# When people are inspired.

ANZ Financial Report 2005

# FINANCIAL REPORT

## CONTENTS

# STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 SEPTEMBER 2005

| | | Consolidated | | | The Company | |
|---|---|---|---|---|---|---|
| | Note | 2005 $m | 2004 $m | 2003 $m | 2005 $m | 2004 $m |
| **Total Income** | 2 | 20,979 | 17,508 | 13,023 | 14,042 | 12,081 |
| Interest income | 2 | 17,427 | 14,117 | 10,215 | 10,946 | 9,054 |
| Interest expense | 3 | (11,629) | (8,863) | (5,904) | (7,646) | (6,088) |
| Net interest income | | 5,798 | 5,254 | 4,311 | 3,300 | 2,966 |
| Other operating income | 2 | 3,395 | 3,246 | 2,702 | 3,096 | 3,027 |
| Share of joint venture profit from ING Australia | 2 | 107 | 97 | 55 | – | – |
| Share of associates profit (net of writeoffs) | 2 | 50 | 48 | 51 | – | – |
| Operating income | | 9,350 | 8,645 | 7,119 | 6,396 | 5,993 |
| Operating expenses | 3 | (4,515) | (4,026) | (3,228) | (3,064) | (2,878) |
| Profit before doubtful debt provision and income tax | | 4,835 | 4,619 | 3,891 | 3,332 | 3,115 |
| Provision for doubtful debts | 15 | (580) | (632) | (614) | (388) | (433) |
| **Profit before income tax** | | 4,255 | 3,987 | 3,277 | 2,944 | 2,682 |
| Income tax expense | 6 | (1,234) | (1,168) | (926) | (717) | (710) |
| Profit after income tax | | 3,021 | 2,819 | 2,351 | 2,227 | 1,972 |
| Net profit attributable to outside equity interests | | (3) | (4) | (3) | – | – |
| **Net profit attributable to shareholders of the Company**[1,2] | | 3,018 | 2,815 | 2,348 | 2,227 | 1,972 |
| Currency translation adjustments, net of hedges after tax | | (443) | 233 | (356) | (213) | 5 |
| Total adjustments attributable to shareholders of the company recognised directly into equity | | (443) | 233 | (356) | (213) | 5 |
| Total changes in equity other than those resulting from transactions with shareholders as owners | | 2,575 | 3,048 | 1,992 | 2,014 | 1,977 |
| **Earnings per ordinary share (cents)** | | | | | | |
| Basic | 8 | 160.9 | 153.1 | 142.4 | n/a | n/a |
| Diluted | 8 | 157.5 | 149.7 | 141.7 | n/a | n/a |

The notes appearing on pages 6 to 107 form an integral part of these financial statements

1 The results of 2005 include the impact of this significant item:
- Gain on sale of NBNZ Life ($14 million profit after tax)

The results of 2004 include the impact of these significant items:
- Close out of the TrUEPrS swap ($84 million profit after tax); and
- ING Australia completion accounts ($14 million profit after tax)

Further details on these transactions are shown in note 2

2 Includes NBNZ incremental integration costs of $52 million (2004: $14 million) after tax

# STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2005

| | Note | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid assets | 9 | 11,600 | 6,363 | 7,191 | 3,744 |
| Due from other financial institutions | 10 | 6,348 | 4,781 | 3,452 | 2,537 |
| Trading securities | 11 | 6,285 | 5,478 | 5,309 | 4,783 |
| Investment securities | 12 | 6,941 | 7,746 | 5,407 | 6,117 |
| Net loans and advances | 13 | 230,952 | 204,962 | 153,461 | 133,767 |
| Customer's liabilities for acceptances | 16 | 13,449 | 12,466 | 13,449 | 12,466 |
| Due from controlled entities | | – | – | 8,309 | 7,338 |
| Regulatory deposits | 17 | 159 | 176 | 113 | 144 |
| Shares in controlled entities, associates and joint venture entities | 18 | 1,872 | 1,960 | 12,551 | 11,517 |
| Deferred tax assets | 19 | 1,337 | 1,454 | 754 | 737 |
| Goodwill[1] | 20 | 2,898 | 3,269 | 66 | 74 |
| Other assets[2] | 21 | 9,903 | 9,158 | 6,098 | 5,751 |
| Premises and equipment | 22 | 1,441 | 1,532 | 849 | 826 |
| **Total assets** | | 293,185 | 259,345 | 217,009 | 189,801 |
| **Liabilities** | | | | | |
| Due to other financial institutions | 23 | 12,027 | 7,349 | 9,029 | 5,860 |
| Deposits and other borrowings | 24 | 185,693 | 168,557 | 113,089 | 99,811 |
| Liability for acceptances | | 13,449 | 12,466 | 13,449 | 12,466 |
| Due to controlled entities | | – | – | 11,600 | 9,544 |
| Income tax liabilities | 25 | 1,797 | 1,914 | 1,487 | 1,251 |
| Payables and other liabilities[3] | 26 | 11,607 | 14,212 | 8,790 | 10,890 |
| Provisions | 27 | 914 | 845 | 650 | 618 |
| Bonds and notes | 28 | 39,073 | 27,602 | 32,739 | 25,034 |
| Loan capital | 29 | 9,137 | 8,475 | 8,452 | 7,680 |
| **Total liabilities** | | 273,697 | 241,420 | 199,285 | 173,154 |
| **Net assets** | | 19,488 | 17,925 | 17,724 | 16,647 |
| **Shareholders' equity** | | | | | |
| Ordinary share capital | 30 | 8,074 | 8,005 | 8,074 | 8,005 |
| Preference share capital | 30 | 1,858 | 987 | 1,858 | 987 |
| Reserves | | 136 | 579 | 446 | 659 |
| Retained profits | | 9,393 | 8,336 | 7,346 | 6,996 |
| Share capital and reserves attributable to shareholders of the Company | | 19,461 | 17,907 | 17,724 | 16,647 |
| Outside equity interests | 31 | 27 | 18 | – | – |
| **Total shareholders' equity** | | 19,488 | 17,925 | 17,724 | 16,647 |
| Derivative financial instruments | 38 | | | | |
| Commitments | 46 | | | | |
| Contingent liabilities, contingent assets and credit related commitments | 47 | | | | |

The notes appearing on pages 6 to 107 form an integral part of these financial statements

1 Excludes notional goodwill of $711 million (September 2004: $754 million) included in the net carrying value of ING Australia Limited
2 Includes life insurance investment assets held by NBNZ Life Insurance Limited $nil (September 2004: $65 million)
3 Includes life insurance policy liabilities held by NBNZ Life Insurance Limited $nil (September 2004: $30 million)

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2005

| | Note | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|---|
| **Share capital** | | | | | | |
| **Ordinary shares** | | | | | | |
| Balance at start of year | | 8,005 | 4,175 | 3,939 | 8,005 | 4,175 |
| Dividend reinvestment plan | | 153 | 135 | 115 | 153 | 135 |
| Group employee share acquisition scheme | | 16 | 47 | 48 | 16 | 47 |
| Group share option scheme | | 104 | 86 | 73 | 104 | 86 |
| Group share buyback | | (204) | – | – | (204) | – |
| Rights issues | | – | 3,562 | – | – | 3,562 |
| Balance at end of year | | 8,074 | 8,005 | 4,175 | 8,074 | 8,005 |
| **Preference shares** | | | | | | |
| Balance at start of year | | 987 | 2,212 | 1,375 | 987 | 2,212 |
| New issues[1] | | 871 | – | 987 | 871 | – |
| Buyback of preference shares | | – | (1,225) | – | – | (1,225) |
| Retranslation of preference shares | | – | – | (150) | – | – |
| Balance at end of year | | 1,858 | 987 | 2,212 | 1,858 | 987 |
| **Total share capital** | | 9,932 | 8,992 | 6,387 | 9,932 | 8,992 |
| **Asset revaluation reserve[2]** | | | | | | |
| Balance at start of year | | 31 | 31 | 31 | 415 | 401 |
| Revaluation of investment in controlled entities | | – | – | – | – | 14 |
| Total asset revaluation reserve | | 31 | 31 | 31 | 415 | 415 |
| **Foreign currency translation reserve[3]** | | | | | | |
| Balance at start of year | | 218 | (239) | 117 | 233 | 228 |
| Currency translation adjustments, net of hedges after tax | | (443) | 233 | (356) | (213) | 5 |
| Transfer from general reserve | | – | 224 | – | – | – |
| Total foreign currency translation reserve (FCTR) | | (225) | 218 | (239) | 20 | 233 |
| **General reserve[4]** | | | | | | |
| Balance at start of year | | 181 | 239 | 237 | 11 | 55 |
| TrUEPrS preference share gain on buy back | | – | 180 | – | – | 180 |
| Transfers (to) from retained profits/FCTR | | – | (238) | 2 | – | (224) |
| Total general reserve | | 181 | 181 | 239 | 11 | 11 |
| **Capital reserve[4]** | | 149 | 149 | 149 | – | – |
| **Total reserves** | | 136 | 579 | 180 | 446 | 659 |
| **Retained profits** | | | | | | |
| Balance at start of year | | 8,336 | 7,203 | 5,600 | 6,996 | 6,398 |
| Net profit attributable to shareholders of the Company | | 3,018 | 2,815 | 2,348 | 2,227 | 1,972 |
| Total available for appropriation | | 11,354 | 10,018 | 7,948 | 9,223 | 8,370 |
| Transfers from (to) reserves | | – | 14 | (2) | – | 224 |
| Ordinary share dividends provided for or paid | 7 | (1,877) | (1,598) | (641) | (1,877) | (1,598) |
| Preference share dividends paid | 7 | (84) | (98) | (102) | – | – |
| Retained profits at end of year | | 9,393 | 8,336 | 7,203 | 7,346 | 6,996 |
| **Total shareholders' equity attributable to shareholders of the Company** | | 19,461 | 17,907 | 13,770 | 17,724 | 16,647 |

The notes appearing on pages 6 to 107 form an integral part of these financial statements

1 2005 relates to the issue of 500,000 Euro Trust securities raising $875m net of issue costs of $4m. 2003 relates to the issue of 10 million ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS), raising $1 billion less issue costs of $13 million. Refer note 30

Nature and purpose of reserves

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

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

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

# STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2005

| | Note | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Interest received | | 17,868 | 14,515 | 10,887 | 10,926 | 8,744 |
| Dividends received | | 144 | 3 | 7 | 475 | 650 |
| Fees and other income received | | 3,316 | 3,257 | 3,170 | 2,857 | 2,008 |
| Interest paid | | (11,414) | (8,258) | (5,724) | (7,541) | (5,711) |
| Personnel expenses paid | | (2,498) | (2,110) | (1,848) | (1,702) | (1,542) |
| Premises expenses paid | | (367) | (312) | (279) | (251) | (275) |
| Other operating expenses paid | | (2,126) | (2,122) | (1,951) | (931) | (1,089) |
| Income taxes paid | | (1,072) | (247) | (1,312) | (471) | 107 |
| Net (increase) decrease in trading securities | | (821) | 514 | 1,669 | (523) | (1,147) |
| **Net cash provided by operating activities** | 41 | 3,030 | 5,250 | 4,619 | 2,839 | 1,745 |
| **Cash flows from investing activities** | | | | | | |
| Net (increase) decrease | | | | | | |
| Liquid assets - greater than three months | | (728) | (325) | 1,113 | (631) | (298) |
| Due from other financial institutions | | (371) | 522 | (44) | (180) | (153) |
| Regulatory deposits | | 5 | (76) | 52 | 22 | (78) |
| Loans and advances | | (28,788) | (22,757) | (19,944) | (20,599) | (18,869) |
| Shares in controlled entities, associates, and joint venture entities | | 157 | (35) | (2) | (1,026) | (5,361) |
| Investment securities | | | | | | |
| Purchases | | (17,188) | (14,411) | (8,211) | (13,873) | (5,023) |
| Proceeds from sale or maturity | | 17,856 | 11,701 | 6,785 | 14,421 | 2,693 |
| Controlled entities and associates | | | | | | |
| Purchased (net of cash acquired) | | (149) | (3,224) | – | – | – |
| Proceeds from sale (net of cash disposed) | | 144 | – | – | – | – |
| Premises and equipment | | | | | | |
| Purchases | | (325) | (300) | (368) | (277) | (237) |
| Proceeds from sale | | 86 | 53 | 51 | 1 | 4 |
| Other | | (1,720) | 1,735 | 1,401 | (1,344) | 999 |
| **Net cash (used in) investing activities** | | (31,021) | (27,117) | (19,167) | (23,486) | (26,323) |
| **Cash flows from financing activities** | | | | | | |
| Net increase (decrease) | | | | | | |
| Due to other financial institutions | | 4,972 | (272) | (2,946) | 3,422 | 427 |
| Deposits and other borrowings | | 19,856 | 11,216 | 13,995 | 14,085 | 10,003 |
| Due from/to controlled entities | | – | – | – | 1,085 | 630 |
| Payables and other liabilities | | (1,339) | (1,061) | 1,000 | (1,375) | 1,075 |
| Bonds and notes | | | | | | |
| Issue proceeds | | 17,968 | 14,181 | 8,255 | 13,691 | 13,233 |
| Redemptions | | (5,025) | (4,100) | (4,095) | (4,665) | (4,100) |
| Loan capital | | | | | | |
| Issue proceeds | | 1,225 | 2,694 | 3,380 | 1,225 | 2,694 |
| Redemptions | | (93) | (368) | (437) | – | (368) |
| Decrease (increase) in outside equity interests | | 8 | (1) | (1) | – | – |
| Dividends paid | | (1,808) | (1,561) | (1,322) | (1,724) | (1,463) |
| Share capital issues (ordinary capital) | | 120 | 3,695 | 120 | 120 | 3,695 |
| Share capital buyback | | (204) | – | – | (204) | – |
| StEPS preference share issue | | – | – | 1,000 | – | – |
| StEPS issues costs | | – | – | (13) | – | – |
| Euro Trust Security issue | | 875 | – | – | 875 | – |
| Euro Trust Security issue costs | | (4) | – | – | (4) | – |
| Preference share buyback (TrUEPrS) | | – | (1,045) | – | – | (1,045) |
| **Net cash provided by financing activities** | | 36,551 | 23,378 | 18,936 | 26,531 | 24,781 |
| Net cash provided by operating activities | | 3,030 | 5,250 | 4,619 | 2,839 | 1,745 |
| Net cash (used in) investing activities | | (31,021) | (27,117) | (19,167) | (23,486) | (26,323) |
| Net cash provided by financing activities | | 36,551 | 23,378 | 18,936 | 26,531 | 24,781 |
| Net increase in cash and cash equivalents | | 8,560 | 1,511 | 4,388 | 5,884 | 203 |
| Cash and cash equivalents at beginning of year | | 7,854 | 7,315 | 7,925 | 4,242 | 4,411 |
| Foreign currency translation on opening balances | | (2,712) | (972) | (4,998) | (2,227) | (372) |
| **Cash and cash equivalents at end of year** | 41 | 13,702 | 7,854 | 7,315 | 7,899 | 4,242 |

