b>                    | <b>-</b>                      | <b>n/a</b>                       | <b>158</b>                    | <b>63</b>                     | <b>large</b>                     |
| Income tax (expense)benefit applicable to                           |                               |                               |                                  |                               |                               |                                  |
| Restatement of deferred tax balances                                | (64)                          | -                             | n/a                              | -                             | (64)                          | -100%                            |
| Sale of Grindlays and associated businesses<br>and provision raised | (246)                         | -                             | n/a                              | (246)                         | -                             | n/a                              |
| Restructuring provision   | 116                           | -                             | n/a                              | 116                           | -                             | n/a                              |
| Provision for litigation  | 17                            | -                             | n/a                              | 17                            | -                             | n/a                              |
| <b>Total abnormal income tax (expense)benefit</b>                   | <b>(177)</b>                  | <b>-</b>                      | <b>n/a</b>                       | <b>(113)</b>                  | <b>(64)</b>                   | <b>77%</b>                       |
| <b>Abnormal profit(loss) after tax</b>                              | <b>44</b>                     | <b>-</b>                      | <b>n/a</b>                       | <b>45</b>                     | <b>(1)</b>                    | <b>n/a</b>                       |

#### Sale of Grindlays businesses

On 31 July 2000, ANZ sold 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 business) to Standard Chartered Bank (SCB). Income from sale of \$1,225 million represents goodwill of US\$750 million, less costs of hedging and transaction costs.

As part of the sale of the Grindlays businesses to SCB, ANZ has provided warranties relating to the Grindlays business. Where it is anticipated that payments are likely under these warranties, provisions have been made to cover the anticipated liability.

In addition ANZ has provided SCB and/or Grindlays with certain indemnities namely:

1. 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;
2. an indemnity in relation to certain customer accounts written by Grindlays prior to 31 July 2000. The indemnity covers 80% of losses emerging on accounts currently totalling up to US\$186 million;
3. an indemnity for certain cross-border risks in relation to import letters of credit issued by Grindlays Pakistan to its customers in Pakistan prior to 31 July 2000. The duration of this indemnity is 1 year. The indemnity covers losses emerging on accounts totalling US\$80 million. It is not currently anticipated that ANZ will be called on to make any material payments under this indemnity; and
4. 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.



## NOTES TO THE FINANCIAL STATEMENTS

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 liable. No settlement offer can be made or paid by Grindlays without the prior agreement of ANZ. ANZ will continue to pursue these matters taking into account its legal obligations in the best interests of shareholders.

Details of the main claims for which ANZ is liable under the Indian Indemnity are set out below.

### (a) National Housing Bank Litigation

In 1992 Grindlays in India received a claim, aggregating approximately Indian Rupees 5.06 billion (\$202 million at 30 September 2000 rates) from the National Housing Bank (NHB) in that country. The claim arose out of certain cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited into the account of one of the customers of Grindlays.

On 29 March 1997, pursuant to an Arbitration Agreement entered into on 4 November 1992, the Arbitrators made an award on this dispute in favour of Grindlays. NHB paid to Grindlays the principal and interest due under the award (aggregating Indian Rupees 9.12 billion (\$364 million at 30 September 2000 rates)). Subsequently, NHB had the award reviewed by the Special Court at Mumbai, which on 4 February 1998 ordered that the award be set aside. Grindlays has filed an appeal with the Supreme Court of India seeking that the Special Court's order be set aside. Should Grindlays be required to repay NHB the Indian Rupees 9.12 billion, interest at 18% on that amount may also be required to be paid.

### (b) Foreign Exchange Regulation Act

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 prosecutions and possible penalties. Grindlays has commenced proceedings in the courts contesting the validity of these notices.

Provisions of \$575 million have been made out of the proceeds of sale to cover all estimated liabilities under the indemnities and warranties and other costs. In addition tax provisions of \$246 million, which include the provision for capital gains tax, have been raised.

## Property Revaluation

The Group revalued its class of assets 'Property' at directors' valuations, based on independent valuations by Arthur Andersen (most Australian and Pacific properties) and Jones Lang LaSalle Advisory (other major International properties) as at 31 March 2000. Consistent with Australian Accounting Standards, a \$30 million revaluation surplus has been taken to profit and loss, to reverse a decrement previously taken to profit on revaluation of properties. The remaining revaluation increment of \$31 million has been taken to asset revaluation reserve.

## Impact of Taxation Reform

The Australian Government has announced a change in corporate tax rates. The Group's Australian tax rate will fall from 36% for the year ended 30 September 2000, to 34% for the 2001 year and 30% thereafter. Deferred tax balances have been restated at these rates (impact (\$64 million)).

## Profit on Sale of Investment in Colonial

During the March half year the Group sold its small stake in Colonial Limited, realising a gain of \$33 million.

## NOTES TO THE FINANCIAL STATEMENTS

### Restructuring Provision

Using the financial capacity provided by the abnormal profit from the sale of Grindlays, we have decided to accelerate the implementation of the new strategy. In particular, we will bring forward the development of the 21 specialised businesses, including three new customer businesses, together with the eTransformation of our technology and operational platforms to fund the development of several new high-growth businesses that are essential for our future success.

This will require a substantial restructuring of our current technology, premises and operational infrastructure across the Group. In this result therefore, we have recognised a provision of \$361 million to cover restructuring costs involved with this program.

The program comprises some thirty-five major initiatives, spread across our 21 businesses plus support activities. Each has specific implementation plans, and will be rolled out at different times over the next two years. Announcement of the detail of these programs will be made in due course, internally and externally as appropriate. The main initiatives include:

- the modernisation and reshaping of our metropolitan branches and sales and service outlets into specially tailored retail outlets, configured around the specialised needs of our three new customer businesses of Wealth Management, General Banking and Small Business
- the transformation of our General Banking delivery platform, including a new sales and service platform, and imaging technology to improve productivity of processes and workflow
- a substantial reengineering and upgrading of the Esanda systems and operations environment
- the upgrading of our EFTPOS network to reduce maintenance and telecommunications changes and to increase flexibility for future enhancements such as chip technology
- the simplification of the Asia Pacific business platforms and centralisation of operations
- the rationalisation of our IT platforms, including the decommissioning of mid range IT systems, workflow improvements and other hardware upgrades required for eTransformation

The program is intended to be completed during this year and next, and we expect to recover the majority of this expenditure by the third year from annual productivity improvements and revenue enhancements. These funds will be available to invest in our growth businesses and to contribute to our EPS growth commitments.

### Revaluation of Panin

Following recent turmoil in the Indonesian equity markets, the market value of our investment in Panin has decreased markedly to well below our carrying value. We still regard this as a sound long term investment; however, we have determined it is no longer prudent to carry at an historical amount which is above market value.

### Provision for Litigation

Provisions have been made for the resolution of litigation arising from exited businesses and previous practices. Further disclosures may be prejudicial to ANZ's position on these matters.



## NOTES TO THE FINANCIAL STATEMENTS

### 5. INCOME TAX EXPENSE

Reconciliation of the prima facie income tax payable on operating profit and abnormal items with the income tax expense charged in the profit and loss account.

|  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|--|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| <b>Operating profit before income tax</b>                                    | <b>2,568</b>                  | 2,222                         | 16%                              | <b>1,325</b>                  | 1,243                         | 7%                               |
| Prima facie income tax at 36%  | <b>924</b>                    | 800                           | 16%                              | <b>477</b>                    | 447                           | 7%                               |
| Tax effect of permanent differences  |                               |                               |                                  |                               |                               |                                  |
| Overseas tax rate differential   | <b>4</b>                      | 2                             | 100%                             | <b>1</b>                      | 3                             | -67%                             |
| Rebateable and non-assessable dividends                                      | <b>(70)</b>                   | (55)                          | 27%                              | <b>(35)</b>                   | (35)                          | -                                |
| Other non-assessable income  | <b>(9)</b>                    | (21)                          | -57%                             | <b>(3)</b>                    | (6)                           | -50%                             |
| Life insurance accounting  | <b>17</b>                     | 17                            | -                                | <b>5</b>                      | 12                            | -58%                             |
| Application of available capital losses                                      | <b>(10)</b>                   | (3)                           | large                            | <b>(1)</b>                    | (9)                           | -89%                             |
| Other  | <b>18</b>                     | 6                             | large                            | <b>9</b>                      | 9                             | -                                |
|  | <b>874</b>                    | 746                           | 17%                              | <b>453</b>                    | 421                           | 8%                               |
| Income tax (over)under provided in prior years                               | <b>(11)</b>                   | (10)                          | 10%                              | <b>(14)</b>                   | 3                             | n/a                              |
| <b>Total income tax expense on operating profit</b>                          | <b>863</b>                    | 736                           | 17%                              | <b>439</b>                    | 424                           | 4%                               |
| <b>Abnormal profit before income tax</b>                                     | <b>221</b>                    | -                             | n/a                              | <b>158</b>                    | 63                            | large                            |
| Prima facie income tax at 36%  | <b>80</b>                     | -                             | n/a                              | <b>57</b>                     | 23                            | large                            |
| Tax effect of permanent differences  |                               |                               |                                  |                               |                               |                                  |
| Sale of Grindlays (net permanent difference)                                 | <b>12</b>                     | -                             | n/a                              | <b>12</b>                     | -                             | n/a                              |
| Impact of corporate tax rate change  | <b>64</b>                     | -                             | n/a                              | <b>-</b>                      | 64                            | -100%                            |
| Property revaluations  | <b>(11)</b>                   | -                             | n/a                              | <b>-</b>                      | (11)                          | -100%                            |
| Restructuring (composite tax rate)   | <b>15</b>                     | -                             | n/a                              | <b>15</b>                     | -                             | n/a                              |
| Writedown of investment in Panin   | <b>29</b>                     | -                             | n/a                              | <b>29</b>                     | -                             | n/a                              |
| Profit on sale of strategic investment                                       | <b>(12)</b>                   | -                             | n/a                              | <b>-</b>                      | (12)                          | -100%                            |
| <b>Total income tax expense on abnormal items</b>                            | <b>177</b>                    | -                             | n/a                              | <b>113</b>                    | 64                            | 77%                              |
| <b>Total income tax expense on operating profit<br/>after abnormal items</b> | <b>1,040</b>                  | 736                           | 41%                              | <b>552</b>                    | 488                           | 13%                              |
| Australia  | <b>782</b>                    | 512                           | 53%                              | <b>441</b>                    | 341                           | 29%                              |
| Overseas   | <b>258</b>                    | 224                           | 15%                              | <b>111</b>                    | 147                           | -24%                             |
|  | <b>1,040</b>                  | 736                           | 41%                              | <b>552</b>                    | 488                           | 13%                              |
| <b>Effective tax rate</b>  | <b>37.3%</b>                  | 33.1%                         | 13%                              | <b>37.2%</b>                  | 37.4%                         | -1%                              |

The Group's effective tax rate increased 4.2% to 37.3% as a result of the \$44 million abnormal items referred to in note 4 which had an effective tax rate of 80%. The effective tax rate before abnormal increased 0.5% to 33.6%.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. DIVIDENDS

|  | Full<br>year<br>Sep 00 | Full<br>year<br>Sep 99 | Half<br>year<br>Sep 00 | Half<br>year<br>Mar 00 |
|--|------------------------|------------------------|------------------------|------------------------|
| <b>Dividend per ordinary share<sup>1,2</sup> (cents)</b> |                        |                        |                        |                        |
| Interim  | 29                     | 26                     | n/a                    | 29                     |
| Final  | 35                     | 30                     | 35                     | n/a                    |
| <b>Ordinary share dividend<sup>1,2</sup> (\$M)</b>       |                        |                        |                        |                        |
| Interim dividend   | 445                    | 404                    | n/a                    | 445                    |
| Proposed final dividend                                  | 528                    | 470                    | 528                    | n/a                    |
| Bonus option plan adjustment                             | (32)                   | (60)                   | (14)                   | (18)                   |
| <b>Total</b>   | <b>941</b>             | <b>814</b>             | <b>514</b>             | <b>427</b>             |
| <b>Ordinary share dividend payout ratio (%)</b>          | <b>59.1%</b>           | <b>62.1%</b>           | <b>60.2%</b>           | <b>57.9%</b>           |

<sup>1</sup> The Sep 2000 final dividend of 35 cents is fully franked at 34% (Mar 2000: fully franked)

<sup>2</sup> The Sep 1999 final dividend of 30 cents was 80% franked (Mar 1999: 75% franked)

The directors propose that a final dividend of 35 cents per share be paid on each fully paid ordinary share. The dividend will be fully franked.