The notes appearing on pages 6 to 107 form an integral part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

Our critical accounting policies are described on pages 110 to 113.

## 1: ACCOUNTING POLICIES

### i) Basis of preparation

This general purpose financial report complies with the accounts provisions of the Banking Act 1959, applicable Australian Accounting Standards, the accounts provisions of the Corporations Act 2001, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. Except as disclosed below, these accounting policies are consistent with those of the previous year.

The financial report has been prepared in accordance with the historical cost convention as modified by the revaluation of trading instruments which are recorded at market value with gains and losses on revaluation taken to the statement of financial performance, and the deemed cost of properties (deemed cost being the carrying amount of revalued non-current assets as at the date of reverting to the cost basis per AASB 1041 - Revaluation of Non Current Assets) less any accumulated depreciation.

The preparation of the financial report requires the use of management estimates. Such estimates may require review in future periods.

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

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

### ii) Changes in Accounting Policies

There have been no changes in accounting policies for the year ended 30 September 2005.

For reporting periods commencing 1 October 2005, the Group is required to prepare financial statements using Australian equivalents to International Financial Reporting Standards (AIFRS). The move to reporting under AIFRS represents a major change to reporting processes and will result in significant changes to accounting policies. Refer to note 55 for a detailed analysis of the impacts of adopting AIFRS.

### iii) Consolidation

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

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

Control means the capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to pursue the objectives of the controlling entity.

The capacity of an entity to dominate decision making is usually present when that entity has power over more than one-half of the voting rights of the other entity; power to govern the financial and operating policies of the other entity; power to appoint or remove the majority of the members of the board of directors; or power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity. However, all the facts of a particular situation are considered when assessing control.

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

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

All significant activities of the Group, with the exception of the ING Australia Joint Venture, are operated through wholly-owned controlled entities.

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

### iv) Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is recognised as an asset and amortised on a straight line basis over the period during which the benefits are expected to arise, not exceeding 20 years.

The unamortised balance of goodwill and the period of amortisation are reviewed annually for impairment using a discounted cash flow or the capitalisation of earnings methodology. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

### v) Foreign currency

Financial assets and liabilities denominated in foreign currencies are translated into Australian dollars at the rates of exchange ruling at balance date.

Revenues and expenses of overseas branches and controlled entities are translated at average exchange rates for the year.

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

### vi) Fee income

Fee and commission income is brought to account on an accruals basis. Certain yield-related front-end application fees received are deferred and accrued to income as an adjustment to yield over the period of the loan. Non yield-related application and activation lending fees received are recognised as income no later than when the loan is disbursed or the commitment to lend expires.

Fees and commissions that relate to the execution of a significant act (for example, advisory services, placement fees and underwriting fees) are taken to income when the fees are receivable. Fees charged for providing ongoing services that represent the recoupment of the costs of providing service (for example, maintaining and administering existing facilities) are recognised as revenue in the period in which the service is provided.

## NOTES TO THE FINANCIAL STATEMENTS

### 1: ACCOUNTING POLICIES (CONTINUED)

**vii) Net loans and advances**

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

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

Finance leases, including hire purchase contracts, are accounted for using the finance method whereby income is taken to account progressively over the life of the lease or the contract in proportion to the outstanding investment balance. The finance receivable component of operating leases is accounted for using the finance method and operating lease residual value retained is recorded as other assets. At finalisation, goods are disposed of and proceeds received are applied against the residual value. Any resulting gains or losses are recognised through income.

The operating lease residual value is reflected at estimated future realisable value. The residual value is reviewed semi-annually and compared to estimated future market values. Any impairment on these residual value assets is recognised in the statement of financial performance for the period.

A hire purchase is a contract where Esanda or UDC (the 'owner') allows the customer (the 'hirer') the right to possess and use goods in return for regular payments. When all payments are made the title to the goods will pass to the hirer.

The gross amount of contractual payments for finance leases to business customers that have a fixed rate and a fixed term are recorded as gross lease receivables and the unearned interest component is recognised as income yet to mature.

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

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

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

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

**viii) Bad and doubtful debts and other loss contingencies**

Bad and doubtful debts:

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

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

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

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

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

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

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

Other loss contingencies:

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

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

Further disclosure is made within note 47, where the above requirements are not met but the contingency falls within the category of "reasonably possible". Specific details are provided together with an estimate of the range or a statement that such an estimate is not possible.

**ix) Acceptances**

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

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

**x) Trading securities**

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

Market value for listed and unlisted securities is determined by the price displayed by a willing buyer in a liquid market at the reporting date, adjusted for liquidity issues around the size of the parcel of securities held by the Group as compared to the normal daily trading volumes in the securities. Where a market price in a liquid market is not readily available, the market value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models.

# NOTES TO THE FINANCIAL STATEMENTS

## 1: ACCOUNTING POLICIES (CONTINUED)

**xi) Investment securities**

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

Premiums and discounts are capitalised and amortised from the date of purchase to maturity. Interest and dividend income is accrued. Changes in market values of securities are not taken into account unless there is considered to be an other than temporary diminution in value. The market value of listed and unlisted investment securities used for considering other than temporary impairment and fair market value disclosures is determined using quoted market prices for securities with the same or similar credit, maturity and yield characteristics.

Market value, used for impairment issues, is determined in accordance with the methodology discussed under Trading Securities.

**xii) Repurchase agreements**

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

Securities purchased under agreements to resell are recorded as Liquid assets, Net loans and advances, or Due from other financial institutions, depending on the term of the agreement and the counterparty.

**xiii) Derivative financial instruments**

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

Trading derivatives, comprising derivatives entered into for customer-related or proprietary reasons or for hedging the trading portfolio, are measured at fair value and all gains and losses are taken to other operating income in the statement of financial performance.

Fair value losses arising from trading derivatives are not offset against fair value gains on the statement of financial position unless a legal right of set-off exists.

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

Derivatives designated as hedges of underlying non-trading exposures are accounted for on the same basis as the underlying exposures. To be designated as a hedge, the fair value of the hedge must move inversely with changes in the fair value of the underlying exposure.

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

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

These gains and losses are deferred only to the extent that there is an offsetting unrecognised (unrealised) gain or loss on the exposures being hedged. Deferred gains and losses are amortised over the expected term of the hedged exposure and are recorded in the results of operations in the same line as the underlying exposure. For hedging instruments designed as hedging interest rate risk, the amortised deferred gain or loss is posted to the net interest line; for items designated as hedging foreign currency exposures, the amortised deferred gain or loss is recorded in the other operating income line. The impact of hedges of foreign currency revenue is recorded in interest income. The deferred gain or loss is recorded in other liability or other assets in the statement of financial position.

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

Movements in the derivative financial position are recorded in the cashflow statement when they are settled on the other financing and investing lines.

**xiv) Premises and equipment**

Premises and equipment are carried at cost less depreciation or amortisation.

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

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight line method. The depreciation rates used for each class of asset are:

| | |
|---|---|
| Buildings | 1% |
| Building integrals | 10% |
| Furniture & equipment | 10% |
| Computer & office equipment | 12.5% to 33% |
| Software | 14% to 33% |

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

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

The carrying values of all non-current assets, including premises and equipment, have been assessed annually, and have not been found to be in excess of their recoverable amounts. Recoverable amounts are determined through a combination of comparisons with market values and cash flows. If the carrying value of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value. Where assets working together as a group support the generation of cash flows, the recoverable amount is assessed in relation to the group of assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 1: ACCOUNTING POLICIES (CONTINUED)

**xv) Income tax**

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

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

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

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

For details of the impact of Tax Consolidation, refer note 6.

**xvi) Employee entitlements**

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

**xvii) Provisions**

Refer to note 27 for the accounting policies covering various provisions, excluding ELP which is detailed in note 1(viii) above.

**xviii) Superannuation commitments**

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

Any aggregate deficiencies arising from the actuarial valuations of the Group's defined benefit schemes have been provided for in the financial statements, where a legal or constructive obligation exists.

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

**xix) Leasing**

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

**xx) Goods and services tax**

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

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

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

**xxi) Capitalised expenses**

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

## 2: INCOME

| | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **Interest income** | | | | | |
| From other financial institutions | 258 | 187 | 92 | 127 | 68 |
| On trading securities | 302 | 359 | 272 | 254 | 245 |
| On investment securities | 363 | 275 | 180 | 255 | 210 |
| On loans and advances | 16,111 | 12,984 | 9,380 | 9,829 | 8,194 |
| Other | 393 | 312 | 291 | 286 | 200 |
| | 17,427 | 14,117 | 10,215 | 10,751 | 8,917 |
| From controlled entities | – | – | – | 195 | 137 |
| **Total interest income** | 17,427 | 14,117 | 10,215 | 10,946 | 9,054 |
| **Other operating income** | | | | | |
| **i) Fee income** | | | | | |
| Lending | 1,043 | 1,002 | 933 | 856 | 822 |
| Other, commissions | 1,573 | 1,419 | 1,115 | 1,023 | 947 |
| | 2,616 | 2,421 | 2,048 | 1,879 | 1,769 |
| From controlled entities | – | – | – | 219 | 260 |
| **Total fee income** | 2,616 | 2,421 | 2,048 | 2,098 | 2,029 |
| **ii) Other income** | | | | | |
| Foreign exchange earnings | 454 | 411 | 348 | 351 | 232 |
| Profit on trading instruments | 134 | 151 | 110 | 117 | 158 |
| Significant item: Net profit before tax from the sale of NBNZ Life | 14 | – | – | – | – |
| Significant item: Net profit before tax from sale of business to INGA joint venture | – | 14 | – | – | 14 |
| Significant item: Net profit before tax from the close out of the TrUEPrS swap | – | 108 | – | – | 108 |
| Hedge of TrUEPrS cash flows[1] | – | 2 | 71 | – | 2 |
| Life insurance margin on services operating income | 18 | 15 | – | – | – |
| Profit (loss) on sale of premises[2] | 6 | (7) | 6 | (3) | – |
| Rental income | 2 | 2 | 3 | 2 | 2 |
| Other[3] | 151 | 129 | 116 | 531 | 482 |
| **Total other income[3]** | 779 | 825 | 654 | 998 | 998 |
| **Total other operating income** | 3,395 | 3,246 | 2,702 | 3,096 | 3,027 |
| Share of joint venture profit from ING Australia[4] (refer note 44) | 107 | 97 | 55 | – | – |
| Share of associates profit (net of writeoffs) | 50 | 48 | 51 | – | – |
| **Total share of joint venture and associates profit** | 157 | 145 | 106 | – | – |
| **Total income[5]** | 20,979 | 17,508 | 13,023 | 14,042 | 12,081 |

1 In prior years, preference shares were issued via the TrUEPrS structure. This income was earned on a fixed receive/floating pay swap of the fixed dividend commitments. The TrUEPrS securities were bought back on 12 December 2003. $2 million in 2004 treated as significant item
2 Consolidated gross proceeds on sale of premises is $9 million (2004: $34 million, 2003: $33 million)
3 The Company's 'other income' include dividends received from controlled entities of $468 million (2004: $648 million)
4 Net of notional goodwill amortisation
5 Includes external dividend income of $106 million (2004: $41 million, 2003: $10 million) for the Group and $7 million (2004: $2 million) for the Company

# NOTES TO THE FINANCIAL STATEMENTS

## 3: EXPENSES

| | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **Interest expense** | | | | | |
| To other financial institutions | 345 | 238 | 183 | 251 | 161 |
| On deposits | 6,670 | 5,037 | 3,502 | 4,337 | 3,403 |
| On borrowing corporations' debt | 528 | 481 | 445 | – | – |
| On commercial paper | 980 | 770 | 310 | 133 | 201 |
| On loan capital, bonds and notes | 2,483 | 1,699 | 1,052 | 2,076 | 1,515 |
| Other | 623 | 638 | 412 | 454 | 529 |
| | 11,629 | 8,863 | 5,904 | 7,251 | 5,809 |
| To controlled entities | – | – | – | 395 | 279 |
| Total interest expense | 11,629 | 8,863 | 5,904 | 7,646 | 6,088 |
| **Operating expenses** | | | | | |
| **i) Personnel** | | | | | |
| Pension fund | 161 | 145 | 109 | 115 | 108 |
| Employee entitlements and taxes | 190 | 149 | 122 | 130 | 108 |
| Salaries and wages | 1,625 | 1,425 | 1,177 | 1,071 | 975 |
| Temporary staff | 111 | 92 | 81 | 66 | 65 |
| Other | 362 | 320 | 261 | 275 | 238 |
| Total personnel expenses | 2,449 | 2,131 | 1,750 | 1,657 | 1,494 |
| **ii) Premises** | | | | | |
| Amortisation of leasehold improvements | 16 | 13 | 15 | 9 | 7 |
| Depreciation of buildings and integrals | 11 | 11 | 16 | 2 | 2 |
| Rent | 213 | 197 | 154 | 146 | 139 |
| Utilities and other outgoings | 122 | 109 | 88 | 91 | 81 |
| Other | 32 | 23 | 22 | 23 | 17 |
| | 394 | 353 | 295 | 271 | 246 |
| To controlled entities | – | – | – | (9) | 46 |
| Total premises expenses | 394 | 353 | 295 | 262 | 292 |
| **iii) Computer** | | | | | |
| Computer contractors | 53 | 25 | 18 | 49 | 23 |
| Data communication | 60 | 69 | 61 | 34 | 48 |
| Depreciation and amortisation | 235 | 242 | 183 | 182 | 178 |
| Rentals and repairs | 58 | 59 | 70 | 48 | 62 |
| Software purchased | 115 | 115 | 103 | 84 | 90 |
| Other | 37 | 43 | 30 | 14 | 17 |
| Total computer expenses | 558 | 553 | 465 | 411 | 418 |
| **iv) Other** | | | | | |
| Advertising and public relations | 161 | 130 | 91 | 92 | 72 |
| Amortisation of goodwill[1] | 179 | 146 | 18 | 8 | 8 |
| Audit fees (refer note 5) | 7 | 5 | 4 | 4 | 3 |
| Depreciation of furniture and equipment | 43 | 43 | 33 | 29 | 27 |
| Freight and cartage | 45 | 41 | 35 | 36 | 32 |
| Loss on sale of equipment | 9 | 6 | 7 | 4 | 5 |
| Non-lending losses, frauds and forgeries | 62 | 49 | 48 | 45 | 30 |
| Postage and stationery | 113 | 111 | 92 | 67 | 66 |
| Professional fees | 123 | 112 | 101 | 93 | 83 |
| Telephone | 55 | 57 | 49 | 29 | 30 |
| Travel | 124 | 100 | 78 | 76 | 65 |
| Other | 141 | 129 | 102 | 204 | 189 |
| Total other expenses | 1,062 | 929 | 658 | 687 | 610 |
| **v) Restructuring** | 52 | 60 | 60 | 47 | 64 |
| **Total operating expenses** | 4,515 | 4,026 | 3,228 | 3,064 | 2,878 |
| **Total expenses** | 16,144 | 12,889 | 9,132 | 10,710 | 8,966 |

1 In addition, there is a notional goodwill amortisation charge of $43 million (2004: $41 million; 2003: $44 million) included in the calculation of the share of income from the ING Australia joint venture

# NOTES TO THE FINANCIAL STATEMENTS

## 4: EQUITY INSTRUMENTS ISSUED TO EMPLOYEES

Under existing Australian Accounting Standards, equity instruments issued to employees are not required to be expensed. The impact of expensing options[1], and shares issued under the $1,000 employee share plan, has been calculated and is disclosed below.

| | | Consolidated | |
|---|---|---|---|
| | 2005 $m | 2004 $m | 2003 $m |
| Net profit attributable to shareholders of the Company | 3,018 | 2,815 | 2,348 |
| Expenses attributable to: | | | |
| Options issued to Group Heads[1] | (5) | (8) | (8) |
| Options issued to general management[1] | (20) | (23) | (24) |
| Shares issued under $1,000 employee share plan | (23) | (22) | (18) |
| Total | 2,970 | 2,762 | 2,298 |

1 Based on fair values estimated at grant date determined in accordance with the fair value measurement provisions of AASB 1046. Value of options are amortised on a straight-line basis over the vesting period.

## 5: REMUNERATION OF AUDITORS

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2003 $'000 | 2005 $'000 | 2004 $'000 |
| **KPMG Australia** | | | | | |
| Audit or review of financial reports of the Company or any entity in the Group[1] | 4,981 | 2,981 | 2,640 | 3,732 | 2,357 |
| Other audit-related services[2] | 1,060 | 567 | 2,083 | 630 | 492 |
| Other assurance services[3] | 927 | 2,934 | 3,891 | 927 | 2,899 |
| | 6,968 | 6,482 | 8,614 | 5,289 | 5,748 |
| Taxation | – | 563 | 775 | – | 443 |
| Total | 6,968 | 7,045 | 9,389 | 5,289 | 6,191 |
| **Overseas Related practices of KPMG Australia** | | | | | |
| Audit or review of financial reports of Group entities | 1,977 | 1,834 | 1,293 | 351 | 346 |
| Other audit-related services[2] | 1,475 | 1,494 | 1,503 | 791 | 556 |
| Other assurance services[3] | 188 | 77 | 1,473 | 8 | 32 |
| | 3,640 | 3,405 | 4,269 | 1,150 | 934 |
| Taxation | 4 | 65 | 83 | – | 31 |
| Total | 3,644 | 3,470 | 4,352 | 1,150 | 965 |
| **Total remuneration of auditors** | 10,612 | 10,515 | 13,741 | 6,439 | 7,156 |

It is Group policy that KPMG Australia or any of its related practices may provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by the Company's regulators such as the Australian Prudential Regulation Authority. KPMG Australia or any of its related practices may not provide services that are perceived to be materially in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be materially in conflict with the role of auditor may be provided by KPMG Australia or any of its related practices subject to the approval of the Audit Committee.
KPMG has confirmed to ANZ that it has policies in place on loans from audit clients that are in accordance with Rule 2-01 of Regulation S-X and that neither KPMG nor any covered person or immediate family member have any loans outstanding from the Company and its related parties, that are part of the audit client, that are not in compliance with that rule.

1 2005 includes services in relation to the transition to Australian equivalents to International Financial Reporting Standards
2 Includes services for the audit or review of financial information other than financial reports, including prudential supervision reviews for central banks, prospectus reviews, trust audits and other audits required for local statutory purposes
3 2004 includes due diligence oversight review of The National Bank of New Zealand and markets co-sourcing internal audit work which ceased in April 2004. 2003 includes assessing the Group's compliance with the requirements of the US Patriot Act.

# NOTES TO THE FINANCIAL STATEMENTS

## 6: INCOME TAX EXPENSE

| | Consolidated 2005 $m | 2004 $m | 2003 $m | The Company 2005 $m | 2004 $m |
|---|---|---|---|---|---|
| **Reconciliation of the prima facie income tax payable on profit with the income tax expense charged in the statement of financial performance** | | | | | |
| Profit before income tax | 4,255 | 3,987 | 3,277 | 2,944 | 2,682 |
| Prima facie income tax at 30% | 1,277 | 1,196 | 983 | 883 | 804 |
| Tax effect of permanent differences | | | | | |
| Overseas tax rate differential | 17 | 20 | 15 | (3) | 2 |
| Other non-assessable income | (26) | (32) | (31) | (3) | (1) |
| Rebateable and non-assessable dividends | (23) | (20) | (16) | (141) | (194) |
| Life insurance accounting | (5) | (4) | – | – | – |
| Goodwill amortisation | 56 | 46 | 5 | 1 | 1 |
| Profit from associated and joint venture entities | (45) | (43) | (32) | – | – |
| Sale of businesses to ING joint ventures | (6) | (4) | – | – | (4) |
| Other | (9) | 11 | 5 | (19) | 104 |
| | 1,236 | 1,170 | 929 | 718 | 712 |
| Income tax (over) provided in prior years | (2) | (2) | (3) | (1) | (2) |
| Total income tax expense | 1,234 | 1,168 | 926 | 717 | 710 |
| Australia | 816 | 802 | 672 | 642 | 641 |
| Overseas | 418 | 366 | 254 | 75 | 69 |
| | 1,234 | 1,168 | 926 | 717 | 710 |

**Tax Consolidation**

Legislation has been enacted to allow Australian resident entities to elect to consolidate and be treated as a single entity for Australian taxation purposes. The Company has elected for all Australian wholly owned subsidiaries, trusts and partnerships to be taxed as a single entity with effect from 1 October 2003.

## 7: DIVIDENDS

| | Consolidated 2005 $m | 2004 $m | 2003 $m | The Company 2005 $m | 2004 $m |
|---|---|---|---|---|---|
| **Ordinary dividends** | | | | | |
| Interim dividend | 930 | 850 | 666 | 930 | 850 |
| Final dividend | 983[1] | 777[1] | –[1] | 983[1] | 777[1] |
| Bonus option plan adjustment | (36) | (29) | (25) | (36) | (29) |
| **Dividends on ordinary shares** | 1,877 | 1,598 | 641 | 1,877 | 1,598 |

1 Following a change in accounting standards in 2003 dividends are no longer accrued and are recorded when declared. Final dividend of $1,077 million for 2005 not included in above table

A final dividend of 59 cents, fully franked, is proposed to be paid on each fully paid ordinary share on 16 December 2005 (2004: final dividend of 54 cents, paid 17 December 2004, fully franked, 2003: final dividend of 51 cents, paid 19 December 2003, fully franked). The 2005 interim dividend of 51 cents, paid 1 July 2005, was fully franked (2004: interim dividend of 47 cents, paid 1 July 2004, fully franked, 2003: interim dividend of 44 cents, paid 1 July 2003, fully franked).

The tax rate applicable to the franking credits attached to the interim dividend and to be attached to the proposed final dividend is 30% (2004: 30%, 2003: 30%).

| | Consolidated 2005 $m | 2004 $m | 2003 $m | The Company 2005 $m | 2004 $m |
|---|---|---|---|---|---|
| **Preference dividends** | | | | | |
| Trust Securities Issues | – | 36 | 102 | – | – |
| ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) | 66 | 62 | – | – | – |
| Euro Trust Securities | 18 | – | – | – | – |
| **Dividends on preference shares** | 84 | 98 | 102 | – | – |

# NOTES TO THE FINANCIAL STATEMENTS

## 7: DIVIDENDS (CONTINUED)

**Trust Securities Issues (ANZ TrUEPrS)**

In 1998 ANZ TrUEPrS issued 124,032,000 preference shares, raising USD 775 million via Trust Securities issues. The Trust Securities carried an entitlement to a distribution of 8% (USD 400 million) or 8.08% (USD 375 million). The amounts were payable quarterly in arrears. Payment dates were the fifteenth day of January, April, July and October in each year. The preference shares were bought back on 12 December 2003.

**ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)**

On 23 September 2003, the Group issued 10 million ANZ StEPS at $100 each raising $1 billion ($987 million net of issue costs of $13 million). ANZ StEPS comprise 2 fully paid securities - an interest paying unsecured note issued by a New Zealand subsidiary (ANZ Holdings (New Zealand) Limited) which is stapled to a fully paid preference share issued by the Company.

Distributions on ANZ StEPS are non-cumulative and are payable quarterly in arrears (on 15 March, 15 June, 15 September, 15 December of each year) based upon a floating distribution rate equal to the 90 day bank bill rate plus a 100 basis point margin. At each payment date the 90 day bank bill rate is reset for the next quarter. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on ANZ StEPS, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or below the preference share component.

**Euro Trust Securities**

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

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

**Dividend Franking Account**

The amount of franking credits available to the Company for the subsequent financial year is $78 million (2004: $111 million and 2003: nil), after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 2005 financial year, $462 million of franking credits which will be utilised in franking the proposed final dividend and franking credits that may not be accessible by the Company at present.

**Restrictions which Limit the Payment of Dividends**

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

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

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

**Dividend Reinvestment Plan**

During the year, 3,900,116 ordinary shares were issued at $19.95 per share, and 3,406,775 ordinary shares at $21.85 per share, under the Dividend Reinvestment Plan (2004: 3,909,659 ordinary shares at $16.61 per share, and 3,906,171 ordinary shares at $17.84 per share)

# NOTES TO THE FINANCIAL STATEMENTS

## 7: DIVIDENDS (CONTINUED)

**Bonus Option Plan**

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

During the year, 1,749,584 ordinary shares were issued under the Bonus Option Plan (2004: 1,771,864 ordinary shares).

| | Declared dividend $m | Bonus options exercised $m | Amount paid $m |
|---|---|---|---|
| Final dividend 2004 | 983 | (19) | 964 |
| Interim dividend 2005 | 930 | (17) | 913 |
| | 1,913 | (36) | 1,877 |

## 8: EARNINGS PER ORDINARY SHARE

| | Consolidated 2005 $m | 2004 $m | 2003 $m |
|---|---|---|---|
| **Basic earnings per share (cents)**[1] | **160.9** | **153.1** | **142.4** |
| **Earnings reconciliation** | | | |
| Profit after income tax | 3,021 | 2,819 | 2,351 |
| Less: net profit attributable to outside equity interests | 3 | 4 | 3 |
| Less: preference share dividend paid | 84 | 98 | 102 |
| Earnings used in calculating basic earnings per share | 2,934 | 2,717 | 2,246 |
| **Weighted average number of ordinary shares (millions)**[1] | | | |
| Used in calculating basic earnings per share | 1,823.7 | 1,774.1 | 1,577.8 |
| **Diluted earnings per share (cents)**[1] | **157.5** | **149.7** | **141.7** |
| **Earnings reconciliation** | | | |
| Profit after income tax | 3,021 | 2,819 | 2,351 |
| Less: net profit attributable to outside equity interests | 3 | 4 | 3 |
| Less: preference share dividend paid | 84 | 98 | 102 |
| Add: US Trust Securities interest expense | 48 | 44 | – |
| Earnings used in calculating diluted earnings per share | 2,982 | 2,761 | 2,246 |
| **Weighted average number of ordinary shares (millions)**[1] | | | |
| Used in calculating basic earnings per share | 1,823.7 | 1,774.1 | 1,577.8 |
| Add: potential conversion of options to ordinary shares[1] | 9.7 | 6.2 | 7.2 |
| potential conversion of US Trust Securities to ordinary shares | 60.1 | 64.5 | – |
| Used in calculating diluted earnings per share | 1,893.5 | 1,844.8 | 1,585.0 |

1 Discounted for rights issue

The weighted average number of converted and lapsed options, weighted with reference to the date of conversion or lapse, and included in the calculation of diluted earnings per share is approximately 1.0 million.

ANZ StEPS and Euro Trust Securities have not been included in the calculation of diluted EPS as they are not dilutive. Refer to note 30.

## 9: LIQUID ASSETS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Coins, notes and cash at bankers | 887 | 696 | 865 | 678 |
| Money at call, bills receivable and remittances in transit | 1,013 | 157 | 958 | 121 |
| Securities purchased under agreement to resell less than 90 days | 1,405 | 568 | 1,394 | 552 |
| | 3,305 | 1,421 | 3,217 | 1,351 |
| **Overseas** | | | | |
| Coins, notes and cash at bankers | 474 | 418 | 119 | 103 |
| Money at call, bills receivable and remittances in transit | 3,707 | 2,289 | 1,980 | 1,087 |
| Other banks' certificates of deposit | 3,865 | 2,080 | 1,875 | 1,203 |
| Securities purchased under agreement to resell less than 90 days | 249 | 155 | – | – |
| | 8,295 | 4,942 | 3,974 | 2,393 |
| **Total liquid assets** | 11,600 | 6,363 | 7,191 | 3,744 |
| **Maturity analysis based on original term to maturity at 30 September** | | | | |
| Less than 90 days | 9,600 | 4,999 | 5,315 | 2,408 |
| More than 90 days | 2,000 | 1,364 | 1,876 | 1,336 |
| **Total liquid assets** | 11,600 | 6,363 | 7,191 | 3,744 |

## 10: DUE FROM OTHER FINANCIAL INSTITUTIONS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Australia | 917 | 498 | 899 | 488 |
| Overseas | 5,431 | 4,283 | 2,553 | 2,049 |
| **Total due from other financial institutions** | 6,348 | 4,781 | 3,452 | 2,537 |
| **Maturity analysis based on remaining term to maturity at 30 September** | | | | |
| Overdraft | 802 | 370 | 741 | 299 |
| Less than 3 months | 3,591 | 2,692 | 2,158 | 1,729 |
| Between 3 months and 12 months | 424 | 824 | 359 | 349 |
| Between 1 year and 5 years | 393 | 790 | 58 | 58 |
| After 5 years | 1,138 | 105 | 136 | 102 |
| **Total due from other financial institutions** | 6,348 | 4,781 | 3,452 | 2,537 |

## 11: TRADING SECURITIES

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

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Unlisted – Australia** | | | | |
| Commonwealth securities | 551 | 164 | 551 | 164 |
| Local, semi-government and other government securities | 1,646 | 1,693 | 1,646 | 1,693 |
| ANZ accepted bills | 1,182 | 1,875 | 1,182 | 1,875 |
| Other securities and equity securities | 1,364 | 627 | 1,260 | 568 |
| | 4,743 | 4,359 | 4,639 | 4,300 |
| **Unlisted – Overseas** | | | | |
| Other government securities | 370 | 631 | 27 | 241 |
| Other securities and equity securities | 1,172 | 488 | 643 | 242 |
| | 1,542 | 1,119 | 670 | 483 |
| Total unlisted | 6,285 | 5,478 | 5,309 | 4,783 |
| **Total trading securities** | 6,285 | 5,478 | 5,309 | 4,783 |

## 12: INVESTMENT SECURITIES

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Investment securities are allocated between Australia and Overseas based on the domicile of the issuer** | | | | |
| **Listed – Australia** | | | | |
| Other securities and equity investments | – | 4 | – | – |
| | – | 4 | – | – |
| **Listed – Overseas** | | | | |
| Other government securities | 196 | 1,070 | 196 | 1,070 |
| Other securities and equity investments | 1,411 | 1,354 | 1,410 | 1,354 |
| | 1,607 | 2,424 | 1,606 | 2,424 |
| Total listed | 1,607 | 2,428 | 1,606 | 2,424 |
| **Unlisted – Australia** | | | | |
| Local and semi-government securities | 1,412 | 895 | 1,412 | 895 |
| Other securities and equity investments | 2,344 | 2,786 | 2,274 | 2,660 |
| | 3,756 | 3,681 | 3,686 | 3,555 |
| **Unlisted – Overseas** | | | | |
| New Zealand government securities | 1,096 | 914 | – | – |
| Other government securities | 431 | 357 | 108 | 133 |
| Other securities and equity investments | 51 | 366 | 7 | 5 |
| | 1,578 | 1,637 | 115 | 138 |
| Total unlisted | 5,334 | 5,318 | 3,801 | 3,693 |
| **Total investment securities** | 6,941 | 7,746 | 5,407 | 6,117 |
| **Market value information** | | | | |
| **Listed – Australia** | | | | |
| Other securities and equity investments | | 12 | – | – |
| | – | 12 | – | – |
| **Listed – Overseas** | | | | |
| Other government securities | 197 | 1,072 | 197 | 1,072 |
| Other securities and equity investments | 1,409 | 1,358 | 1,409 | 1,358 |
| | 1,606 | 2,430 | 1,606 | 2,430 |
| Total market value of listed investment securities | 1,606 | 2,442 | 1,606 | 2,430 |
| **Unlisted – Australia** | | | | |
| Local and semi-government securities | 1,412 | 895 | 1,412 | 895 |
| Other securities and equity investments | 2,344 | 2,785 | 2,274 | 2,659 |
| | 3,756 | 3,680 | 3,686 | 3,554 |
| **Unlisted – Overseas** | | | | |
| New Zealand government securities | 1,096 | 913 | – | – |
| Other government securities | 433 | 361 | 110 | 137 |
| Other securities and equity investments | 52 | 366 | 7 | 5 |
| | 1,581 | 1,640 | 117 | 142 |
| Total market value of unlisted investment securities | 5,337 | 5,320 | 3,803 | 3,696 |
| **Total market value of investment securities** | 6,943 | 7,762 | 5,409 | 6,126 |

## 12: INVESTMENT SECURITIES (CONTINUED)

### Investment Securities by Maturities and Yields

Based on remaining term to maturity at 30 September 2005

| At book value | Less than 3 months $m | Between 3 months and 12 months $m | Between 1 year and 5 years $m | Between 5 years and 10 years $m | After 10 years $m | No maturity specified $m | Total $m | Market Value $m |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Local and semi-government securities | 972 | 440 | – | – | – | – | 1,412 | 1,412 |
| Other securities and equity investments | 2,085 | 250 | – | – | – | 9 | 2,344 | 2,344 |
| | 3,057 | 690 | – | – | – | 9 | 3,756 | 3,756 |
| **Overseas** | | | | | | | | |
| New Zealand government securities | 760 | 333 | – | 3 | – | – | 1,096 | 1,096 |
| Other government securities | 452 | 100 | 75 | – | – | – | 627 | 630 |
| Other securities and equity investments | 42 | 370 | 1,043 | 3 | 4 | – | 1,462 | 1,461 |
| | 1,254 | 803 | 1,118 | 6 | 4 | – | 3,185 | 3,187 |
| Total book value | 4,311 | 1,493 | 1,118 | 6 | 4 | 9 | 6,941 | n/a |
| Total market value | 4,313 | 1,490 | 1,121 | 5 | 5 | 9 | n/a | 6,943 |

### Weighted average yields[1]

| | Less than 1 year % | Between 1 year and 5 years % | Between 5 years and 10 years % | After 10 years % |
|---|---|---|---|---|
| **Australia** | | | | |
| Local and semi-government securities | 5.55 | – | – | – |
| Other securities and equity investments | 5.69 | – | – | – |
| **Overseas** | | | | |
| New Zealand government securities | 6.51 | – | 7.20 | – |
| Other government securities | 3.98 | 6.78 | – | 3.00 |
| Other securities and equity investments | 3.90 | 3.54 | 2.00 | 2.68 |

1 Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2005

# NOTES TO THE FINANCIAL STATEMENTS

## 12: INVESTMENT SECURITIES (CONTINUED)

**Investment Securities by Maturities and Yields**

Based on remaining term to maturity at 30 September 2004

| At book value | Less than 3 months $m | Between 3 months and 12 months $m | Between 1 year and 5 years $m | Between 5 years and 10 years $m | After 10 years $m | No maturity specified $m | Total $m | Market Value $m |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Local and semi-government securities | 695 | 200 | – | – | – | – | 895 | 895 |
| Other securities and equity investments | 2,480 | 50 | 51 | 162 | – | 47 | 2,790 | 2,797 |
| | 3,175 | 250 | 51 | 162 | – | 47 | 3,685 | 3,692 |
| **Overseas** | | | | | | | | |
| New Zealand government securities | 589 | 325 | – | – | – | – | 914 | 913 |
| Other government securities | 861 | 491 | 75 | – | – | – | 1,427 | 1,433 |
| Other securities and equity investments | 194 | 442 | 1,077 | 1 | 6 | – | 1,720 | 1,724 |
| | 1,644 | 1,258 | 1,152 | 1 | 6 | – | 4,061 | 4,070 |
| Total book value | 4,819 | 1,508 | 1,203 | 163 | 6 | 47 | 7,746 | n/a |
| Total market value | 4,784 | 1,508 | 1,251 | 165 | 6 | 48 | n/a | 7,762 |