The proposed final dividend will be payable on 15 December 2000 to shareholders registered in the books of the Company at close of business on 9 November 2000. Dividends payable to shareholders resident in the United Kingdom and New Zealand will be converted to local currency at ANZ's daily forward exchange rate on 9 November 2000.

In 1998 the Company issued 124,032,000 preference shares which raised US\$775 million via Trust Securities issues. The Trust Securities carry an entitlement to a distribution of 8% (US\$400 million) or 8.08% (US\$375 million). The amounts are payable quarterly in arrears.

|                                  | Full<br>year<br>Sep 00 | Full<br>year<br>Sep 99 | Half<br>year<br>Sep 00 | Half<br>year<br>Mar 00 |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Preference share dividend</b> |                        |                        |                        |                        |
| Dividend paid (\$M)              | 102                    | 72                     | 53                     | 49                     |



## NOTES TO THE FINANCIAL STATEMENTS

### 7. EARNINGS PER ORDINARY SHARE

|   | Full<br>year<br>Sep 00 | Full<br>year<br>Sep 99 | Half<br>year<br>Sep 00 | Half<br>year<br>Mar 00 |
|---|------------------------|------------------------|------------------------|------------------------|
| <b>Basic</b>  |                        |                        |                        |                        |
| <b>Including abnormals</b>  |                        |                        |                        |                        |
| Operating profit after income tax<br>attributable to ordinary shareholders <sup>1</sup> (\$M) | 1,645                  | 1,408                  | 877                    | 768                    |
| Weighted average number of ordinary shares (M)  | 1,540.3                | 1,553.5                | 1,522.1                | 1,558.5                |
| <b>Basic earnings per share (cents)</b>   | <b>106.8</b>           | <b>90.6</b>            | <b>57.6</b>            | <b>49.3</b>            |
| <b>Excluding abnormals</b>  |                        |                        |                        |                        |
| Operating profit after income tax<br>attributable to ordinary shareholders <sup>1</sup> (\$M) | 1,601                  | 1,408                  | 832                    | 769                    |
| Weighted average number of ordinary shares (M)  | 1,540.3                | 1,553.5                | 1,522.1                | 1,558.5                |
| <b>Basic earnings per share (cents)</b>   | <b>103.9</b>           | <b>90.6</b>            | <b>54.7</b>            | <b>49.3</b>            |
| <b>Diluted</b>  |                        |                        |                        |                        |
| <b>Including abnormals</b>  |                        |                        |                        |                        |
| Adjustment to profit for interest on options (\$M)  | 5                      | 2                      | 3                      | 2                      |
| Weighted average number of shares - diluted (M)   | 1,552.4                | 1,561.0                | 1,535.0                | 1,569.7                |
| <b>Diluted earnings per share (cents)</b>   | <b>106.3</b>           | <b>90.3</b>            | <b>57.3</b>            | <b>49.1</b>            |
| <b>Excluding abnormals</b>  |                        |                        |                        |                        |
| Adjustment to profit for interest on options (\$M)  | 5                      | 2                      | 3                      | 2                      |
| Weighted average number of shares - diluted (M)   | 1,552.4                | 1,561.0                | 1,535.0                | 1,569.7                |
| <b>Diluted earnings per share (cents)</b>   | <b>103.5</b>           | <b>90.3</b>            | <b>54.4</b>            | <b>49.1</b>            |

<sup>1</sup> Excludes preference share dividend

## NOTES TO THE FINANCIAL STATEMENTS

### BALANCE SHEET

The increase in total Group assets of approximately \$20 billion (13%) over September 1999, was impacted by the sale of \$9.5 billion Grindlays assets on 31 July 2000 to Standard Chartered Bank, and a depreciation in the Australian dollar. The underlying growth was \$27 billion.

The following commentary explains underlying movements in the balance sheet of the continuing businesses.

Lending growth of 10% was achieved through:

- Personal Financial Services growing by 21% including \$10 billion growth in mortgage lending
- Corporate growth in Australia, New Zealand, UK and the Americas of 9%, including a \$2 billion increase in structured finance
- International lending growing \$0.6 billion in Asia structured finance and business banking

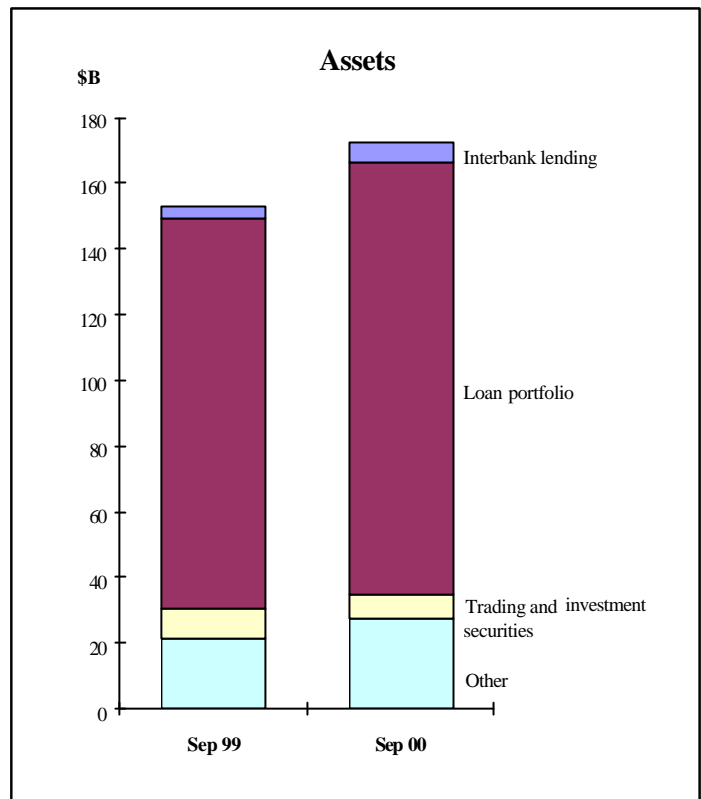
A \$2.3 billion increase in interbank lending resulted largely from the strengthening liquidity in Australia and the United States.

The increase in Other Assets and Other Liabilities is primarily as a result of the unrealised gains and losses on derivative instruments following increased customer activity with volatility in financial markets.

A \$5.1 billion increase in senior debt resulted from the issuance of Euro Medium Term Notes to improve the term structure of the funding profile.

Deposits and borrowings increased 4%, largely in Australia.

Total shareholders' equity increased 4% with growth in retained earnings and DRP participation being partly offset by the \$1,014 million share buy back.



## NOTES TO THE FINANCIAL STATEMENTS

### 8. INVESTMENT SECURITIES

|                    | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M |
|--------------------|------------------------|------------------------|------------------------|
| Total book value   | 3,006                  | 4,409                  | 4,695                  |
| Total market value | <b>2,982</b>           | 4,444                  | 4,730                  |

### 9. NET LOANS AND ADVANCES

|   | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M |
|---|------------------------|------------------------|------------------------|
| Australia   |                        |                        |                        |
| Term loans - housing                              | 40,571                 | 36,155                 | 31,684                 |
| Term loans - non housing                          | 31,446                 | 28,984                 | 27,431                 |
| Lease finance/hire purchase                       | 10,779                 | 11,037                 | 10,842                 |
| Overdrafts  | 2,877                  | 2,640                  | 2,776                  |
| Credit card outstandings                          | 2,837                  | 2,509                  | 2,138                  |
| Other   | 510                    | 375                    | 384                    |
|   | <b>89,020</b>          | 81,700                 | 75,255                 |
| New Zealand                                       |                        |                        |                        |
| Term loans - housing                              | 8,487                  | 8,947                  | 8,000                  |
| Term loans - non housing                          | 5,688                  | 6,611                  | 5,817                  |
| Lease finance/hire purchase                       | 595                    | 655                    | 544                    |
| Overdrafts  | 569                    | 622                    | 478                    |
| Credit card outstandings                          | 311                    | 296                    | 249                    |
| Other   | 838                    | 819                    | 594                    |
|   | <b>16,488</b>          | 17,950                 | 15,682                 |
| Overseas markets                                  |                        |                        |                        |
| Term loans - housing                              | 370                    | 547                    | 449                    |
| Term loans - non housing                          | 12,708                 | 14,200                 | 13,514                 |
| Lease finance/hire purchase                       | 303                    | 279                    | 188                    |
| Overdrafts  | 655                    | 2,207                  | 1,970                  |
| Credit card outstandings                          | 27                     | 207                    | 164                    |
| Other   | 61                     | 487                    | 329                    |
|   | <b>14,124</b>          | 17,927                 | 16,614                 |
| <b>Total gross loans and advances<sup>1</sup></b> | <b>119,632</b>         | 117,577                | 107,551                |
| Less:   |                        |                        |                        |
| Provisions for doubtful debts                     | (2,082)                | (2,332)                | (2,302)                |
| Income yet to mature                              | (1,235)                | (1,223)                | (1,186)                |
| <b>Total net loans and advances<sup>1</sup></b>   | <b>116,315</b>         | 114,022                | 104,063                |

<sup>1</sup> Bills held in portfolio (Sep 2000: \$1,009 million, Sep 1999: \$1,229 million) are included in trading securities

## NOTES TO THE FINANCIAL STATEMENTS

### 10. IMPAIRED ASSETS

#### Asset quality

The charge for doubtful debts was determined under economic loss provisioning principles (ELP) and represents the expected average annual loss on principal over the economic cycle for the lending portfolio. The ELP charge was \$502 million for 2000 as compared to \$510 million for the year to September 1999. This decrease in dollar charge was mainly due to the sale of Grindlays. However, the charge as a percentage of average net lending assets reduced to 39 basis points from 43 basis points at September 1999 principally as a result of improved asset quality in the International book and strong growth in the mortgage book in Australia.

Actual loss experience or net specific provisions during the year totalled \$383 million, a reduction of \$99 million from the previous year.

The net specific provisions by country of risk were:

- \$77 million on Asian exposures (September 1999: \$113 million). Of this, \$56 million of provisions were taken for Daewoo and a further \$25 million for another single name exit account
- \$7 million on Middle East exposures (September 1999: \$118 million)
- \$280 million on Australia and New Zealand exposures (September 1999: \$179 million)

Net specific provision increases in Australia and New Zealand reflect an increase in personal lending and credit card volumes and higher than expected loss rates from personal loans. Whilst the high margins on personal loans largely offset the unexpected losses, nonetheless cut-off scores and other risk management procedures have been reviewed and are expected to bring losses in line with expectations.

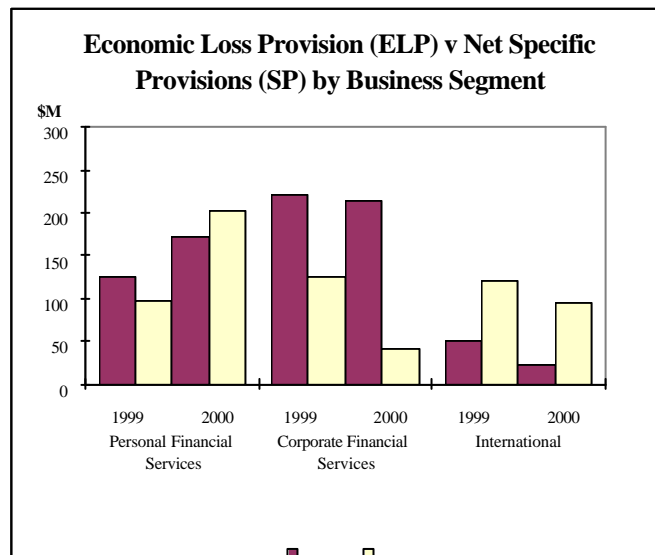
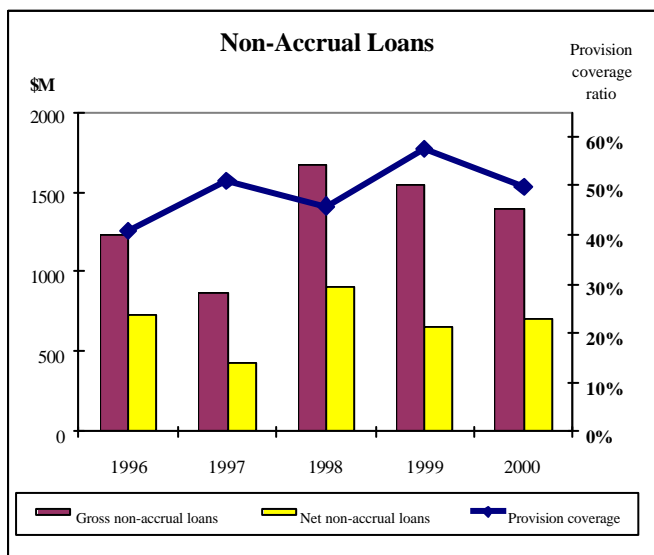
At 30 September 2000, the general provision stood at \$1,373 million, a surplus of \$406 million over the tax effected 0.5% of risk weighted assets guidelines indicated by the Australian Prudential Regulation Authority.