**Weighted average yields**[1]

| | Less than 1 year % | Between 1 year and 5 years % | Between 5 years and 10 years % | After 10 years % |
|---|---|---|---|---|
| **Australia** | | | | |
| Local and semi-government securities | 5.37 | – | – | – |
| Other securities and equity investments | 5.33 | 6.49 | 6.56 | – |
| **Overseas** | | | | |
| New Zealand government securities | 6.08 | – | – | – |
| Other government securities | 4.37 | 7.89 | – | – |
| Other securities and equity investments | 3.00 | 2.71 | 2.84 | 2.18 |

1 Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 2004

# NOTES TO THE FINANCIAL STATEMENTS

## 13: NET LOANS AND ADVANCES

Loans and advances are classified between Australia, New Zealand and Overseas markets based on the domicile of the lending point

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Overdrafts | 5,276 | 4,390 | 5,276 | 4,390 |
| Credit card outstandings | 5,434 | 4,523 | 5,434 | 4,523 |
| Term loans – housing | 89,558 | 78,660 | 89,558 | 78,660 |
| Term loans – non-housing | 48,993 | 42,056 | 44,187 | 36,937 |
| Lease finance (refer below) | 2,855 | 2,667 | 1,222 | 1,061 |
| Hire purchase | 8,060 | 7,093 | 641 | 497 |
| Other | 1,575 | 1,091 | 1,575 | 1,066 |
| | 161,751 | 140,480 | 147,893 | 127,134 |
| **New Zealand** | | | | |
| Overdrafts | 1,647 | 1,604 | – | – |
| Credit card outstandings | 1,026 | 1,032 | – | – |
| Term loans – housing | 34,860 | 31,519 | – | – |
| Term loans – non-housing | 25,012 | 22,472 | – | – |
| Lease finance (refer below) | 639 | 493 | – | – |
| Hire purchase | 347 | 517 | – | – |
| Other | 859 | 584 | – | – |
| | 64,390 | 58,221 | – | – |
| **Overseas markets** | | | | |
| Overdrafts | 303 | 558 | 214 | 408 |
| Credit card outstandings | 134 | 128 | 6 | 7 |
| Term loans – housing | 592 | 464 | 467 | 363 |
| Term loans – non-housing | 7,511 | 8,730 | 6,428 | 7,314 |
| Lease finance (refer below) | 217 | 111 | 97 | 79 |
| Commercial bills | 61 | 78 | 61 | 78 |
| Other | 7 | 44 | 5 | 40 |
| | 8,825 | 10,113 | 7,278 | 8,289 |
| Total gross loans and advances | 234,966 | 208,814 | 155,171 | 135,423 |
| Provisions for doubtful debts (refer note 15) | (2,440) | (2,376) | (1,709) | (1,655) |
| Income yet to mature | (1,574) | (1,476) | (1) | (1) |
| | (4,014) | (3,852) | (1,710) | (1,656) |
| **Total net loans and advances** | 230,952 | 204,962 | 153,461 | 133,767 |
| **Lease finance consists of gross lease receivables** | | | | |
| Current | 653 | 555 | 206 | 102 |
| Non-current | 3,058 | 2,716 | 1,113 | 1,038 |
| | 3,711 | 3,271 | 1,319 | 1,140 |

## 13: NET LOANS AND ADVANCES (CONTINUED)

**Maturity Distribution and Concentrations of Credit Risk**

Based on remaining term to maturity at 30 September 2005

| | Overdraft[1] $m | Less than 3 months $m | Between 3 months and 12 months $m | Between 1 year and 5 years $m | After 5 years $m | Total $m |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Agriculture, forestry, fishing and mining | 478 | 1,072 | 447 | 1,530 | 1,776 | 5,303 |
| Business service | 177 | 491 | 415 | 1,440 | 1,389 | 3,912 |
| Entertainment, leisure and tourism | 58 | 690 | 521 | 1,128 | 1,241 | 3,638 |
| Financial, investment and insurance | 388 | 1,657 | 1,150 | 969 | 476 | 4,640 |
| Government and official institutions | – | 19 | 5 | 14 | 23 | 61 |
| Lease finance | – | 79 | 289 | 1,992 | 495 | 2,855 |
| Manufacturing | 258 | 2,039 | 705 | 1,750 | 984 | 5,736 |
| Personal[2] | 8,477 | 1,283 | 145 | 5,837 | 7,511 | 23,253 |
| Real estate – construction | 156 | 532 | 165 | 1,385 | 844 | 3,082 |
| Real estate – mortgage[3] | 110 | 3,107 | 3,208 | 3,362 | 83,488 | 93,275 |
| Retail and wholesale trade | 457 | 2,423 | 673 | 1,846 | 3,152 | 8,551 |
| Other | 151 | 1,182 | 880 | 3,122 | 2,110 | 7,445 |
| **New Zealand** | | | | | | |
| Agriculture, forestry, fishing and mining | 427 | 625 | 591 | 6,045 | 2,620 | 10,308 |
| Business service | 28 | 36 | 94 | 269 | 235 | 662 |
| Entertainment, leisure and tourism | 37 | 26 | 59 | 510 | 246 | 878 |
| Financial, investment and insurance | 83 | 444 | 50 | 1,302 | 132 | 2,011 |
| Government and official institutions | 13 | 111 | 4 | 131 | 61 | 320 |
| Lease finance | 23 | 116 | 59 | 254 | 187 | 639 |
| Manufacturing | 93 | 382 | 159 | 1,279 | 310 | 2,223 |
| Personal[2] | 1,548 | 73 | 269 | 648 | 89 | 2,627 |
| Real estate – construction | 26 | 84 | 132 | 274 | 109 | 625 |
| Real estate – mortgage[3] | 185 | 2,411 | 2,488 | 4,954 | 29,011 | 39,049 |
| Retail and wholesale trade | 65 | 300 | 142 | 578 | 492 | 1,577 |
| Other | 145 | 250 | 589 | 1,782 | 705 | 3,471 |
| **Overseas Markets** | | | | | | |
| Agriculture, forestry, fishing and mining | 12 | 337 | 99 | 388 | 133 | 969 |
| Business service | 5 | 22 | 4 | 3 | 7 | 41 |
| Entertainment, leisure and tourism | 3 | 10 | 30 | 78 | 37 | 158 |
| Financial, investment and insurance | 3 | 179 | 33 | 146 | 4 | 365 |
| Government and official institutions | 22 | 13 | 24 | 40 | 4 | 103 |
| Lease finance | 58 | 26 | 3 | 106 | 24 | 217 |
| Manufacturing | 118 | 893 | 169 | 934 | 160 | 2,274 |
| Personal[2] | 9 | 64 | 44 | 96 | 182 | 395 |
| Real estate – construction | 10 | 37 | 10 | 118 | 4 | 179 |
| Real estate – mortgage[3] | 13 | 183 | 40 | 107 | 242 | 585 |
| Retail and wholesale trade | 69 | 469 | 140 | 241 | 37 | 956 |
| Other | 115 | 455 | 189 | 1,036 | 788 | 2,583 |
| Gross loans and advances | 13,820 | 22,120 | 14,024 | 45,694 | 139,308 | 234,966 |
| Specific provision for doubtful debts | (273) | – | – | – | – | (273) |
| Income yet to mature | – | (316) | (297) | (952) | (9) | (1,574) |
| | (273) | (316) | (297) | (952) | (9) | (1,847) |
| Loans and advances net of specific provision and income yet to mature | 13,547 | 21,804 | 13,727 | 44,742 | 139,299 | 233,119 |
| General provision | – | – | – | – | (2,167) | (2,167) |
| Net loans and advances | 13,547 | 21,804 | 13,727 | 44,742 | 137,132 | 230,952 |
| **Interest rate sensitivity** | | | | | | |
| Fixed interest rates[4] | 197 | 9,317 | 9,495 | 23,066 | 55,139 | 97,214 |
| Variable interest rates | 13,623 | 12,803 | 4,529 | 22,628 | 84,169 | 137,752 |
| | 13,820 | 22,120 | 14,024 | 45,694 | 139,308 | 234,966 |

1 Overdraft includes credit cards and unsecured lending
2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances
3 Real estate-mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property
4 Housing loans and other loans that are capped for an initial period are fixed interest rate loans and their maturities based on the principal repayments due over the term of the loan

## 13: NET LOANS AND ADVANCES (CONTINUED)

**Maturity Distribution and Concentrations of Credit Risk**

Based on remaining term to maturity at 30 September 2004

| | Overdraft[1] $m | Less than 3 months $m | Between 3 months and 12 months $m | Between 1 year and 5 years $m | After 5 years $m | Total $m |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Agriculture, forestry, fishing and mining | 378 | 957 | 583 | 1,156 | 1,518 | 4,592 |
| Business service | 150 | 625 | 358 | 1,025 | 1,188 | 3,346 |
| Entertainment, leisure and tourism | 53 | 837 | 850 | 820 | 1,100 | 3,660 |
| Financial, investment and insurance | 254 | 966 | 1,297 | 625 | 406 | 3,548 |
| Government and official institutions | 1 | 87 | 2 | 15 | 21 | 126 |
| Lease finance | – | 90 | 238 | 1,820 | 519 | 2,667 |
| Manufacturing | 215 | 1,527 | 613 | 1,507 | 872 | 4,734 |
| Personal[2] | 7,068 | 1,129 | 143 | 10,656 | 495 | 19,491 |
| Real estate – construction | 144 | 248 | 192 | 1,100 | 684 | 2,368 |
| Real estate – mortgage[3] | 95 | 2,928 | 2,406 | 2,382 | 73,959 | 81,770 |
| Retail and wholesale trade | 415 | 2,142 | 510 | 1,822 | 2,737 | 7,626 |
| Other | 140 | 2,502 | 925 | 1,662 | 1,323 | 6,552 |
| **New Zealand** | | | | | | |
| Agriculture, forestry, fishing and mining | 113 | 792 | 512 | 5,388 | 2,613 | 9,418 |
| Business service | 242 | 52 | 100 | 285 | 167 | 846 |
| Entertainment, leisure and tourism | 75 | 25 | 198 | 415 | 178 | 891 |
| Financial, investment and insurance | 75 | 316 | 98 | 2,175 | 69 | 2,733 |
| Government and official institutions | 7 | 106 | 24 | 129 | 71 | 337 |
| Lease finance | 15 | 2 | 137 | 333 | 6 | 493 |
| Manufacturing | 186 | 342 | 143 | 972 | 326 | 1,969 |
| Personal[2] | 867 | 82 | 234 | 792 | 180 | 2,155 |
| Real estate – construction | 98 | 130 | 91 | 216 | 89 | 624 |
| Real estate – mortgage[3] | 620 | 2,776 | 2,147 | 4,554 | 24,628 | 34,725 |
| Retail and wholesale trade | 189 | 249 | 158 | 634 | 314 | 1,544 |
| Other | 149 | 349 | 336 | 1,168 | 484 | 2,486 |
| **Overseas Markets** | | | | | | |
| Agriculture, forestry, fishing and mining | 13 | 120 | 230 | 446 | 324 | 1,133 |
| Business service | 10 | 7 | 5 | 54 | 9 | 85 |
| Entertainment, leisure and tourism | 4 | 14 | 7 | 32 | 20 | 77 |
| Financial, investment and insurance | 14 | 88 | 47 | 294 | 112 | 555 |
| Government and official institutions | 26 | 4 | 11 | 69 | 14 | 124 |
| Lease finance | 73 | – | – | 15 | 23 | 111 |
| Manufacturing | 59 | 878 | 312 | 1,110 | 354 | 2,713 |
| Personal[2] | 6 | 46 | 53 | 73 | 164 | 342 |
| Real estate – construction | 12 | 6 | 34 | 39 | 6 | 97 |
| Real estate – mortgage[3] | 10 | 40 | 18 | 374 | 233 | 675 |
| Retail and wholesale trade | 216 | 243 | 95 | 93 | 42 | 689 |
| Other | 243 | 380 | 268 | 1,105 | 1,516 | 3,512 |
| Gross loans and advances | 12,235 | 21,085 | 13,375 | 45,355 | 116,764 | 208,814 |
| Specific provision for doubtful debts | (384) | – | – | – | – | (384) |
| Income yet to mature | (12) | (355) | (287) | (816) | (6) | (1,476) |
| | (396) | (355) | (287) | (816) | (6) | (1,860) |
| Loans and advances net of specific provision and income yet to mature | 11,839 | 20,730 | 13,088 | 44,539 | 116,758 | 206,954 |
| General provision | – | – | – | – | (1,992) | (1,992) |
| Net loans and advances | 11,839 | 20,730 | 13,088 | 44,539 | 114,766 | 204,962 |
| **Interest rate sensitivity** | | | | | | |
| Fixed interest rates[4] | 278 | 8,568 | 8,060 | 21,213 | 45,325 | 83,444 |
| Variable interest rates | 11,957 | 12,517 | 5,315 | 24,142 | 71,439 | 125,370 |
| | 12,235 | 21,085 | 13,375 | 45,335 | 116,764 | 208,814 |

1 Overdraft includes credit cards and unsecured lending
2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances
3 Real estate-mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property
4 Housing loans and other loans that are capped for an initial period are fixed interest rate loans and their maturities based on the principal repayments due over the term of the loan

# NOTES TO THE FINANCIAL STATEMENTS

## 14: IMPAIRED ASSETS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Summary of impaired assets** | | | | |
| Non-accrual loans | 642 | 829 | 380 | 644 |
| Restructured loans | 28 | 32 | 28 | 32 |
| Unproductive facilities | 43 | 29 | 36 | 29 |
| **Gross impaired assets** | 713 | 890 | 444 | 705 |
| Specific provisions | | | | |
| Non-accrual loans | (256) | (378) | (135) | (268) |
| Unproductive facilities | (17) | (6) | (10) | (6) |
| Net impaired assets | 440 | 506 | 299 | 431 |
| **Non-accrual loans** | | | | |
| Non-accrual loans | 642 | 829 | 380 | 644 |
| Specific provisions | (256) | (378) | (135) | (268) |
| Total net non-accrual loans | 386 | 451 | 245 | 376 |
| **Restructured loans** | | | | |
| For these loans interest and fees are recognised as income on an accrual basis | 28 | 32 | 28 | 32 |
| **Other real estate owned** | | | | |
| 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** | | | | |
| Unproductive facilities | 43 | 29 | 36 | 29 |
| Specific provisions | (17) | (6) | (10) | (6) |
| Net unproductive facilities | 26 | 23 | 26 | 23 |
| **Accruing loans past due 90 days or more** | | | | |
| These amounts, comprising loans less than $100,000 or fully secured, are not classified as impaired assets and therefore are not included within the above summary | 381 | 293 | 267 | 175 |

Consolidated average non-accrual loans: September 2005 $705 million; September 2004 $912 million; September 2003 $1,103 million

Further analysis of impaired assets at 30 September 2005 and interest and/or other income received during the year under Australian Prudential Regulation Authority guidelines is as follows:

| | Consolidated Gross balance outstanding $m | Consolidated Specific provision $m | Consolidated Interest and/or other income received $m | The Company Gross balance outstanding $m | The Company Specific provision $m | The Company Interest and/or other income received $m |
|---|---|---|---|---|---|---|
| **Non-accrual loans** | | | | | | |
| Without provisions | | | | | | |
| Australia | 82 | – | 1 | 82 | – | 1 |
| New Zealand | 3 | – | – | – | – | – |
| Overseas markets | 46 | – | 1 | 43 | – | 1 |
| | 131 | – | 2 | 125 | – | 2 |
| With provisions and no, or partial, performance[1] | | | | | | |
| Australia | 264 | 152 | 5 | 213 | 123 | 5 |
| New Zealand | 130 | 68 | 1 | – | – | – |
| Overseas markets | 44 | 18 | 7 | 31 | 10 | 6 |
| | 438 | 238 | 13 | 244 | 133 | 11 |
| With provisions and full performance[1] | | | | | | |
| Australia | 9 | 1 | 3 | 9 | 1 | 3 |
| New Zealand | 61 | 15 | 4 | – | – | – |
| Overseas markets | 3 | 2 | 2 | 2 | 1 | 1 |
| | 73 | 18 | 9 | 11 | 2 | 4 |
| **Total non-accrual loans** | 642 | 256 | 24 | 380 | 135 | 17 |
| **Restructured loans** | 28 | – | 1 | 28 | – | 1 |
| **Unproductive facilities** | 43 | 17 | – | 36 | 10 | – |
| **Total impaired assets** | 713 | 273 | 25 | 444 | 145 | 18 |

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

## 14: IMPAIRED ASSETS (CONTINUED)

**Interest and other income forgone on impaired assets**

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

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 $m | 2004 $m | 2005 $m | 2004 $m |
| **Gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities** | | | | |
| Australia | 26 | 29 | 21 | 24 |
| New Zealand | 9 | 8 | – | – |
| Overseas markets | 16 | 25 | 11 | 15 |
| Total gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities | 51 | 62 | 32 | 39 |
| **Interest and other income received** | | | | |
| Australia | (10) | (6) | (10) | (4) |
| New Zealand | (5) | (1) | – | – |
| Overseas markets | (10) | (12) | (8) | (11) |
| Total interest and other income received | (25) | (19) | (18) | (15) |
| **Net interest and other income forgone** | | | | |
| Australia | 16 | 23 | 11 | 20 |
| New Zealand | 4 | 7 | – | – |
| Overseas markets | 6 | 13 | 3 | 4 |
| Total net interest and other income forgone | 26 | 43 | 14 | 24 |

# NOTES TO THE FINANCIAL STATEMENTS

## 15: PROVISIONS FOR DOUBTFUL DEBTS

| | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **General provision** | | | | | |
| Balance at start of year | 1,992 | 1,534 | 1,496 | 1,381 | 1,283 |
| Acquisition (disposal) of provisions | (13) | 216 | – | (13) | – |
| Adjustment for exchange rate fluctuations | (35) | 53 | (49) | (24) | 16 |
| Charge to statement of financial performance | 580 | 632 | 614 | 388 | 433 |
| Transfer to specific provision | (471) | (525) | (588) | (250) | (399) |
| Recoveries | 114 | 82 | 61 | 82 | 48 |
| Total general provision | 2,167 | 1,992 | 1,534 | 1,564 | 1,381 |
| **Specific provision** | | | | | |
| Balance at start of year | 384 | 484 | 585 | 274 | 429 |
| Acquisition of provisions | – | 57 | – | – | – |
| Adjustment for exchange rate fluctuations | (11) | (2) | (49) | (3) | (7) |
| Bad debts written off | (571) | (680) | (640) | (376) | (547) |
| Transfer from general provision | 471 | 525 | 588 | 250 | 399 |
| Total specific provision | 273 | 384 | 484 | 145 | 274 |
| Total provisions for doubtful debts | 2,440 | 2,376 | 2,018 | 1,709 | 1,655 |
| **Provision movement analysis** | | | | | |
| **New and increased provisions** | | | | | |
| Australia | 378 | 459 | 418 | 312 | 404 |
| New Zealand | 146 | 80 | 45 | – | – |
| Other overseas markets | 80 | 86 | 212 | 33 | 60 |
| | 604 | 625 | 675 | 345 | 464 |
| Provision releases | (133) | (100) | (87) | (95) | (65) |
| | 471 | 525 | 588 | 250 | 399 |
| Recoveries of amounts previously written off | (114) | (82) | (61) | (82) | (48) |
| **Net specific provision** | 357 | 443 | 527 | 168 | 351 |
| Net credit to general provision | 223 | 189 | 87 | 220 | 82 |
| **Charge to statement of financial performance** | 580 | 632 | 614 | 388 | 433 |
| **Ratios** | % | % | % | % | % |
| Provisions[1] as a % of total advances[2] | | | | | |
| Specific | 0.1 | 0.2 | 0.3 | 0.1 | 0.2 |
| General | 0.9 | 1.0 | 0.9 | 0.9 | 0.9 |
| Provisions[1] as a % of risk weighted assets | | | | | |
| Specific | 0.1 | 0.2 | 0.3 | 0.1 | 0.2 |
| General | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Bad debts written off as a % of total advances[2] | 0.2 | 0.3 | 0.4 | 0.2 | 0.4 |
| Net specific provision as a % of total advances[2] | 0.1 | 0.2 | 0.3 | 0.1 | 0.2 |

1 Excludes provisions for unproductive facilities
2 See Glossary on page 120

## 16: CUSTOMER'S LIABILITIES FOR ACCEPTANCES

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Agriculture, forestry, fishing and mining | 900 | 813 | 900 | 813 |
| Business service | 596 | 572 | 596 | 572 |
| Entertainment, leisure and tourism | 539 | 502 | 539 | 502 |
| Financial, investment and insurance | 1,192 | 1,081 | 1,192 | 1,081 |
| Manufacturing | 1,647 | 1,710 | 1,647 | 1,710 |
| Personal[1] | 5 | 5 | 5 | 5 |
| Real estate – construction | 145 | 132 | 145 | 132 |
| Real estate – mortgage[2] | 5,551 | 5,073 | 5,551 | 5,073 |
| Retail and wholesale trade | 1,701 | 1,524 | 1,701 | 1,524 |
| Other | 1,045 | 994 | 1,045 | 994 |
| | 13,321 | 12,406 | 13,321 | 12,406 |
| **Overseas** | | | | |
| Financial, investment and insurance | 16 | 6 | 16 | 6 |
| Manufacturing | 37 | 44 | 37 | 44 |
| Retail and wholesale trade | 68 | 10 | 68 | 10 |
| Other | 7 | – | 7 | – |
| | 128 | 60 | 128 | 60 |
| **Total customer's liabilities for acceptances** | 13,449 | 12,466 | 13,449 | 12,466 |

1 Personal includes non-business acceptances to individuals
2 Real estate mortgage includes residential and commercial property exposure. Acceptances within this category are for the purchase of such properties and must be secured by property

## 17: REGULATORY DEPOSITS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Overseas central banks | 159 | 176 | 113 | 144 |

# NOTES TO THE FINANCIAL STATEMENTS

## 18: SHARES IN CONTROLLED ENTITIES, ASSOCIATES AND JOINT VENTURE ENTITIES

Refer notes 42 to 44 for details.

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Total shares in controlled entities | – | – | 12,455 | 11,472 |
| Total shares in associates | 262 | 263 | 96 | 45 |
| Total shares in joint venture entities | 1,610 | 1,697 | – | – |
| **Total shares in controlled entities, associates and joint venture entities** | 1,872 | 1,960 | 12,551 | 11,517 |

### ACQUISITIONS OF CONTROLLED ENTITIES

There were no material controlled entities acquired during the year ended 30 September 2005.

During the year ended 30 September 2004 the following material controlled entities were acquired:

On 1 December 2003, the Company acquired NBNZ Holdings Ltd and its controlled entities (NBNZ). Details of the acquisition are disclosed in note 41. The operating results of these acquired entities have been included in consolidated operating profit since acquisition. A restructuring provision of $25 million was established for restructuring the operations of the acquired entities. A balance of $12 million remains in the provision at 30 September 2005. On 26 June 2004, NBNZ was amalgamated into ANZ Banking Group (New Zealand) Limited. ANZ Banking Group (New Zealand) Limited changed its name to ANZ National Bank Limited on 28 June 2004.

### DISPOSALS OF CONTROLLED ENTITIES

In September 2005 ANZ National Bank Limited entered into a joint venture with ING Insurance International Limited (INGII). The joint venture, ING (NZ) Holdings Ltd (INGNZ), is 49% owned by ANZ National Bank Ltd and 51% owned by INGII.

On 30 September 2005:

- ANZ National Bank Limited and INGII invested NZD163 million and NZD170 million respectively into INGNZ.
- ANZ National Bank Limited sold NBNZ Life Insurance Limited and NBNZ Investment Services Limited to INGNZ for NZD158 million resulting in the following impact on the Group's financial statements:
  - reduction in unamortised goodwill of NZD114 million;
  - recognition of approximately NZD16 million ($14 million) profit on sale of 51% of the NBNZ Life and Funds Management businesses;
  - an investment in INGNZ of NZD145 million (being initial investment adjusted for unrecognised profit on ANZ National Bank's; and 49% share of the profit on sale of the NBNZ Life and Funds Management businesses joint venture and costs).
- INGNZ acquired at market value the New Zealand-based businesses previously owned by INGA. The profit on sale of the New Zealand-based businesses of approximately $40 million is recognised in INGA, however, ANZ's share of this profit is eliminated on consolidation.

There were no material controlled entities disposed of during the year ended 30 September 2004.

## 19: DEFERRED TAX ASSETS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Future income tax assets comprises** | | | | |
| General provision for doubtful debts | 719 | 650 | 505 | 442 |
| Other provisions | 335 | 340 | 218 | 238 |
| Other | 283 | 464 | 31 | 57 |
| **Total deferred tax assets** | 1,337 | 1,454 | 754 | 737 |
| **Future income tax assets** | | | | |
| Australia | 862 | 959 | 674 | 636 |
| Overseas | 475 | 495 | 80 | 101 |
| **Total deferred tax assets** | 1,337 | 1,454 | 754 | 737 |

Certain potential future income tax assets within the Group have not been recognised as assets because recovery cannot be regarded as virtually certain. These potential benefits arise from tax losses and timing differences (benefits could amount to $23 million, 2004: nil), and from realised capital losses (benefits could amount to $66 million, 2004: $67 million).