Whilst the general provision reduced as a percentage of risk weighted assets from 1.2% to 1.1% the coverage actually strengthened given the sale of Grindlays with its high ELP rates and the increase in the proportion of the book in mortgage loans. Excluding Grindlays for the full 2000 year, the ELP falls from 43 basis points in 1999 to 36 basis points reflecting the improvement in credit quality.

#### Non-accrual loans

Gross non-accrual loans have decreased to \$1,391 million from \$1,543 million at September 1999. This reduction is mainly due to the sale of Grindlays (\$182 million) and is offset by an increase due to the decline in the Australian dollar (\$127 million). New non-accruals of \$1,069 million were booked of which 74% were in Australia and New Zealand and 17% in Asia.

The Group remains well provided with a coverage ratio of 49.7%. Net non-accruals are \$699 million (September 1999: \$657 million) and represent 7.1% of shareholders equity at September 2000.



## NOTES TO THE FINANCIAL STATEMENTS

### 10. IMPAIRED ASSETS (continued)

|                                    | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M |
|------------------------------------|------------------------|------------------------|------------------------|
| <b>Summary of impaired assets</b>  |                        |                        |                        |
| Non-accrual loans                  | 1,391                  | 1,425                  | 1,543                  |
| Restructured loans                 | 1                      | 2                      | 7                      |
| Unproductive facilities            | 73                     | 57                     | 91                     |
| <b>Gross impaired assets</b>       | <b>1,465</b>           | <b>1,484</b>           | <b>1,641</b>           |
| Less specific provisions:          |                        |                        |                        |
| Non-accrual loans                  | (692)                  | (871)                  | (886)                  |
| Unproductive facilities            | (17)                   | (25)                   | (21)                   |
| <b>Net impaired assets</b>         | <b>756</b>             | <b>588</b>             | <b>734</b>             |
| <b>Non-accrual loans</b>           |                        |                        |                        |
| Non-accrual loans                  | 1,391                  | 1,425                  | 1,543                  |
| Specific provisions                | (692)                  | (871)                  | (886)                  |
| <b>Total net non-accrual loans</b> | <b>699</b>             | <b>554</b>             | <b>657</b>             |
| <b>Before specific provisions</b>  |                        |                        |                        |
| Australia                          | 651                    | 495                    | 623                    |
| New Zealand                        | 59                     | 72                     | 50                     |
| Overseas markets                   | 681                    | 858                    | 870                    |
| <b>Total non-accrual loans</b>     | <b>1,391</b>           | <b>1,425</b>           | <b>1,543</b>           |
| <b>After specific provisions</b>   |                        |                        |                        |
| Australia                          | 393                    | 257                    | 345                    |
| New Zealand                        | 33                     | 46                     | 30                     |
| Overseas markets                   | 273                    | 251                    | 282                    |
| <b>Total net non-accrual loans</b> | <b>699</b>             | <b>554</b>             | <b>657</b>             |

Growth in non-accrual loans in Australia principally arose in the Corporate book with the downgrade and provisioning for one large customer facing difficulties.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. IMPAIRED ASSETS (continued)

|                                       | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M |
|---------------------------------------|------------------------|------------------------|------------------------|
| <b>Restructured loans</b>             |                        |                        |                        |
| Australia                             | 1                      | 2                      | 7                      |
| New Zealand                           | -                      | -                      | -                      |
| Overseas markets                      | -                      | -                      | -                      |
|                                       | <b>1</b>               | <b>2</b>               | <b>7</b>               |
| <b>Other real estate owned (OREO)</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.

### Unproductive facilities

|                                      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
| Australia                            | 48        | 26        | 43        |
| New Zealand                          | 5         | 1         | 1         |
| Overseas markets                     | 20        | 30        | 47        |
| <b>Gross unproductive facilities</b> | <b>73</b> | <b>57</b> | <b>91</b> |
| <b>Specific provision</b>            |           |           |           |
| Australia                            | 2         | 5         | 3         |
| New Zealand                          | -         | -         | -         |
| Overseas markets                     | 15        | 20        | 18        |
| <b>Specific provision</b>            | <b>17</b> | <b>25</b> | <b>21</b> |
| <b>Net unproductive facilities</b>   | <b>56</b> | <b>32</b> | <b>70</b> |

### Accruing loans past due 90 days or more

The following amounts are not classified as impaired assets and therefore are not included within the summary on page 43.

|                  |            |            |            |
|------------------|------------|------------|------------|
| Australia        | 299        | 255        | 292        |
| New Zealand      | 48         | 62         | 47         |
| Overseas markets | 20         | 32         | 15         |
|                  | <b>367</b> | <b>349</b> | <b>354</b> |

## NOTES TO THE FINANCIAL STATEMENTS

### 10. IMPAIRED ASSETS (continued)

Further analysis of non-accrual loans at 30 September 2000 and interest and/or other income received during the period is as follows:

|  | Gross balance<br>outstanding<br>\$M | Specific<br>provision<br>\$M | Interest and/or<br>other income<br>received<br>\$M |
|--|-------------------------------------|------------------------------|--|
| <b>Non-accrual loans</b>                                     |                                     |                              |  |
| Without provisions   |                                     |                              |  |
| Australia  | 281                                 | -                            | 3  |
| New Zealand  | 13                                  | -                            | -  |
| Overseas markets   | 51                                  | -                            | 7  |
|  | <b>345</b>                          | <b>-</b>                     | <b>10</b>  |
| With provisions and no, or partial, performance <sup>1</sup> |                                     |                              |  |
| Australia  | 349                                 | 250                          | 16   |
| New Zealand  | 38                                  | 23                           | 1  |
| Overseas markets   | 573                                 | 374                          | 15   |
|  | <b>960</b>                          | <b>647</b>                   | <b>32</b>  |
| With provisions and full performance <sup>1</sup>            |                                     |                              |  |
| Australia  | 21                                  | 8                            | 1  |
| New Zealand  | 8                                   | 3                            | 1  |
| Overseas markets   | 57                                  | 34                           | 10   |
|  | <b>86</b>                           | <b>45</b>                    | <b>12</b>  |
| <b>Total non-accrual loans</b>                               | <b>1,391</b>                        | <b>692</b>                   | <b>54</b>  |
| <b>Restructured loans</b>                                    | <b>1</b>                            | <b>-</b>                     | <b>-</b>   |
| <b>Unproductive facilities</b>                               | <b>73</b>                           | <b>17</b>                    | <b>-</b>   |
| <b>Total</b>   | <b>1,465</b>                        | <b>709</b>                   | <b>54</b>  |

<sup>1</sup> A loan's performance is assessed against its contractual repayment schedule

### Interest and other income forgone on impaired assets

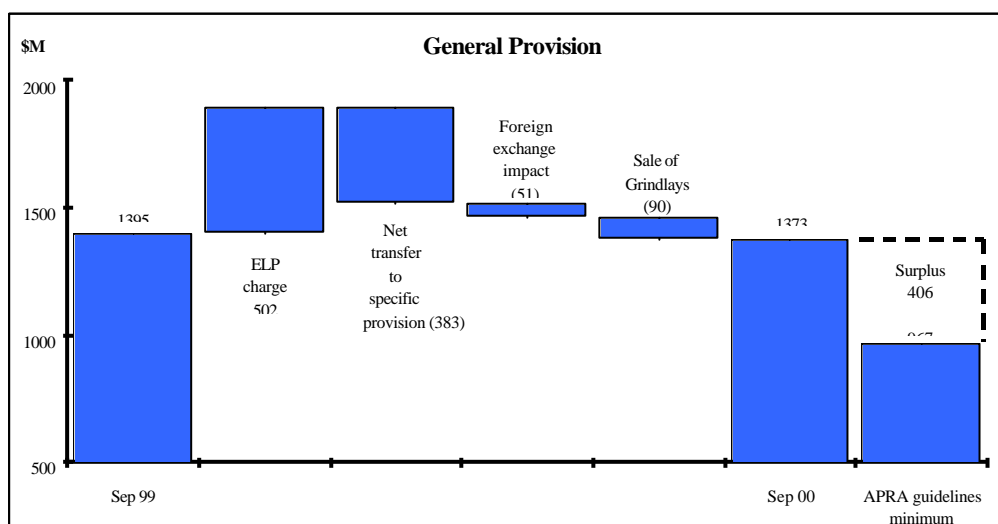
The following table shows the estimated amount of interest and other income forgone, net of interest recoveries, on average impaired assets during the period.

|  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities</b> |                               |                               |                               |                               |
| Australia  | 48                            | 73                            | 26                            | 22                            |
| New Zealand  | 6                             | 7                             | 3                             | 3                             |
| Overseas markets   | 92                            | 92                            | 43                            | 49                            |
| Total gross interest and other income receivable on impaired assets  | <b>146</b>                    | <b>172</b>                    | <b>72</b>                     | <b>74</b>                     |
| <b>Interest and other income received</b>  |                               |                               |                               |                               |
| Australia  | (20)                          | (29)                          | (6)                           | (14)                          |
| New Zealand  | (2)                           | (2)                           | (2)                           | -                             |
| Overseas markets   | (32)                          | (22)                          | (17)                          | (15)                          |
| Total interest income and other income received  | <b>(54)</b>                   | <b>(53)</b>                   | <b>(25)</b>                   | <b>(29)</b>                   |
| <b>Net interest and other income forgone</b>   |                               |                               |                               |                               |
| Australia  | 28                            | 44                            | 20                            | 8                             |
| New Zealand  | 4                             | 5                             | 1                             | 3                             |
| Overseas markets   | 60                            | 70                            | 26                            | 34                            |
| Total net interest and other income forgone  | <b>92</b>                     | <b>119</b>                    | <b>47</b>                     | <b>45</b>                     |

## NOTES TO THE FINANCIAL STATEMENTS

### 11. PROVISIONS FOR DOUBTFUL DEBTS

|  | Full<br>year<br>Sep 00<br>\$M | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Full<br>year<br>Sep 99<br>\$M |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>General provision</b>                   |                               |                               |                               |                               |
| Balance at start of period                 | 1,395                         | 1,436                         | 1,395                         | 1,401                         |
| Adjustment for exchange rate fluctuations  | (51)                          | (33)                          | (18)                          | (34)                          |
| Sale of Grindlays                          | (90)                          | (90)                          | -                             | -                             |
| Charge to profit and loss                  | 502                           | 246                           | 256                           | 510                           |
| Transfer to specific provision             | (429)                         | (214)                         | (215)                         | (515)                         |
| Recoveries                                 | 46                            | 28                            | 18                            | 33                            |
| <b>Total general provision</b>             | <b>1,373</b>                  | <b>1,373</b>                  | 1,436                         | 1,395                         |
| <b>Specific provision</b>                  |                               |                               |                               |                               |
| Balance at start of period                 | 907                           | 896                           | 907                           | 819                           |
| Adjustment for exchange rate fluctuations  | 88                            | 39                            | 49                            | (45)                          |
| Sale of Grindlays                          | (176)                         | (176)                         | -                             | -                             |
| Bad debts written off                      | (539)                         | (264)                         | (275)                         | (382)                         |
| Transfer from general provision            | 429                           | 214                           | 215                           | 515                           |
| <b>Total specific provision</b>            | <b>709</b>                    | <b>709</b>                    | 896                           | 907                           |
| <b>Total provisions for doubtful debts</b> | <b>2,082</b>                  | <b>2,082</b>                  | 2,332                         | 2,302                         |