These benefits will only be obtained if:

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

## 20: GOODWILL

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Goodwill – at cost | 3,298 | 3,509 | 123 | 123 |
| Accumulated amortisation | (400) | (240) | (57) | (49) |
| **Total goodwill**[1] | 2,898 | 3,269 | 66 | 74 |

1 Excludes notional goodwill related to the ING Australia joint venture of $711 million (September 2004: $754 million) and the ING New Zealand joint venture of $82 million (September 2004: nil)

## 21: OTHER ASSETS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Accrued interest/prepaid discounts | 1,441 | 1,568 | 1,165 | 1,181 |
| Accrued commission | 78 | 82 | 47 | 55 |
| Prepaid expenses | 153 | 71 | 46 | 10 |
| Treasury instruments revaluations | 3,750 | 4,456 | 3,267 | 3,738 |
| Security settlements | 2,144 | 952 | 785 | 10 |
| Operating leases residual value | 712 | 535 | 2 | – |
| Life insurance business investments | – | 65 | – | – |
| Capitalised Expenses | 524 | 463 | 176 | 165 |
| Other | 1,101 | 966 | 610 | 592 |
| **Total other assets** | 9,903 | 9,158 | 6,098 | 5,751 |

# NOTES TO THE FINANCIAL STATEMENTS

## 22: PREMISES AND EQUIPMENT

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Freehold and leasehold land and buildings** | | | | |
| At cost[1] | 639 | 680 | 83 | 80 |
| Provision for depreciation | (201) | (182) | (40) | (40) |
| | 438 | 498 | 43 | 40 |
| **Leasehold improvements** | | | | |
| At cost | 239 | 209 | 147 | 117 |
| Provision for amortisation | (149) | (148) | (84) | (78) |
| | 90 | 61 | 63 | 39 |
| **Furniture and equipment** | | | | |
| At cost | 691 | 694 | 499 | 451 |
| Provision for depreciation | (445) | (443) | (308) | (290) |
| | 246 | 251 | 191 | 161 |
| **Computer and office equipment** | | | | |
| At cost | 947 | 983 | 646 | 665 |
| Provision for depreciation | (717) | (726) | (470) | (475) |
| | 230 | 257 | 176 | 190 |
| **Software** | | | | |
| At cost | 776 | 728 | 676 | 614 |
| Provision for amortisation | (395) | (298) | (327) | (239) |
| | 381 | 430 | 349 | 375 |
| **Capital works in progress** | | | | |
| At cost | 56 | 35 | 27 | 21 |
| **Total premises and equipment** | 1,441 | 1,532 | 849 | 826 |

1 In accordance with AASB 1041 this represents deemed cost

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

As all properties are carried at deemed cost subject to individually meeting a recoverable amount test, valuations are carried out on all properties with a carrying value in excess of $2 million every three years. Properties carrying values are not increased to market values if valuations exceed carrying amounts. However, if the valuation of an individual property is determined to be less than its carrying amount, it will be written down to the lower amount, where considered appropriate.

The properties are subject to external valuation by independent valuers. Valuations are based on the estimated open market value and assume that the properties concerned continue to be used in their existing manner by the Group.

The last independent valuation of the Group's freehold land and buildings was carried out for 30 September 2002 purposes. For 30 September 2005, the valuations were carried out by Jones Lang La Salle Advisory for Australia. New Zealand property values were assessed based on valuations by Telfer Young. This resulted in a valuation of $466 million and $25 million for the Group and Company respectively (excludes leasehold land and buildings). As land and buildings are recorded at deemed cost, the valuation was not brought to account.

Further, a recoverable amount review of all properties at 30 September 2005 was completed. This involved properties being reviewed for the existence of impairment indicators that might provide evidence that the property's recoverable amount exceeded its carrying value (also using the independent valuations performed), and hence a writedown being required.

As a result of this review, some properties were identified as impaired and a loss of $3m was recorded (2004: $2 million).

Group accounting policy covering the amortisation of software costs capitalised is detailed in note 1(xiv). As at 30 September 2005 the weighted average amortization period is 5 years.

## 22: PREMISES AND EQUIPMENT (CONTINUED)

**Reconciliations of the carrying amounts for each class of premises and equipment are set out below:**

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Freehold and leasehold land and buildings**[1] | | | | |
| Carrying amount at beginning of year | 498 | 463 | 40 | 29 |
| Additions | 22 | 26 | 6 | 15 |
| Acquisitions[2] | – | 67 | – | – |
| Disposals[3] | (68) | (46) | – | (1) |
| Depreciation | (11) | (11) | (2) | (2) |
| Net foreign currency exchange difference | (3) | (1) | (1) | (1) |
| Carrying amount at end of year | 438 | 498 | 43 | 40 |
| **Leasehold improvements** | | | | |
| Carrying amount at beginning of year | 61 | 52 | 39 | 37 |
| Additions | 46 | 17 | 33 | 9 |
| Acquisitions[2] | – | 10 | – | – |
| Disposals | – | (6) | – | – |
| Amortisation | (16) | (13) | (9) | (7) |
| Net foreign currency exchange difference | (1) | 1 | – | – |
| Carrying amount at end of year | 90 | 61 | 63 | 39 |
| **Furniture and equipment** | | | | |
| Carrying amount at beginning of year | 251 | 182 | 161 | 156 |
| Additions | 81 | 84 | 64 | 39 |
| Acquisitions[2] | – | 64 | – | – |
| Disposals | (41) | (35) | (5) | (6) |
| Depreciation | (43) | (43) | (29) | (27) |
| Net foreign currency exchange difference | (2) | (1) | – | (1) |
| Carrying amount at end of year | 246 | 251 | 191 | 161 |
| **Computer and office equipment** | | | | |
| Carrying amount at beginning of year | 257 | 302 | 190 | 239 |
| Additions | 92 | 96 | 69 | 81 |
| Acquisitions[2] | – | 17 | – | – |
| Disposals | (3) | (47) | (3) | (58) |
| Depreciation | (114) | (113) | (80) | (74) |
| Net foreign currency exchange difference | (2) | 2 | – | 2 |
| Carrying amount at end of year | 230 | 257 | 176 | 190 |
| **Software** | | | | |
| Carrying amount at beginning of year | 430 | 465 | 375 | 421 |
| Additions | 96 | 114 | 94 | 92 |
| Acquisitions[2] | – | 17 | – | – |
| Writeoffs[4] | (24) | (37) | (18) | (34) |
| Amortisation | (121) | (129) | (102) | (104) |
| Carrying amount at end of year | 381 | 430 | 349 | 375 |
| **Capital works in progress** | | | | |
| Carrying amount at beginning of year | 35 | 24 | 21 | 18 |
| Net additions | 21 | 8 | 6 | 3 |
| Acquisitions[2] | – | 3 | – | – |
| Carrying amount at end of year | 56 | 35 | 27 | 21 |
| **Total premises and equipment** | 1,441 | 1,532 | 849 | 826 |

1 Includes integrals
2 Relates to NBNZ acquisition at 1 December 2003. Additions after this date are included in the "Additions" lines
3 Includes $2 million writedown in carrying value of one property in 2004
4 Software writeoffs arose where projects were terminated and the software no longer utilised

## 23: DUE TO OTHER FINANCIAL INSTITUTIONS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Australia | 3,396 | 1,346 | 3,394 | 1,345 |
| Overseas | 8,631 | 6,003 | 5,635 | 4,515 |
| **Total due to other financial institutions** | 12,027 | 7,349 | 9,029 | 5,860 |
| **Maturity analysis based on remaining term to maturity at 30 September** | | | | |
| At call | 4,381 | 2,255 | 3,711 | 1,853 |
| Less than 3 months | 5,632 | 4,152 | 4,367 | 3,346 |
| Between 3 months and 12 months | 1,029 | 662 | 930 | 661 |
| Between 1 year and 5 years | 123 | 280 | 21 | – |
| After 5 years | 862 | – | – | – |
| **Total due to other financial institutions** | 12,027 | 7,349 | 9,029 | 5,860 |

## 24: DEPOSITS AND OTHER BORROWINGS

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

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Certificates of deposit | 17,512 | 12,221 | 17,512 | 12,221 |
| Term deposits | 25,829 | 22,615 | 26,642 | 23,273 |
| Other deposits bearing interest | 50,707 | 45,155 | 50,707 | 45,155 |
| Deposits not bearing interest | 4,310 | 4,005 | 4,310 | 4,005 |
| Commercial paper | 6,199 | 4,708 | 2,929 | 2,099 |
| Borrowing corporations' debt [1] | 7,700 | 7,214 | – | – |
| Securities sold under agreement to repurchase | – | 78 | – | 78 |
| Other borrowings | 308 | 509 | 308 | 509 |
| | 112,565 | 96,505 | 102,408 | 87,340 |
| **Overseas** | | | | |
| Certificates of deposit | 5,112 | 4,844 | 845 | 1,365 |
| Term deposits | 30,003 | 30,941 | 8,198 | 9,629 |
| Other deposits bearing interest | 16,102 | 15,891 | 806 | 782 |
| Deposits not bearing interest | 5,085 | 4,207 | 752 | 632 |
| Commercial paper | 14,808 | 14,072 | – | – |
| Borrowing corporations' debt [2] | 1,938 | 2,034 | – | – |
| Other borrowings | 80 | 63 | 80 | 63 |
| | 73,128 | 72,052 | 10,681 | 12,471 |
| **Total deposits and other borrowings** | 185,693 | 168,557 | 113,089 | 99,811 |
| **Maturity analysis based on remaining term to maturity at 30 September** | | | | |
| At call | 77,999 | 71,037 | 57,610 | 52,629 |
| Less than 3 months | 75,452 | 71,570 | 39,616 | 35,167 |
| Between 3 months and 12 months | 22,432 | 17,923 | 8,707 | 7,337 |
| Between 1 year and 5 years | 9,682 | 7,923 | 7,139 | 4,662 |
| After 5 years | 128 | 104 | 17 | 16 |
| **Total deposits and other borrowings** | 185,693 | 168,557 | 113,089 | 99,811 |

1 Included in this balance is debenture stock of controlled entities. $7.7 billion of debenture stock of the consolidated subsidiary company Esanda together with accrued interest thereon, is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entity other than land and buildings ($13,244 million). All controlled entities of Esanda (except for some controlled entities which have been placed or are expected to be placed in voluntary deregistration and have minimal book value) have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda. The only loans pledged as collateral are those in Esanda and its subsidiaries

2 This balance represents NZ$2.1 billion of secured debenture stock of the consolidated subsidiary UDC Finance Limited and the accrued interest thereon are secured by a floating charge over all assets of UDC Finance Limited and its subsidiaries (NZ$2,470 million)

# NOTES TO THE FINANCIAL STATEMENTS

## 25: INCOME TAX LIABILITIES

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Provision for income tax | 289 | 242 | 269 | 203 |
| Provision for deferred income tax | 1,346 | 1,354 | 1,094 | 921 |
| | 1,635 | 1,596 | 1,363 | 1,124 |
| **Overseas** | | | | |
| Provision for income tax | (93) | 93 | 12 | 18 |
| Provision for deferred income tax | 255 | 225 | 112 | 109 |
| | 162 | 318 | 124 | 127 |
| **Total income tax liabilities** | 1,797 | 1,914 | 1,487 | 1,251 |
| **Provision for deferred income tax comprises** | | | | |
| Lease finance | 229 | 166 | 89 | 79 |
| Treasury instruments | 687 | 497 | 687 | 497 |
| Capitalised expenses | 131 | 118 | 47 | 43 |
| Other | 554 | 798 | 383 | 411 |
| | 1,601 | 1,579 | 1,206 | 1,030 |

## 26: PAYABLES AND OTHER LIABILITIES

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Australia** | | | | |
| Payables | 2,797 | 4,746 | 2,770 | 4,700 |
| Accrued interest and unearned discounts | 1,266 | 1,169 | 1,141 | 1,051 |
| Treasury instruments revaluations | 3,853 | 3,274 | 4,376 | 3,781 |
| Accrued charges | 350 | 297 | 320 | 255 |
| Security settlements | – | 1 | – | 1 |
| Other liabilities | 838 | 438 | 584 | 291 |
| | 9,104 | 9,925 | 9,191 | 10,079 |
| **Overseas** | | | | |
| Payables | 207 | 145 | 5 | 1 |
| Accrued interest and unearned discounts | 732 | 647 | 256 | 259 |
| Treasury instruments revaluations[1] | 374 | 2,382 | (833)[1] | 143 |
| Accrued charges | 228 | 237 | 57 | 43 |
| Security settlements | 317 | 378 | – | – |
| Life insurance policy liabilities | – | 30 | – | – |
| Other liabilities | 645 | 468 | 114 | 365 |
| | 2,503 | 4,287 | (401) | 811 |
| **Total payables and other liabilities** | 11,607 | 14,212 | 8,790 | 10,890 |