## NOTES TO THE FINANCIAL STATEMENTS

### 11. PROVISIONS FOR DOUBTFUL DEBTS (continued)

|  | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M |
|--|------------------------|------------------------|------------------------|
| <b>Specific provision balance</b>          |                        |                        |                        |
| Australia                                  | 260                    | 243                    | 281                    |
| New Zealand                                | 26                     | 26                     | 20                     |
| Domestic markets                           | 286                    | 269                    | 301                    |
| Overseas markets                           | 423                    | 627                    | 606                    |
| <b>Total specific provision</b>            | <b>709</b>             | 896                    | 907                    |
| <b>General provision</b>                   | <b>1,373</b>           | 1,436                  | 1,395                  |
| <b>Total provisions for doubtful debts</b> | <b>2,082</b>           | 2,332                  | 2,302                  |

|   | Full<br>year<br>Sep 00<br>\$M | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Full<br>year<br>Sep 99<br>\$M |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Provision movement analysis</b>              |                               |                               |                               |                               |
| New and increased provisions by country of risk |                               |                               |                               |                               |
| Australia                                       | 319                           | 174                           | 145                           | 253                           |
| New Zealand                                     | 52                            | 31                            | 21                            | 32                            |
| Asia  | 98                            | 35                            | 63                            | 150                           |
| Other overseas markets                          | 79                            | 44                            | 35                            | 211                           |
|   | 548                           | 284                           | 264                           | 646                           |
| Provision releases                              | (119)                         | (70)                          | (49)                          | (131)                         |
|   | 429                           | 214                           | 215                           | 515                           |
| Recoveries of amounts previously written off    | (46)                          | (28)                          | (18)                          | (33)                          |
| <b>Net specific provisions</b>                  | <b>383</b>                    | 186                           | 197                           | 482                           |
| <b>Net credit to general provision</b>          | <b>119</b>                    | 60                            | 59                            | 28                            |
| <b>Charge to profit and loss</b>                | <b>502</b>                    | 246                           | 256                           | 510                           |

### 12. SHARE CAPITAL

|   | As at<br>Sep 00 | As at<br>Mar 00 | As at<br>Sep 99 |
|---|-----------------|-----------------|-----------------|
| <b>Number of issued shares</b>                  |                 |                 |                 |
| Ordinary shares each fully paid (listed)        | 1,506,210,690   | 1,533,448,200   | 1,565,428,469   |
| Ordinary shares each paid to 10 cents per share | 73,000          | 84,000          | 95,000          |
| Preference shares each fully paid               | 124,032,000     | 124,032,000     | 124,032,000     |

## NOTES TO THE FINANCIAL STATEMENTS

### 13. CAPITAL ADEQUACY

|  | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% |
|--|------------------------|------------------------|------------------------|----------------------------------|
| <b>Qualifying capital</b>  |                        |                        |                        |                                  |
| <b>Tier 1</b>  |                        |                        |                        |                                  |
| Total shareholders' equity and outside equity interests <sup>1</sup> | 9,776                  | 9,631                  | 9,429                  | 4%                               |
| Less: net future income tax benefit                                  | -                      | (26)                   | -                      | n/a                              |
| unamortised goodwill   | (118)                  | (78)                   | (82)                   | 44%                              |
| investment in ANZ Lenders Mortgage Insurance                         | (18)                   | (18)                   | (18)                   | -                                |
| <b>Tier 1 capital</b>  | <b>9,640</b>           | <b>9,509</b>           | <b>9,329</b>           | <b>3%</b>                        |
| <b>Tier 2</b>  |                        |                        |                        |                                  |
| Asset revaluation reserve  | 31                     | 31                     | -                      | n/a                              |
| Perpetual subordinated notes   | 1,026                  | 920                    | 855                    | 20%                              |
| General provision for doubtful debts <sup>2</sup>                    | 919                    | 962                    | 851                    | 8%                               |
|  | 1,976                  | 1,913                  | 1,706                  | 16%                              |
| Subordinated notes <sup>3</sup>                                      | 2,432                  | 2,217                  | 2,211                  | 10%                              |
| <b>Tier 2 capital</b>  | <b>4,408</b>           | <b>4,130</b>           | <b>3,917</b>           | <b>13%</b>                       |
| <b>Deductions</b>  |                        |                        |                        |                                  |
| Investment in Funds Management entities                              | 298                    | 298                    | 298                    | -                                |
| Other  | 489                    | 609                    | 286                    | 71%                              |
| <b>Total deductions</b>  | <b>787</b>             | <b>907</b>             | <b>584</b>             | <b>35%</b>                       |
| <b>Total qualifying capital</b>                                      | <b>13,261</b>          | <b>12,732</b>          | <b>12,662</b>          | <b>5%</b>                        |
| <b>Ratios (%)</b>  |                        |                        |                        |                                  |
| Tier 1   | 7.4%                   | 7.5%                   | 7.9%                   | n/a                              |
| Tier 2   | 3.4%                   | 3.3%                   | 3.3%                   | n/a                              |
|  | 10.8%                  | 10.8%                  | 11.2%                  | n/a                              |
| Less: deductions   | (0.6%)                 | (0.7%)                 | (0.5%)                 | n/a                              |
| <b>Total</b>   | <b>10.2%</b>           | <b>10.1%</b>           | <b>10.7%</b>           | <b>n/a</b>                       |
| <b>Risk weighted assets</b>  | <b>129,688</b>         | <b>126,553</b>         | <b>118,037</b>         | <b>10%</b>                       |

<sup>1</sup> Excluding asset revaluation reserve which is included within tier 2 capital

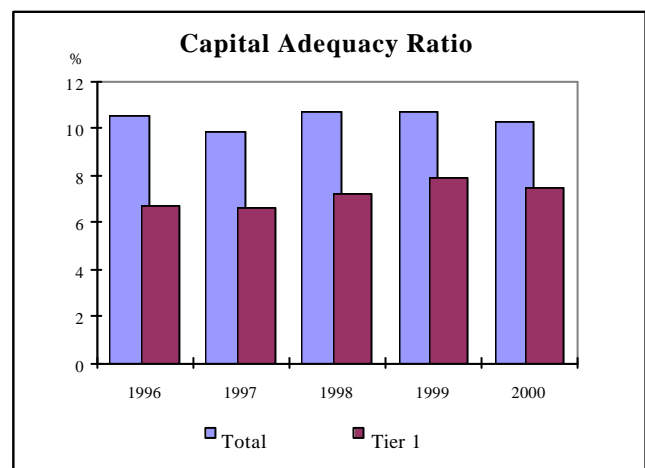
<sup>2</sup> Excluding attributable future income tax benefit

<sup>3</sup> For capital adequacy calculation purposes, subordinated note issues are reduced each year by 20% of the original amount during the last five years to maturity.

The Group's capital position continues to be strong.

Tier 1 ratios were managed downwards by the share buyback of \$1,014 million that was carried out during the year. Increased goodwill relates to EFTPOS NZ (\$44 million), which was acquired during the second half. General provision for doubtful debts slightly reduced following the sale of Grindlays. Deductions from total capital comprise the Group's investments in St George Bank and, Panin Bank (Indonesia), along with other funds management operations.

The Australian Prudential Regulation Authority guideline ratio of qualifying capital to risk weighted assets is a minimum of 8%, of which Tier 1 capital must be at least 4%.



## NOTES TO THE FINANCIAL STATEMENTS

### 14. AVERAGE BALANCE SHEET AND RELATED INTEREST

Averages used in the following tables 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.

#### FULL YEAR AVERAGE BALANCE SHEET

|                                       | Sep 2000 Full Year |              |           | Sep 1999 Full Year |              |           |
|---------------------------------------|--------------------|--------------|-----------|--------------------|--------------|-----------|
|                                       | Ave bal<br>\$M     | Int<br>\$M   | Rate<br>% | Ave bal<br>\$M     | Int<br>\$M   | Rate<br>% |
| <b>Interest earning assets</b>        |                    |              |           |                    |              |           |
| Due from other financial institutions |                    |              |           |                    |              |           |
| Australia                             | 1,134              | 62           | 5.4%      | 1,237              | 45           | 3.6%      |
| New Zealand                           | 344                | 19           | 5.6%      | 545                | 21           | 3.9%      |
| Overseas markets                      | 2,407              | 162          | 6.7%      | 2,486              | 161          | 6.5%      |
| Regulatory deposits with              |                    |              |           |                    |              |           |
| Reserve Bank of Australia             | -                  | -            | -         | 501                | -            | -         |
| Investments in public securities      |                    |              |           |                    |              |           |
| Australia                             | 4,881              | 289          | 5.9%      | 4,686              | 222          | 4.7%      |
| New Zealand                           | 1,040              | 60           | 5.8%      | 1,009              | 47           | 4.7%      |
| Overseas markets                      | 2,234              | 227          | 10.1%     | 2,585              | 270          | 10.5%     |
| Loans, advances and bills discounted  |                    |              |           |                    |              |           |
| Australia                             | 81,373             | 6,156        | 7.6%      | 69,251             | 4,970        | 7.2%      |
| New Zealand                           | 16,625             | 1,368        | 8.2%      | 15,288             | 1,178        | 7.7%      |
| Overseas markets                      | 17,118             | 1,428        | 8.3%      | 16,918             | 1,411        | 8.3%      |
| Other assets                          |                    |              |           |                    |              |           |
| Australia                             | 1,705              | 98           | 5.7%      | 1,593              | 82           | 5.1%      |
| New Zealand                           | 1,005              | 81           | 8.1%      | 960                | 75           | 7.9%      |
| Overseas markets                      | 3,292              | 317          | 9.6%      | 3,132              | 218          | 6.9%      |
| Intragroup assets                     |                    |              |           |                    |              |           |
| Overseas markets                      | 9,042              | 420          | 4.6%      | 7,238              | 388          | 5.4%      |
|                                       | 142,200            | 10,687       |           | 127,429            | 9,088        |           |
| <b>Intragroup elimination</b>         | <b>(9,042)</b>     | <b>(420)</b> |           | <b>(7,238)</b>     | <b>(388)</b> |           |
|                                       | 133,158            | 10,267       | 7.7%      | 120,191            | 8,700        | 7.2%      |
| <b>Non-interest earning assets</b>    |                    |              |           |                    |              |           |
| Acceptances                           |                    |              |           |                    |              |           |
| Australia                             | 15,061             |              |           | 16,045             |              |           |
| New Zealand                           | -                  |              |           | 49                 |              |           |
| Overseas markets                      | 343                |              |           | 420                |              |           |
| Premises and equipment                | 1,353              |              |           | 1,457              |              |           |
| Other assets                          | 18,090             |              |           | 15,908             |              |           |
| Provisions for doubtful debts         |                    |              |           |                    |              |           |
| Australia                             | (1,830)            |              |           | (1,664)            |              |           |
| New Zealand                           | (163)              |              |           | (168)              |              |           |
| Overseas markets                      | (381)              |              |           | (437)              |              |           |
|                                       | 32,473             |              |           | 31,610             |              |           |
| <b>Total assets</b>                   | <b>165,631</b>     |              |           | <b>151,801</b>     |              |           |

## NOTES TO THE FINANCIAL STATEMENTS

### 14. AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

|   | Sep 2000 Full Year |            |           | Sep 1999 Full Year |            |           |
|---|--------------------|------------|-----------|--------------------|------------|-----------|
|   | Ave bal<br>\$M     | Int<br>\$M | Rate<br>% | Ave bal<br>\$M     | Int<br>\$M | Rate<br>% |
| <b>Interest bearing liabilities</b>     |                    |            |           |                    |            |           |
| Time deposits                           |                    |            |           |                    |            |           |
| Australia                               | 24,750             | 1,387      | 5.6%      | 21,337             | 1,008      | 4.7%      |
| New Zealand                             | 8,159              | 476        | 5.8%      | 8,035              | 406        | 5.1%      |
| Overseas markets                        | 15,234             | 931        | 6.1%      | 14,569             | 872        | 6.0%      |
| Savings deposits                        |                    |            |           |                    |            |           |
| Australia                               | 9,181              | 247        | 2.7%      | 9,006              | 202        | 2.3%      |
| New Zealand                             | 2,894              | 85         | 2.9%      | 3,330              | 90         | 2.7%      |
| Overseas markets                        | 1,359              | 57         | 4.2%      | 1,599              | 84         | 5.3%      |
| Other demand deposits                   |                    |            |           |                    |            |           |
| Australia                               | 17,053             | 781        | 4.6%      | 14,638             | 522        | 3.6%      |
| New Zealand                             | 1,469              | 66         | 4.5%      | 1,633              | 58         | 3.5%      |
| Overseas markets                        | 1,371              | 52         | 3.8%      | 1,525              | 58         | 3.8%      |
| Due to other financial institutions     |                    |            |           |                    |            |           |
| Australia                               | 232                | 15         | 6.3%      | 276                | 12         | 4.3%      |
| New Zealand                             | 482                | 20         | 4.1%      | 631                | 20         | 3.2%      |
| Overseas markets                        | 8,976              | 542        | 6.0%      | 8,544              | 467        | 5.5%      |
| Commercial paper                        |                    |            |           |                    |            |           |
| Australia                               | 5,256              | 307        | 5.8%      | 3,844              | 187        | 4.9%      |
| Overseas markets                        | 3,079              | 180        | 5.8%      | 2,597              | 127        | 4.9%      |
| Borrowing corporations' debt            |                    |            |           |                    |            |           |
| Australia                               | 5,935              | 340        | 5.7%      | 5,414              | 317        | 5.9%      |
| New Zealand                             | 1,136              | 69         | 6.1%      | 1,067              | 65         | 6.1%      |
| Loan capital, bonds and notes           |                    |            |           |                    |            |           |
| Australia                               | 8,491              | 554        | 6.5%      | 4,677              | 270        | 5.8%      |
| New Zealand                             | 316                | 23         | 7.3%      | 160                | 9          | 5.6%      |
| Overseas markets                        | 276                | 19         | 7.0%      | 380                | 22         | 5.7%      |
| Other liabilities <sup>1</sup>          |                    |            |           |                    |            |           |
| Australia                               | 1,454              | 63         | n/a       | 1,727              | 61         | n/a       |
| New Zealand                             | 116                | 156        | n/a       | 193                | 81         | n/a       |
| Overseas markets                        | 246                | 70         | n/a       | 508                | 91         | n/a       |
| Intragroup Liabilities                  |                    |            |           |                    |            |           |
| Australia                               | 5,511              | 286        | 5.2%      | 5,018              | 280        | 5.6%      |
| New Zealand                             | 3,531              | 134        | 3.8%      | 2,220              | 108        | 4.9%      |
|   | 126,507            | 6,860      |           | 112,928            | 5,417      |           |
| Intragroup elimination                  | (9,042)            | (420)      |           | (7,238)            | (388)      |           |
|   | 117,465            | 6,440      | 5.5%      | 105,690            | 5,029      | 4.8%      |
| <b>Non-interest bearing liabilities</b> |                    |            |           |                    |            |           |
| Deposits                                |                    |            |           |                    |            |           |
| Australia                               | 3,636              |            |           | 3,204              |            |           |
| New Zealand                             | 794                |            |           | 730                |            |           |
| Overseas markets                        | 1,280              |            |           | 1,481              |            |           |
| Acceptances                             |                    |            |           |                    |            |           |
| Australia                               | 15,061             |            |           | 16,045             |            |           |
| New Zealand                             | -                  |            |           | 49                 |            |           |
| Overseas markets                        | 343                |            |           | 420                |            |           |
| Other liabilities                       | 17,037             |            |           | 14,855             |            |           |
|   | 38,151             |            |           | 36,784             |            |           |
| <b>Total liabilities</b>                | <b>155,616</b>     |            |           | <b>142,474</b>     |            |           |

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

## NOTES TO THE FINANCIAL STATEMENTS

### 14. AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

#### HALF YEAR AVERAGE BALANCE SHEET

|                                       | Sep 2000 Half Year |              |           | Mar 2000 Half Year |              |           |
|---------------------------------------|--------------------|--------------|-----------|--------------------|--------------|-----------|
|                                       | Ave bal<br>\$M     | Int<br>\$M   | Rate<br>% | Ave bal<br>\$M     | Int<br>\$M   | Rate<br>% |
| <b>Interest earning assets</b>        |                    |              |           |                    |              |           |
| Due from other financial institutions |                    |              |           |                    |              |           |
| Australia                             | 1,419              | 40           | 5.6%      | 850                | 22           | 5.1%      |
| New Zealand                           | 356                | 11           | 6.4%      | 332                | 8            | 4.7%      |
| Overseas markets                      | 2,716              | 92           | 6.8%      | 2,098              | 70           | 6.7%      |
| Investments in public securities      |                    |              |           |                    |              |           |
| Australia                             | 5,034              | 153          | 6.1%      | 4,729              | 136          | 5.8%      |
| New Zealand                           | 968                | 32           | 6.6%      | 1,115              | 28           | 5.1%      |
| Overseas markets                      | 2,150              | 108          | 10.0%     | 2,318              | 119          | 10.3%     |
| Loans, advances and bills discounted  |                    |              |           |                    |              |           |
| Australia                             | 84,891             | 3,346        | 7.9%      | 77,855             | 2,810        | 7.2%      |
| New Zealand                           | 16,927             | 735          | 8.7%      | 16,354             | 633          | 7.7%      |
| Overseas markets                      | 17,005             | 703          | 8.3%      | 17,231             | 725          | 8.4%      |
| Other assets                          |                    |              |           |                    |              |           |
| Australia                             | 1,764              | 54           | 6.1%      | 1,647              | 44           | 5.3%      |
| New Zealand                           | 1,041              | 41           | 8.0%      | 970                | 40           | 8.2%      |
| Overseas markets                      | 3,210              | 167          | 10.4%     | 3,374              | 150          | 8.9%      |
| Intragroup assets                     |                    |              |           |                    |              |           |
| Overseas markets                      | 8,874              | 206          | 4.6%      | 9,210              | 214          | 4.7%      |
|                                       | 146,355            | 5,688        |           | 138,083            | 4,999        |           |
| <b>Intragroup elimination</b>         | <b>(8,874)</b>     | <b>(206)</b> |           | <b>(9,210)</b>     | <b>(214)</b> |           |
|                                       | 137,481            | 5,482        | 8.0%      | 128,873            | 4,785        | 7.4%      |
| <b>Non-interest earning assets</b>    |                    |              |           |                    |              |           |
| Acceptances                           |                    |              |           |                    |              |           |
| Australia                             | 15,224             |              |           | 14,897             |              |           |
| Overseas markets                      | 314                |              |           | 372                |              |           |
| Premises and equipment                | 1,288              |              |           | 1,419              |              |           |
| Other assets                          | 19,278             |              |           | 16,906             |              |           |
| Provisions for doubtful debts         |                    |              |           |                    |              |           |
| Australia                             | (1,928)            |              |           | (1,733)            |              |           |
| New Zealand                           | (165)              |              |           | (162)              |              |           |
| Overseas markets                      | (346)              |              |           | (416)              |              |           |
|                                       | 33,665             |              |           | 31,283             |              |           |
| <b>Total assets</b>                   | <b>171,146</b>     |              |           | <b>160,156</b>     |              |           |

## NOTES TO THE FINANCIAL STATEMENTS

### 14. AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

|   | Sep 2000 Half Year |            |           | Mar 2000 Half Year |            |           |
|---|--------------------|------------|-----------|--------------------|------------|-----------|
|   | Ave bal<br>\$M     | Int<br>\$M | Rate<br>% | Ave bal<br>\$M     | Int<br>\$M | Rate<br>% |
| <b>Interest bearing liabilities</b>     |                    |            |           |                    |            |           |
| Time deposits                           |                    |            |           |                    |            |           |
| Australia                               | 26,184             | 784        | 6.0%      | 23,315             | 603        | 5.2%      |
| New Zealand                             | 8,391              | 268        | 6.4%      | 7,943              | 208        | 5.2%      |
| Overseas markets                        | 15,044             | 473        | 6.3%      | 15,424             | 458        | 5.9%      |
| Savings deposits                        |                    |            |           |                    |            |           |
| Australia                               | 9,209              | 136        | 3.0%      | 9,153              | 111        | 2.4%      |
| New Zealand                             | 2,794              | 44         | 3.2%      | 2,999              | 41         | 2.7%      |
| Overseas markets                        | 1,148              | 24         | 4.2%      | 1,570              | 33         | 4.2%      |
| Other demand deposits                   |                    |            |           |                    |            |           |
| Australia                               | 17,978             | 457        | 5.1%      | 16,128             | 324        | 4.0%      |
| New Zealand                             | 1,464              | 38         | 5.2%      | 1,477              | 28         | 3.9%      |
| Overseas markets                        | 1,234              | 24         | 3.9%      | 1,508              | 28         | 3.7%      |
| Due to other financial institutions     |                    |            |           |                    |            |           |
| Australia                               | 239                | 8          | 6.7%      | 226                | 7          | 5.8%      |
| New Zealand                             | 408                | 9          | 4.6%      | 558                | 11         | 3.8%      |
| Overseas markets                        | 9,937              | 303        | 6.1%      | 8,015              | 239        | 6.0%      |
| Commercial paper                        |                    |            |           |                    |            |           |
| Australia                               | 5,504              | 172        | 6.3%      | 5,008              | 135        | 5.4%      |
| Overseas markets                        | 2,380              | 73         | 6.1%      | 3,778              | 107        | 5.6%      |
| Borrowing corporations' debt            |                    |            |           |                    |            |           |
| Australia                               | 6,003              | 179        | 6.0%      | 5,867              | 161        | 5.5%      |
| New Zealand                             | 1,185              | 37         | 6.4%      | 1,089              | 32         | 5.8%      |
| Loan capital, bonds and notes           |                    |            |           |                    |            |           |
| Australia                               | 9,575              | 325        | 6.8%      | 7,409              | 229        | 6.2%      |
| New Zealand                             | 320                | 12         | 7.5%      | 311                | 11         | 7.0%      |
| Overseas markets                        | 311                | 11         | 7.1%      | 241                | 8          | 6.5%      |
| Other liabilities <sup>1</sup>          |                    |            |           |                    |            |           |
| Australia                               | 1,979              | 42         | n/a       | 929                | 21         | n/a       |
| New Zealand                             | 99                 | 88         | n/a       | 132                | 68         | n/a       |
| Overseas markets                        | 188                | 32         | n/a       | 304                | 38         | n/a       |
| Intragroup Liabilities                  |                    |            |           |                    |            |           |
| Australia                               | 5,171              | 132        | 5.1%      | 5,845              | 154        | 5.3%      |
| New Zealand                             | 3,703              | 74         | 4.0%      | 3,365              | 60         | 3.6%      |
|   | 130,448            | 3,745      |           | 122,594            | 3,115      |           |
| Intragroup elimination                  | (8,874)            | (206)      |           | (9,210)            | (214)      |           |
|   | 121,574            | 3,539      | 5.8%      | 113,384            | 2,901      | 5.1%      |
| <b>Non-interest bearing liabilities</b> |                    |            |           |                    |            |           |
| Deposits                                |                    |            |           |                    |            |           |
| Australia                               | 3,875              |            |           | 3,397              |            |           |
| New Zealand                             | 787                |            |           | 802                |            |           |
| Overseas markets                        | 1,146              |            |           | 1,414              |            |           |
| Acceptances                             |                    |            |           |                    |            |           |
| Australia                               | 15,224             |            |           | 14,897             |            |           |
| Overseas markets                        | 314                |            |           | 372                |            |           |
| Other liabilities                       | 18,005             |            |           | 16,073             |            |           |
|   | 39,351             |            |           | 36,955             |            |           |
| <b>Total liabilities</b>                | <b>160,925</b>     |            |           | <b>150,339</b>     |            |           |

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

## NOTES TO THE FINANCIAL STATEMENTS

### 14. AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

|   | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Total average assets</b>                                   |                               |                               |                               |                               |
| Australia   | 117,181                       | 103,109                       | 122,250                       | 112,115                       |
| New Zealand   | 20,337                        | 19,366                        | 20,618                        | 20,093                        |
| Overseas markets  | 37,155                        | 36,564                        | 37,152                        | 37,158                        |
| less intragroup elimination                                   | (9,042)                       | (7,238)                       | (8,874)                       | (9,210)                       |
|   | <b>165,631</b>                | <b>151,801</b>                | <b>171,146</b>                | <b>160,156</b>                |
| % of total average assets attributable                        |                               |                               |                               |                               |
| to overseas activities  | <b>29.3%</b>                  | 32.1%                         | <b>28.6%</b>                  | 30.0%                         |
| <b>Total average liabilities</b>                              |                               |                               |                               |                               |
| Australia   | 110,537                       | 95,500                        | 115,673                       | 105,397                       |
| New Zealand   | 19,347                        | 18,548                        | 19,574                        | 19,156                        |
| Overseas markets  | 34,774                        | 35,664                        | 34,552                        | 34,996                        |
| less intragroup elimination                                   | (9,042)                       | (7,238)                       | (8,874)                       | (9,210)                       |
|   | <b>155,616</b>                | <b>142,474</b>                | <b>160,925</b>                | <b>150,339</b>                |
| <b>Total average shareholders' equity</b>                     |                               |                               |                               |                               |
| Ordinary share capital  | 8,789                         | 8,237                         | 8,942                         | 8,644                         |
| Preference share capital                                      | 1,226                         | 1,090                         | 1,279                         | 1,173                         |
|   | <b>10,015</b>                 | <b>9,327</b>                  | <b>10,221</b>                 | <b>9,817</b>                  |
| <b>Total average liabilities and<br/>shareholders' equity</b> | <b>165,631</b>                | <b>151,801</b>                | <b>171,146</b>                | <b>160,156</b>                |
| % of total average liabilities attributable                   |                               |                               |                               |                               |
| to overseas activities  | <b>32.5%</b>                  | 36.5%                         | <b>31.3%</b>                  | 33.8%                         |
| <b>Average interest earning assets</b>                        |                               |                               |                               |                               |
| Australia   | 89,093                        | 77,268                        | 93,108                        | 85,081                        |
| New Zealand   | 19,014                        | 17,802                        | 19,292                        | 18,771                        |
| Overseas markets  | 34,093                        | 32,359                        | 33,955                        | 34,231                        |
| less intragroup elimination                                   | (9,042)                       | (7,238)                       | (8,874)                       | (9,210)                       |
|   | <b>133,158</b>                | <b>120,191</b>                | <b>137,481</b>                | <b>128,873</b>                |

## NOTES TO THE FINANCIAL STATEMENTS

### 15. INTEREST SPREADS AND NET INTEREST AVERAGE MARGINS

Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

|  | Full<br>year<br>Sep 00<br>% | Full<br>year<br>Sep 99<br>% | Half<br>year<br>Sep 00<br>% | Half<br>year<br>Mar 00<br>% |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Gross earnings rate<sup>1</sup></b> |                             |                             |                             |                             |
| Australia                              | <b>7.41</b>                 | 6.88                        | <b>7.72</b>                 | 7.08                        |
| New Zealand                            | <b>8.04</b>                 | 7.43                        | <b>8.50</b>                 | 7.56                        |
| Overseas markets                       | <b>7.49</b>                 | 7.56                        | <b>7.52</b>                 | 7.47                        |
| <b>Total Group</b>                     | <b>7.71</b>                 | 7.24                        | <b>7.97</b>                 | 7.43                        |

Interest spread and net interest average margin may be analysed as follows:

#### Australia

|  |                      |               |                      |               |
|--|----------------------|---------------|----------------------|---------------|
| Gross interest spread  | <b>2.33</b>          | 2.60          | <b>2.30</b>          | 2.38          |
| <u>Interest forgone on impaired assets</u>                     | <u><b>(0.03)</b></u> | <u>(0.06)</u> | <u><b>(0.04)</b></u> | <u>(0.02)</u> |
| Net interest spread  | <b>2.30</b>          | 2.54          | <b>2.26</b>          | 2.36          |
| <u>Interest attributable to net non-interest bearing items</u> | <u><b>0.65</b></u>   | <u>0.64</u>   | <u><b>0.66</b></u>   | <u>0.62</u>   |
| <b>Net interest average margin - Australia</b>                 | <b>2.95</b>          | 3.18          | <b>2.92</b>          | 2.98          |

#### New Zealand

|  |                      |               |                      |               |
|--|----------------------|---------------|----------------------|---------------|
| Gross interest spread  | <b>2.37</b>          | 2.62          | <b>2.29</b>          | 2.45          |
| <u>Interest forgone on impaired assets</u>                     | <u><b>(0.02)</b></u> | <u>(0.03)</u> | <u><b>(0.01)</b></u> | <u>(0.03)</u> |
| Net interest spread  | <b>2.35</b>          | 2.59          | <b>2.28</b>          | 2.42          |
| <u>Interest attributable to net non-interest bearing items</u> | <u><b>0.28</b></u>   | <u>0.14</u>   | <u><b>0.31</b></u>   | <u>0.24</u>   |
| <b>Net interest average margin - New Zealand</b>               | <b>2.63</b>          | 2.73          | <b>2.59</b>          | 2.66          |

#### Overseas markets

|  |                      |               |                      |               |
|--|----------------------|---------------|----------------------|---------------|
| Gross interest spread  | <b>1.61</b>          | 1.99          | <b>1.46</b>          | 1.75          |
| <u>Interest forgone on impaired assets</u>                     | <u><b>(0.18)</b></u> | <u>(0.22)</u> | <u><b>(0.16)</b></u> | <u>(0.19)</u> |
| Net interest spread  | <b>1.43</b>          | 1.77          | <b>1.30</b>          | 1.56          |
| <u>Interest attributable to net non-interest bearing items</u> | <u><b>0.63</b></u>   | <u>0.48</u>   | <u><b>0.68</b></u>   | <u>0.58</u>   |
| <b>Net interest average margin - Overseas markets</b>          | <b>2.06</b>          | 2.25          | <b>1.98</b>          | 2.14          |

#### Group

|  |                      |               |                      |               |
|--|----------------------|---------------|----------------------|---------------|
| Gross interest spread  | <b>2.30</b>          | 2.58          | <b>2.22</b>          | 2.38          |
| <u>Interest forgone on impaired assets</u>                     | <u><b>(0.07)</b></u> | <u>(0.10)</u> | <u><b>(0.07)</b></u> | <u>(0.07)</u> |
| Net interest spread  | <b>2.23</b>          | 2.48          | <b>2.15</b>          | 2.31          |
| <u>Interest attributable to net non-interest bearing items</u> | <u><b>0.64</b></u>   | <u>0.57</u>   | <u><b>0.68</b></u>   | <u>0.61</u>   |
| <b>Net interest average margin - Group</b>                     | <b>2.87</b>          | 3.05          | <b>2.83</b>          | 2.92          |

<sup>1</sup> Average interest rate received on interest earning asset

## NOTES TO THE FINANCIAL STATEMENTS

### 16. SEGMENT ANALYSIS

The following analysis shows segment income, operating profit and total assets by business segments.

#### INDUSTRY

|   | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M | Movt<br>Sep 00<br>v. Mar 00<br>% |
|---|-------------------------------|-------------------------------|----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| <b>Income (equity standardised)<sup>1</sup></b>                     |                               |                               |                                  |                               |                               |                                  |
| Personal Financial Services   | 5,834                         | 4,740                         | 23%                              | 3,136                         | 2,698                         | 16%                              |
| Corporate Financial Services  | 4,974                         | 4,309                         | 15%                              | 2,667                         | 2,307                         | 16%                              |
| International   | 569                           | 588                           | -3%                              | 296                           | 273                           | 8%                               |
| Operations of Sold Businesses                                       | 969                           | 1,071                         | -10%                             | 441                           | 528                           | -16%                             |
| <b>Group</b>  | <b>478</b>                    | <b>353</b>                    | <b>35%</b>                       | <b>221</b>                    | <b>257</b>                    | <b>-14%</b>                      |
|   | <b>12,824</b>                 | <b>11,061</b>                 | <b>16%</b>                       | <b>6,761</b>                  | <b>6,063</b>                  | <b>12%</b>                       |
| Abnormals   | 1,207                         | -                             | n/a                              | 1,144                         | 63                            | large                            |
|   | <b>14,031</b>                 | <b>11,061</b>                 | <b>27%</b>                       | <b>7,905</b>                  | <b>6,126</b>                  | <b>29%</b>                       |
| <b>Operating profit after tax (equity standardised)<sup>1</sup></b> |                               |                               |                                  |                               |                               |                                  |
| Personal Financial Services   | 772                           | 616                           | 25%                              | 404                           | 368                           | 10%                              |
| Corporate Financial Services  | 647                           | 562                           | 15%                              | 335                           | 312                           | 7%                               |
| International   | 40                            | 62                            | -35%                             | 14                            | 26                            | -46%                             |
| Operations of Sold Businesses                                       | 109                           | 115                           | -5%                              | 68                            | 41                            | 66%                              |
| <b>Group</b>  | <b>135</b>                    | <b>125</b>                    | <b>8%</b>                        | <b>64</b>                     | <b>71</b>                     | <b>-10%</b>                      |
|   | <b>1,703</b>                  | <b>1,480</b>                  | <b>15%</b>                       | <b>885</b>                    | <b>818</b>                    | <b>8%</b>                        |
| Abnormals   | 44                            | -                             | n/a                              | 45                            | (1)                           | n/a                              |
|   | <b>1,747</b>                  | <b>1,480</b>                  | <b>18%</b>                       | <b>930</b>                    | <b>817</b>                    | <b>14%</b>                       |

<sup>1</sup> Refer definitions on page 63

|                               | As at<br>Sep 00<br>\$M | As at<br>Mar 00<br>\$M | As at<br>Sep 99<br>\$M | Movt<br>Sep 00<br>v. Sep 99<br>% |
|-------------------------------|------------------------|------------------------|------------------------|----------------------------------|
| <b>Total assets</b>           |                        |                        |                        |                                  |
| Personal Financial Services   | 71,673                 | 66,382                 | 59,709                 | 20%                              |
| Corporate Financial Services  | 77,169                 | 73,597                 | 69,842                 | 10%                              |
| International                 | 8,011                  | 6,567                  | 5,814                  | 38%                              |
| Operations of Sold Businesses | 912                    | 10,824                 | 9,710                  | -91%                             |
| <b>Group</b>                  | <b>14,702</b>          | <b>9,588</b>           | <b>7,726</b>           | <b>90%</b>                       |
|                               | <b>172,467</b>         | <b>166,958</b>         | <b>152,801</b>         | <b>13%</b>                       |

## NOTES TO THE FINANCIAL STATEMENTS

### 17. 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. Derivatives are subject to the same types of credit and market risk as other financial instruments, and the Group manages these risks in a consistent manner.

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

|                                   | 30 September 2000                      |                                       |                      | 30 September 1999                      |                                       |                      |
|-----------------------------------|--|---------------------------------------|----------------------|--|---------------------------------------|----------------------|
|                                   | Notional<br>Principal<br>Amount<br>\$M | Credit<br>Equivalent<br>Amount<br>\$M | Fair<br>Value<br>\$M | Notional<br>Principal<br>Amount<br>\$M | Credit<br>Equivalent<br>Amount<br>\$M | Fair<br>Value<br>\$M |
| <b>Foreign exchange contracts</b> |  |                                       |                      |  |                                       |                      |
| Spot and forward contracts        | 170,328                                | 6,731                                 | 507                  | 159,229                                | 3,091                                 | 24                   |
| Swap agreements                   | 28,106                                 | 3,073                                 | 1,222                | 20,938                                 | 1,947                                 | 659                  |
| Options purchased                 | 12,661                                 | 1,037                                 | 904                  | 12,914                                 | 516                                   | 302                  |
| Options sold <sup>1</sup>         | 12,956                                 | n/a                                   | (457)                | 14,497                                 | n/a                                   | (360)                |
| Other contracts                   | 4,368                                  | 411                                   | 90                   | 5,201                                  | 313                                   | -                    |
|                                   | <b>228,419</b>                         | <b>11,252</b>                         | <b>2,266</b>         | <b>212,779</b>                         | <b>5,867</b>                          | <b>625</b>           |
| <b>Interest rate contracts</b>    |  |                                       |                      |  |                                       |                      |
| Forward rate agreements           | 51,817                                 | 36                                    | 5                    | 84,114                                 | 59                                    | 2                    |
| Swap agreements                   | 230,885                                | 2,674                                 | (247)                | 215,238                                | 2,604                                 | (98)                 |
| Futures contracts <sup>2</sup>    | 52,127                                 | n/a                                   | (7)                  | 74,545                                 | n/a                                   | (27)                 |
| Options purchased                 | 8,857                                  | 46                                    | 31                   | 5,131                                  | 42                                    | 25                   |
| Options sold <sup>1</sup>         | 6,789                                  | n/a                                   | (4)                  | 5,706                                  | n/a                                   | (29)                 |
|                                   | <b>350,475</b>                         | <b>2,756</b>                          | <b>(222)</b>         | <b>384,734</b>                         | <b>2,705</b>                          | <b>(127)</b>         |
|                                   | <b>578,894</b>                         | <b>14,008</b>                         | <b>2,044</b>         | <b>597,513</b>                         | <b>8,572</b>                          | <b>498</b>           |

<sup>1</sup> Options sold have no credit exposures as they represent obligations rather than assets

<sup>2</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

Notional principal amount is the face value of the contract and represents the volume of outstanding transactions. Credit equivalent amount is calculated in accordance with the APRA capital adequacy guidelines and combines the aggregate value of all contracts in a positive market position plus an allowance for the potential increase in value over the remaining term of the transaction. Fair value is the net position of contracts with positive market values and negative market values.

## NOTES TO THE FINANCIAL STATEMENTS

### 17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### 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 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, which is based on historical market movements. The confidence level is such that there is 97.5% probability that the loss will not exceed the Value at Risk estimate on any given day.

The Bank's standard VaR approach is historical simulation. The bank 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, the methodology is not an estimate of the maximum loss that the Bank could experience from an extreme market event.

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 capital markets. These activities are well diversified and managed on a global product basis.

Below are aggregate VaR exposures covering both physical and derivatives trading positions for the Bank's principal trading centres.

|                                      | As at<br>Sep 00<br>\$M | Max for<br>period<br>Sep 00<br>\$M | Min for<br>period<br>Sep 00<br>\$M | Avg for<br>period<br>Sep 00<br>\$M | As at<br>Sep 99<br>\$M | Max for<br>period<br>Sep 99<br>\$M | Min for<br>period<br>Sep 99<br>\$M | Avg for<br>period<br>Sep 99<br>\$M |
|--------------------------------------|------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------|------------------------------------|------------------------------------|------------------------------------|
| Value at risk at 97.5% confidence    |                        |                                    |                                    |                                    |                        |                                    |                                    |                                    |
| Foreign exchange                     | 0.9                    | 2.2                                | 0.7                                | 1.2                                | 1.5                    | 2.9                                | 1.0                                | 1.8                                |
| Interest rate                        | 2.9                    | 5.1                                | 2.1                                | 3.4                                | 3.5                    | 8.9                                | 2.5                                | 5.1                                |
| Diversification benefit <sup>1</sup> | (1.1)                  | (1.3)                              | (0.1)                              | (0.2)                              | (1.4)                  | -                                  | -                                  | (1.5)                              |
| <b>Total VaR</b>                     | <b>2.7</b>             | <b>6.0</b>                         | <b>2.7</b>                         | <b>4.4</b>                         | <b>3.6</b>             | <b>-</b>                           | <b>-</b>                           | <b>5.4</b>                         |

<sup>1</sup> Diversification benefit maximum and minimum Sep 1999 not available

#### Hedging

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 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.

|                                       | 30 September 2000                      |                                   |                      | 30 September 1999                      |                                   |                      |
|---------------------------------------|--|-----------------------------------|----------------------|--|-----------------------------------|----------------------|
|                                       | Notional<br>Principal<br>Amount<br>\$M | Credit<br>Equiv.<br>Amount<br>\$M | Fair<br>Value<br>\$M | Notional<br>Principal<br>Amount<br>\$M | Credit<br>Equiv.<br>Amount<br>\$M | Fair<br>Value<br>\$M |
| <b>Foreign exchange contracts</b>     |  |                                   |                      |  |                                   |                      |
| Customer-related and trading purposes | 204,889                                | 8,265                             | 122                  | 193,539                                | 5,006                             | 187                  |
| Other than trading purposes           | 23,530                                 | 2,987                             | 2,144                | 19,240                                 | 861                               | 438                  |
|                                       | <b>228,419</b>                         | <b>11,252</b>                     | <b>2,266</b>         | <b>212,779</b>                         | <b>5,867</b>                      | <b>625</b>           |
| <b>Interest rate contracts</b>        |  |                                   |                      |  |                                   |                      |
| Customer-related and trading purposes | 320,972                                | 2,446                             | (379)                | 350,904                                | 2,480                             | (80)                 |
| Other than trading purposes           | 29,503                                 | 310                               | 157                  | 33,830                                 | 225                               | (47)                 |
|                                       | <b>350,475</b>                         | <b>2,756</b>                      | <b>(222)</b>         | <b>384,734</b>                         | <b>2,705</b>                      | <b>(127)</b>         |
| <b>Total</b>                          | <b>578,894</b>                         | <b>14,008</b>                     | <b>2,044</b>         | <b>597,513</b>                         | <b>8,572</b>                      | <b>498</b>           |

## NOTES TO THE FINANCIAL STATEMENTS

### 18. CONTINGENT LIABILITIES

#### General

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made.

### 19. NOTES TO THE STATEMENT OF CASH FLOWS

|   | Full<br>year<br>Sep 00<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Sep 00<br>Inflows<br>(Outflows)<br>\$M | Half<br>year<br>Mar 00<br>Inflows<br>(Outflows)<br>\$M | Full<br>year<br>Sep 99<br>Inflows<br>(Outflows)<br>\$M |
|---|--|--|--|--|
| <b>Reconciliation of operating profit after<br/>income tax to net cash provided by<br/>operating activities</b> |  |  |  |  |
| Operating profit after income tax   | 1,747  | 930  | 817  | 1,480  |
| Adjustments to reconcile operating profit after<br>income tax to net cash provided by operating activities      |  |  |  |  |
| Provision for doubtful debts  | 502  | 246  | 256  | 510  |
| Depreciation and amortisation   | 186  | 93   | 93   | 195  |
| Provision for restructuring and other provisions  | 1,354  | 1,265  | 89   | 272  |
| Payments from provisions  | (297)  | (173)  | (124)  | (290)  |
| Provision for surplus lease space   | (7)  | (11)   | 4  | 1  |
| (Profit)loss on property disposals  | (17)   | (19)   | 2  | (13)   |
| (Increase)decrease in interest receivable   | (325)  | (15)   | (310)  | 78   |
| Increase(decrease) in interest payable  | 332  | 91   | 241  | (10)   |
| (Increase)decrease in trading securities  | (25)   | 549  | (574)  | 1,442  |
| Decrease in net tax assets  | 286  | 222  | 64   | 95   |
| Other   | (1,268)  | (1,212)  | (56)   | (66)   |
| <b>Net cash provided by operating activities</b>  | <b>2,468</b>   | <b>1,966</b>   | <b>502</b>   | <b>3,694</b>   |

#### Reconciliation of cash and cash equivalents

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Liquid assets - less than 3 months                         | 2,662        | 2,662        | 3,530        | 4,243        |
| Due from other financial institutions - less than 3 months | 3,800        | 3,800        | 3,167        | 2,391        |
|  | <b>6,462</b> | <b>6,462</b> | <b>6,697</b> | <b>6,634</b> |

#### Non-cash financing and investment activities

Share capital issues

|                            |     |     |     |     |
|----------------------------|-----|-----|-----|-----|
| Dividend reinvestment plan | 236 | 123 | 113 | 176 |
|----------------------------|-----|-----|-----|-----|



## NOTES TO THE FINANCIAL STATEMENTS

### 20. 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 operating profit after income tax, shareholders' equity and total assets, applying US GAAP instead of Australian GAAP.

|  | Full<br>year<br>Sep 00<br>\$M | Full<br>year<br>Sep 99<br>\$M | Half<br>year<br>Sep 00<br>\$M | Half<br>year<br>Mar 00<br>\$M |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Operating profit after income tax according to Australian GAAP</b>                              | <b>1,747</b>                  | 1,480                         | <b>930</b>                    | 817                           |
| Items having the effect of increasing(decreasing) reported income:                                 |                               |                               |                               |                               |
| Employee share issue and options   | (54)                          | (23)                          | (31)                          | (23)                          |
| Revaluation of properties  | (72)                          | -                             | (42)                          | (30)                          |
| Depreciation charged on the difference between revaluation amount and historical cost of buildings | 3                             | 2                             | 2                             | 1                             |
| Difference in gain or loss on disposal of properties revalued under historical cost                | 168                           | -                             | 159                           | 9                             |
| Deferred profit on sale and leaseback transactions   | (80)                          | (16)                          | (56)                          | (24)                          |
| Amortisation of sale and leaseback gain over lease term  | 19                            | -                             | 15                            | 4                             |
| Amortisation of goodwill   | (48)                          | (36)                          | (30)                          | (18)                          |
| Pension expense adjustment   | 8                             | (1)                           | 2                             | 6                             |
| Provisions   | 361                           | -                             | 361                           | -                             |
| Taxation on the above adjustments  | (112)                         | 4                             | (111)                         | (1)                           |
| <b>Net income according to US GAAP</b>   | <b>1,940</b>                  | 1,410                         | <b>1,199</b>                  | 741                           |
| <b>Other comprehensive income</b>  |                               |                               |                               |                               |
| Currency translation adjustments, net of hedges after tax  | 170                           | (215)                         | 12                            | 158                           |
| Unrealised profit(loss) on available for sale securities   | (23)                          | 7                             | (11)                          | (12)                          |
| <b>Total comprehensive income according to US GAAP</b>   | <b>2,087</b>                  | 1,202                         | <b>1,200</b>                  | 887                           |
| <b>Shareholders' equity according to Australian GAAP<sup>1</sup></b>                               | <b>9,795</b>                  | 9,403                         | <b>9,795</b>                  | 9,649                         |
| Elimination of gross asset revaluation reserves  | (330)                         | (340)                         | (330)                         | (345)                         |
| Unrealised profit(loss) on available for sale securities   | (16)                          | 7                             | (16)                          | (12)                          |
| Adjustment to accumulated depreciation on buildings revalued                                       | 44                            | 41                            | 44                            | 42                            |
| Restoration of previously deducted goodwill  | 692                           | 807                           | 692                           | 807                           |
| Accumulated amortisation and write-off of goodwill   | (477)                         | (544)                         | (477)                         | (562)                         |
| Deferred profit on sale and leaseback transactions   | (12)                          | (12)                          | (12)                          | (19)                          |
| Provision for dividend   | 528                           | 470                           | 528                           | 445                           |
| Provisions   | 245                           | -                             | 245                           | -                             |
| Pension expense adjustment   | 62                            | 57                            | 62                            | 62                            |
| <b>Shareholders' equity according to US GAAP</b>   | <b>10,531</b>                 | 9,889                         | <b>10,531</b>                 | 10,067                        |
| <b>Total assets according to Australian GAAP</b>   | <b>172,467</b>                | 152,801                       | <b>172,467</b>                | 166,958                       |
| Elimination of gross asset revaluation reserves  | (227)                         | (340)                         | (227)                         | (315)                         |
| Unrealised profit(loss) on available for sale securities   | (24)                          | 11                            | (24)                          | (19)                          |
| Adjustment to accumulated depreciation on buildings revalued                                       | 44                            | 41                            | 44                            | 42                            |
| Restoration of previously deducted goodwill  | 692                           | 807                           | 692                           | 807                           |
| Accumulated amortisation and write-off of goodwill   | (477)                         | (544)                         | (477)                         | (562)                         |
| Prepaid pension adjustment   | 45                            | 39                            | 45                            | 43                            |
| Reclassification of deferred tax assets against deferred tax liabilities                           | (662)                         | (400)                         | (662)                         | (499)                         |
| <b>Total assets according to US GAAP</b>   | <b>171,858</b>                | 152,415                       | <b>171,858</b>                | 166,455                       |

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

## NOTES TO THE FINANCIAL STATEMENTS

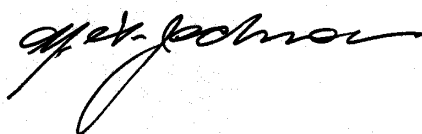
### 21. EXCHANGE RATES

Major exchange rates used in translation of results of offshore controlled entities and branches into the Group accounts for each reporting period were as follows:

|                      | Balance Sheet   |                 |                 | Profit and Loss Average |                        |                        |                        |
|----------------------|-----------------|-----------------|-----------------|-------------------------|------------------------|------------------------|------------------------|
|                      | As at<br>Sep 00 | As at<br>Mar 00 | As at<br>Sep 99 | Full<br>year<br>Sep 00  | Full<br>year<br>Sep 99 | Half<br>year<br>Sep 00 | Half<br>year<br>Mar 00 |
| Great British pound  | <b>0.3720</b>   | 0.3808          | 0.3972          | <b>0.3903</b>           | 0.3932                 | <b>0.3867</b>          | 0.3939                 |
| United States dollar | <b>0.5444</b>   | 0.6073          | 0.6533          | <b>0.6101</b>           | 0.6403                 | <b>0.5824</b>          | 0.6378                 |
| New Zealand dollar   | <b>1.3324</b>   | 1.2239          | 1.2598          | <b>1.2647</b>           | 1.2014                 | <b>1.2671</b>          | 1.2623                 |

### 22. SIGNIFICANT EVENTS SINCE BALANCE DATE

There have been no significant events since 30 September 2000 to the date of this report.



**Margaret Jackson**  
*Director*



**John McFarlane**  
*Chief Executive Officer*

26 October 2000

## **SUPPLEMENTARY FINANCIAL INFORMATION**

### **COUNTRY EXPOSURES**

The exposure definitions in the following tables are consistent with the ones used by Standard & Poor's in their assessment of regional risk published in February 1998.

Both local currency and cross border exposures are included.

Trade finance is captured at 100% of face value.

Exposure to regional banks assumes the country of the parent and includes all foreign subsidiaries. For example, Japanese bank data includes UK subsidiaries of Japanese banks.

Treasury funded exposures includes predominantly bank Money Market lines and Certificates of Deposit.

Treasury unfunded exposure includes Foreign Exchange and Interest Rate contracts (forwards, options and swaps). The exposure is calculated using a conservative "Mark to market plus potential exposure" methodology. This methodology calculates the market value of a contract and adds a factor for the potential change in value from the valuation date to maturity.

Financial guarantees represents lending to entities outside of Asia (typically Australia) where there is a relationship with the parent entity through a guarantee standby letter of credit.

Term lending is split into three categories: exposure to multinationals covers lending in countries to international or global companies, frequently involving Australian parents of joint venture partners, term lending in local currency which is principally franchise countries, and cross border term lending (mostly USD).

Project finance includes a mix of products and is net of Political Risk Insurance (PRI) cover provided by either a large Government Multi Lateral Agency or a large Global Private Insurance company.

Securities include traded debt instruments and are measured at assessed market value (mark-to-market).

## SUPPLEMENTARY FINANCIAL INFORMATION

### COUNTRY EXPOSURES

### PRODUCT DISCLOSURE BY SELECTED REGIONS

As at 30 September 2000 in USD millions (net exposures)

| Countries             | GROSS BORDER RISK & LOCAL CURRENCY RISK |                   |                    |                   |  | Term Lending MNC's | Term Lending XBR | Term Lending LCY | Underwriting and Project Risk | Securities Investment at Market Value | Combined Total | Movement from Sep 99 increase (decrease) |
|-----------------------|---|-------------------|--------------------|-------------------|--|--------------------|------------------|------------------|-------------------------------|---------------------------------------|----------------|--|
|                       | Trade                                   | Treasury On B/Sht | Treasury Off B/Sht | Performance Bonds | Financial Guarantees Securing Regional Lending in Countries not detailed |                    |                  |                  |                               |                                       |                |  |
| <b>ASIA</b>           |   |                   |                    |                   |  |                    |                  |                  |                               |                                       |                |  |
| China                 | 155                                     | 2                 | 61                 | 2                 | 73   | 95                 | 50               | -                | 33                            | -                                     | 471            | (53)                                     |
| Hong Kong             | 13                                      | 32                | 50                 | 48                | 282  | 68                 | 256              | 202              | -                             | -                                     | 951            | 356                                      |
| Indonesia             | 98                                      | 17                | 1                  | -                 | 8  | 36                 | 52               | 26               | 71                            | 8                                     | 317            | (49)                                     |
| Japan                 | 41                                      | 1                 | 447                | 148               | 324  | 114                | 159              | 27               | -                             | -                                     | 1,261          | (240)                                    |
| Laos                  | -                                       | -                 | -                  | -                 | -  | -                  | -                | -                | 1                             | -                                     | 1              | -  |
| Macau                 | -                                       | -                 | 1                  | -                 | -  | -                  | 3                | -                | -                             | -                                     | 4              | (44)                                     |
| Malaysia              | 83                                      | -                 | 1                  | -                 | 57   | -                  | 13               | -                | 25                            | -                                     | 179            | 41                                       |
| North Korea           | -                                       | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | -              | -  |
| Philippines           | 75                                      | 87                | -                  | -                 | 6  | 16                 | 52               | 29               | 33                            | -                                     | 298            | 84                                       |
| Singapore             | 51                                      | 18                | 69                 | 1                 | 91   | 162                | 298              | 16               | -                             | -                                     | 706            | 227                                      |
| South Korea           | 861                                     | 46                | -                  | 19                | 4  | 12                 | 59               | 8                | -                             | -                                     | 1,009          | (12)                                     |
| Taiwan                | 204                                     | 19                | 3                  | 32                | 20   | -                  | 9                | 204              | -                             | -                                     | 491            | 34                                       |
| Thailand              | 26                                      | 27                | 2                  | -                 | -  | -                  | 4                | -                | 13                            | -                                     | 72             | (15)                                     |
| Vietnam               | 99                                      | -                 | -                  | 1                 | 6  | 10                 | 17               | 69               | -                             | -                                     | 202            | 6  |
| <b>Total</b>          | <b>1,706</b>                            | <b>249</b>        | <b>635</b>         | <b>251</b>        | <b>871</b>   | <b>513</b>         | <b>972</b>       | <b>581</b>       | <b>176</b>                    | <b>8</b>                              | <b>5,962</b>   | <b>335</b>                               |
| <b>SOUTH ASIA</b>     |   |                   |                    |                   |  |                    |                  |                  |                               |                                       |                |  |
| Bangladesh            | 111                                     | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 111            | (303)                                    |
| India                 | 173                                     | -                 | 16                 | 1                 | 57   | 52                 | 10               | -                | 203                           | -                                     | 512            | (2,108)                                  |
| Nepal                 | 1                                       | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 1              | (110)                                    |
| Sri Lanka             | 13                                      | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 13             | (160)                                    |
| <b>Total</b>          | <b>298</b>                              | <b>-</b>          | <b>16</b>          | <b>1</b>          | <b>57</b>  | <b>52</b>          | <b>10</b>        | <b>-</b>         | <b>203</b>                    | <b>-</b>                              | <b>637</b>     | <b>(2,681)</b>                           |
| <b>LATIN AMERICA</b>  |   |                   |                    |                   |  |                    |                  |                  |                               |                                       |                |  |
| Argentina             | 103                                     | -                 | 10                 | -                 | -  | -                  | 23               | -                | 24                            | -                                     | 160            | (152)                                    |
| Brazil                | 197                                     | -                 | 3                  | -                 | -  | 174                | -                | -                | -                             | -                                     | 374            | (120)                                    |
| Chile                 | 78                                      | -                 | -                  | -                 | -  | -                  | 78               | -                | 55                            | -                                     | 211            | 83                                       |
| Colombia              | -                                       | -                 | -                  | -                 | -  | -                  | 6                | -                | -                             | -                                     | 6              | 6  |
| Mexico                | 90                                      | -                 | -                  | -                 | -  | -                  | 16               | -                | 75                            | -                                     | 181            | (54)                                     |
| Peru                  | -                                       | -                 | -                  | -                 | -  | -                  | -                | -                | 17                            | -                                     | 17             | 12                                       |
| Venezuela             | -                                       | -                 | -                  | -                 | -  | -                  | 1                | -                | 57                            | -                                     | 58             | 23                                       |
| <b>Total</b>          | <b>468</b>                              | <b>-</b>          | <b>13</b>          | <b>-</b>          | <b>-</b>   | <b>174</b>         | <b>124</b>       | <b>-</b>         | <b>228</b>                    | <b>-</b>                              | <b>1,007</b>   | <b>(202)</b>                             |
| <b>MIDDLE EAST</b>    |   |                   |                    |                   |  |                    |                  |                  |                               |                                       |                |  |
| Bahrain               | 3                                       | -                 | -                  | 1                 | -  | -                  | 5                | -                | 5                             | -                                     | 14             | (83)                                     |
| Egypt                 | 33                                      | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 33             | 4  |
| Greece                | 3                                       | -                 | 1                  | -                 | -  | 58                 | 24               | -                | -                             | -                                     | 86             | (188)                                    |
| Iran                  | 53                                      | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 53             | (10)                                     |
| Israel                | 1                                       | -                 | 9                  | -                 | 45   | -                  | -                | -                | -                             | -                                     | 55             | (52)                                     |
| Jordan/West Bank      | 8                                       | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 8              | (211)                                    |
| Kuwait                | 3                                       | -                 | 1                  | -                 | -  | -                  | -                | -                | -                             | -                                     | 4              | (22)                                     |
| Lebanon               | -                                       | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | -              | -  |
| Oman                  | 9                                       | -                 | -                  | -                 | -  | -                  | 10               | -                | 8                             | -                                     | 27             | (28)                                     |
| Pakistan              | 84                                      | -                 | -                  | -                 | 23   | 11                 | 20               | -                | 17                            | -                                     | 155            | (549)                                    |
| Qatar                 | 3                                       | -                 | -                  | -                 | -  | -                  | 41               | -                | 61                            | -                                     | 105            | (465)                                    |
| Saudi Arabia          | 10                                      | -                 | -                  | -                 | 10   | -                  | -                | -                | 147                           | -                                     | 167            | (212)                                    |
| U.A.E.                | 111                                     | -                 | 10                 | -                 | -  | 15                 | 12               | -                | 97                            | 1                                     | 246            | (1,047)                                  |
| <b>Total</b>          | <b>321</b>                              | <b>-</b>          | <b>21</b>          | <b>1</b>          | <b>78</b>  | <b>84</b>          | <b>112</b>       | <b>-</b>         | <b>335</b>                    | <b>1</b>                              | <b>953</b>     | <b>(2,863)</b>                           |
| <b>EASTERN EUROPE</b> |   |                   |                    |                   |  |                    |                  |                  |                               |                                       |                |  |
| Russia                | -                                       | -                 | -                  | -                 | -  | -                  | -                | -                | -                             | -                                     | -              | (19)                                     |
| <b>Total</b>          | <b>-</b>                                | <b>-</b>          | <b>-</b>           | <b>-</b>          | <b>-</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>         | <b>-</b>                      | <b>-</b>                              | <b>-</b>       | <b>(19)</b>                              |

|  |              |                |
|--|--------------|----------------|
| Total countries externally rated A or better | 3,724        | (805)          |
| Total countries externally rated below A     | 4,835        | (4,625)        |
|  | 56.5%        | 85.2%          |
| <b>Total all countries</b>                   | <b>8,559</b> | <b>(5,430)</b> |



## DEFINITIONS

**Corporate Financial Services** comprises Corporate and Institutional Banking, Structured Finance, Foreign Exchange, Capital Markets, Asset Based Finance, Global Transaction Services, and Business eCommerce operations in Australia, New Zealand, UK, Europe and US. Operations that form part of the sold businesses are reported under “Operations of Sold Business”.

**Economic loss provisioning (ELP)** charge is determined based on the expected average annual loss of principal derived from the Group's risk management models.

**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.

### **Geographic segmentation**

**UK and Europe** includes France, Germany, Guernsey, Jersey, Switzerland and United Kingdom.

**Asia** includes Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, The People's Republic of China and Vietnam.

**Pacific** includes American Samoa, Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.

**South Asia** includes Bangladesh, India, Nepal and Sri Lanka.

**Americas** includes United States of America excluding American Samoa.

**Middle East** includes Bahrain, Greece, Iran, Israel, Jordan, Pakistan, Palestine, Qatar and United Arab Emirates.

**Group** comprises the results of asset and liability management; earnings on central capital; costs relating to hedging capital positions and certain central costs not recharged to business units.

**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.

**International** comprises countries outside Australia and New Zealand, excluding the investment bank operations in the mature markets of UK, Europe and Americas. Operations that form part of the sold businesses are reported under “Operations of Sold Business”.

**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 the charge for doubtful debts and abnormal items.

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

**Personal Financial Services** comprises Personal Banking (including Private Banking), Cards, Mortgages, Personal eCommerce and Funds Management operations in Australia and New Zealand.

**Service Transfer Pricing** is in use throughout the Group, whereby business and support units recover the cost of services provided to other units. There are some head office costs which are not recharged.

**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).

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

## ALPHABETICAL INDEX

|  | Page |
|--|------|
| ABNORMAL ITEMS.....  | 34   |
| ACCOUNTING POLICIES .....                                    | 28   |
| AVERAGE BALANCE SHEET AND RELATED INTEREST .....             | 49   |
| BALANCE SHEET .....  | 25   |
| CAPITAL ADEQUACY.....  | 48   |
| CHIEF FINANCIAL OFFICER'S REVIEW .....                       | 5    |
| CONTINGENT LIABILITIES.....                                  | 58   |
| DEFINITIONS.....   | 63   |
| DERIVATIVE FINANCIAL INSTRUMENTS.....                        | 56   |
| DIVIDENDS .....  | 38   |
| EARNINGS PER ORDINARY SHARE.....                             | 39   |
| EXCHANGE RATES.....  | 60   |
| FINANCIAL HIGHLIGHTS .....                                   | 2    |
| FIVE YEAR SUMMARY.....                                       | 21   |
| HIGHLIGHTS.....  | 1    |
| IMPAIRED ASSETS.....   | 42   |
| INCOME.....  | 29   |
| INCOME TAX EXPENSE.....                                      | 37   |
| INTEREST SPREADS AND NET INTEREST AVERAGE MARGINS .....      | 53   |
| INVESTMENT SECURITIES .....                                  | 41   |
| NET LOANS AND ADVANCES .....                                 | 41   |
| NOTES TO THE STATEMENT OF CASH FLOWS.....                    | 58   |
| OPERATING EXPENSES .....                                     | 32   |
| PROFIT AND LOSS ACCOUNT .....                                | 24   |
| PROVISIONS FOR DOUBTFUL DEBTS .....                          | 46   |
| SEGMENT ANALYSIS .....                                       | 55   |
| SHARE CAPITAL.....   | 47   |
| SIGNIFICANT EVENTS SINCE BALANCE DATE.....                   | 60   |
| STATEMENT OF CASH FLOWS.....                                 | 27   |
| STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY .....           | 26   |
| SUPPLEMENTARY FINANCIAL INFORMATION (Country Exposures)..... | 61   |
| US GAAP RECONCILIATION.....                                  | 59   |