1 Overseas Treasury instruments revaluations includes cash collateral paid under credit support agreements in ANZ's London branch, an offsetting mark to market loss is recorded in Australia

# NOTES TO THE FINANCIAL STATEMENTS

## 27: PROVISIONS

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Employee entitlements[1] | 360 | 333 | 260 | 248 |
| Restructuring costs and surplus leased space | 77 | 106 | 57 | 66 |
| Non-lending losses, frauds and forgeries | 184 | 171 | 136 | 125 |
| Other | 293 | 235 | 197 | 179 |
| **Total provisions** | 914 | 845 | 650 | 618 |

1 The aggregate liability for employee benefits largely comprise employee entitlements provisions plus liability for payroll tax and fringe benefits tax. The aggregate liability as at 30 September 2005 was $468 million for the Group and $288 million for the Company (30 September 2004: was $456 million for the Group and $284 million for the Company)

Reconciliations of the carrying amounts of each class of provisions, except for employee entitlements, are set out below:

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| **Restructuring costs and surplus leased space[1]** | | | | |
| Carrying amount at beginning of the year | 106 | 92 | 66 | 68 |
| Acquisition provision (NBNZ) | – | 27 | – | – |
| Provision made during the year | 57 | 69 | 52 | 63 |
| Payments made during the year | (47) | (68) | (34) | (50) |
| Release of provisions | (38) | (15) | (27) | (15) |
| Adjustment for exchange rate fluctuations | (1) | 1 | – | – |
| Carrying amount at the end of the year | 77 | 106 | 57 | 66 |
| **Non-lending losses frauds and forgeries[2]** | | | | |
| Carrying amount at beginning of the year | 171 | 164 | 125 | 128 |
| Provision made during the year | 37 | 18 | 23 | 4 |
| Payments made during the year | (8) | (7) | (2) | (3) |
| Release of provisions | (16) | (4) | (10) | (4) |
| Carrying amount at the end of the year | 184 | 171 | 136 | 125 |
| **Other provisions[3]** | | | | |
| Carrying amount at beginning of the year | 235 | 244 | 179 | 181 |
| Provision made during the year | 222 | 209 | 142 | 165 |
| Payments made during the year | (132) | (173) | (93) | (127) |
| Release of provisions | (31) | (46) | (31) | (40) |
| Adjustment for exchange rate fluctuations | (1) | 1 | – | – |
| Carrying amount at the end of the year | 293 | 235 | 197 | 179 |

1 Restructuring costs and surplus leased space provisions arise from exit activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken, and includes termination benefits. Costs related to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though its timing is uncertain, and the costs can be reliably estimated

2 Non-lending losses, frauds and forgeries provisions arise from inadequate or failed internal processes and systems, or from external events

3 Other provisions comprise various other provisions including fringe benefits tax, fleet maintenance, workers' compensation and other non-employee entitlement provisions

## 28: BONDS AND NOTES

| | | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **Bonds and notes by currency** | | | | | |
| USD | United States dollars | 11,401 | 4,718 | 8,598 | 4,262 |
| GBP | Great British pounds | 5,268 | 3,896 | 4,343 | 3,896 |
| AUD | Australian dollars | 1,138 | 979 | 1,133 | 979 |
| NZD | New Zealand dollars | 1,140 | 667 | 323 | 33 |
| JPY | Japanese yen | 1,173 | 1,433 | 1,173 | 1,433 |
| EUR | Euro | 11,138 | 10,863 | 9,794 | 9,571 |
| HKD | Hong Kong dollars | 3,381 | 2,805 | 2,941 | 2,619 |
| CHF | Swiss francs | 1,929 | 831 | 1,929 | 831 |
| CAD | Canadian dollars | 2,284 | 1,258 | 2,284 | 1,258 |
| NOK | Norwegian krone | 81 | 82 | 81 | 82 |
| SGD | Singapore dollars | 71 | 70 | 71 | 70 |
| CZK | Czech koruna | 69 | – | 69 | – |
| **Total bonds and notes** | | 39,073 | 27,602 | 32,739 | 25,034 |
| **Bonds and notes by maturity** | | | | | |
| **Maturity analysis based on remaining term to maturity at 30 September** | | | | | |
| Less than 3 months | | 1,823 | 419 | 1,818 | 419 |
| Between 3 months and 12 months | | 6,463 | 4,238 | 5,906 | 4,145 |
| Between 1 year and 5 years | | 29,249 | 22,870 | 23,533 | 20,395 |
| After 5 years | | 1,538 | 75 | 1,482 | 75 |
| **Total bonds and notes** | | 39,073 | 27,602 | 32,739 | 25,034 |

# NOTES TO THE FINANCIAL STATEMENTS

## 29: LOAN CAPITAL

| | Interest Rate % | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **Hybrid loan capital (subordinated)** | | | | | |
| US Stapled Trust Security issue | | | | | |
| USD 350m non-cumulative trust securities due 2053 | 4.484 | 459 | 488 | 459 | 488 |
| USD 750m non-cumulative trust securities due 2053 | 5.36 | 984 | 1,047 | 984 | 1,047 |
| | | 1,443 | 1,535 | 1,443 | 1,535 |
| **Perpetual subordinated notes** | | | | | |
| USD 300m floating rate notes | LIBOR + 0.15 | 394 | 419 | 394 | 419 |
| | | 394 | 419 | 394 | 419 |
| **Subordinated notes** | | | | | |
| USD 500m fixed notes due 2006 | 7.55 | 654 | 698 | 654 | 698 |
| JPY 482m floating rate notes due 2007 | LIBOR + 0.50 | 6 | 6 | 6 | 6 |
| USD 7.9m floating rate notes due 2007 | LIBOR + 0.50 | 10 | 11 | 10 | 11 |
| JPY 568.8m floating rate notes due 2008 | LIBOR + 0.55 | 6 | 7 | 6 | 7 |
| USD 9m floating rate notes due 2008 | LIBOR + 0.50 | 11 | 14 | 11 | 14 |
| USD 79m floating rate notes due 2008 | LIBOR + 0.53 | 103 | 110 | 103 | 110 |
| AUD 400m floating rate notes due 2010 | BBSW + 0.29 | 400 | – | 400 | – |
| NZD 100m fixed notes due 2010 (called April 2005) | 8.36 | – | 93 | – | – |
| NZD 100m fixed notes due 2011[1] | 6.87 | 91 | 93 | – | – |
| AUD 400m fixed notes due 2012[2] | 6.75 | 400 | 400 | 400 | 400 |
| AUD 100m floating rate notes due 2012[1] | BBSW + 0.57 | 100 | 100 | 100 | 100 |
| NZD 125m fixed notes due 2012[1] | 7.40 | 115 | 118 | – | – |
| NZD 125m fixed notes due 2012[1] | 7.61 | 115 | 118 | – | – |
| NZD 300m fixed notes due 2012[1] | 7.04 | 273 | 280 | – | – |
| NZD 100m fixed notes due 2013[1] | 6.46 | 91 | 93 | – | – |
| USD 550m floating rate notes due 2013[1] | LIBOR + 0.55 | 722 | 768 | 722 | 768 |
| EUR 300m floating rate notes due 2013[1] | EURIBOR + 0.375 | 474 | 516 | 474 | 516 |
| AUD 350m fixed notes due 2014[2] | 6.50 | 350 | 350 | 350 | 350 |
| AUD 380m floating rate notes due 2014[1] | BBSW + 0.41 | 380 | 380 | 380 | 380 |
| EUR 500m fixed notes due 2015[2] | 4.45 | 791 | 860 | 791 | 860 |
| USD 400m floating rate notes due 2015 | LIBOR + 0.20 | 525 | – | 525 | – |
| AUD 300m fixed notes due 2015[2] | 6.00 | 300 | – | 300 | – |
| GBP 200m fixed notes due 2015[1] | 5.625 | 462 | 502 | 462 | 502 |
| GBP 400m fixed notes due 2018[2] | 4.75 | 921 | 1,004 | 921 | 1,004 |
| | | 7,300 | 6,521 | 6,615 | 5,726 |
| **Total loan capital** | | 9,137 | 8,475 | 8,452 | 7,680 |
| **Loan capital by currency** | | | | | |
| AUD Australian dollars | | 1,930 | 1,230 | 1,930 | 1,230 |
| NZD New Zealand dollars | | 685 | 795 | – | – |
| USD United States dollars | | 3,862 | 3,555 | 3,862 | 3,555 |
| GBP Great British pounds | | 1,383 | 1,506 | 1,383 | 1,506 |
| EUR Euro | | 1,265 | 1,376 | 1,265 | 1,376 |
| JPY Japanese yen | | 12 | 13 | 12 | 13 |
| | | 9,137 | 8,475 | 8,452 | 7,680 |
| **Loan capital by maturity** | | | | | |
| **Maturity analysis based on remaining term to maturity at 30 September** | | | | | |
| Between 3 months and 12 months | | 654 | – | 654 | – |
| Between 1 year and 5 years | | 536 | 846 | 536 | 846 |
| After 5 years | | 7,553 | 7,210 | 6,868 | 6,415 |
| Perpetual | | 394 | 419 | 394 | 419 |
| | | 9,137 | 8,475 | 8,452 | 7,680 |

1 Callable five years prior to maturity
2 Callable five years prior to maturity and reverts to floating rate notes

Loan capital is subordinated in right of payment to the claims of depositors and all other creditors of the Company and its controlled entities which have issued the notes. The loan capital, except for the US Trust Security Issue, constitutes tier 2 capital as defined by the Australian Prudential Regulation Authority (APRA) for capital adequacy purposes. The US Trust Security Issue constitutes tier 1 capital, as defined by APRA, for capital adequacy purposes

## 29: LOAN CAPITAL (CONTINUED)

### US TRUST SECURITIES

On 27 November 2003, the Company issued 1.1 million USD non-cumulative Trust Securities (“US Trust Securities”) at USD1000 each pursuant to offering memorandum dated 19 November 2003 raising USD1.1 billion. US Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by Samson Funding Limited, a wholly owned NZ subsidiary of the Company) and a fully paid USD1,000 preference share (issued by the Company), which are stapled together and issued as a US Trust Security by ANZ Capital Trust I or ANZ Capital Trust II (the “Trusts”). Investors have the option to redeem the US Trust Security from the Trusts and hold the underlying staped security.

The issue was made in two tranches:

- USD350 million tranche with a coupon of 4.484% and was issued through ANZ Capital Trust I. After 15 January 2010 and at any coupon date thereafter, ANZ has the discretion to redeem the US Trust Security for cash. If it does not exercise this discretion, the investor is entitled to require ANZ to exchange the US Trust Security into a number of ordinary shares based on the formula in the offering memorandum.
- USD750 million tranche with a coupon of 5.36% and was issued through ANZ Capital Trust II. It has the same conversion features as the USD350 million tranche but from 15 December 2013.

Distributions on US Trust Securities are non-cumulative and are payable half yearly in arrears and are funded by payments received by the respective Trusts on the underlying note. Distributions are subject to certain payment tests (eg. APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 June and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on the US Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time in the Company’s discretion or upon the occurrence of certain other “conversion events”, such as the failure of the respective Trust to pay in full a distribution within seven business days of the relevant distribution payment date, the notes that are represented by the relevant US Trust Securities will be automatically assigned to a subsidiary of the Company and the preference shares that are represented by the relevant US Trust Securities will be distributed to investor in redemption of such US Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the US Trust Securities for which the preference shares were distributed. If the US Trust Securities are not redeemed or bought back prior to the 15 December 2053, they will be converted into preference shares, which in turn will be mandatorily convert into a number of ordinary shares based upon the formula in the offering memorandum.

The preference shares forming part of the US Trust Securities rank equal to the preference shares issued in connection with the ANZ StEPS and Euro Trust Securities in all respects. Except in limited circumstances, holders of US Trust Securities do not have any right to vote in general meetings of the company.

On winding up of the Company, the rights of US Trust Security holders will be determined by the preference share component of US Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

The US Trust Securities qualify as Tier 1 capital as defined by the Australian Prudential Regulation Authority, however, the US Trust Securities are reported as debt under Australian, International and US Accounting Standards with the coupon payment classified as interest expense.

## 30: SHARE CAPITAL

| | | The Company | |
|---|---|---|---|
| Number of issued shares | 2005 | 2004 | 2003 |
| Ordinary shares each fully paid | 1,826,449,480 | 1,818,401,807 | 1,521,686,560 |
| Preference shares each fully paid | 10,500,000 | 10,000,000 | 134,032,000 |
| **Total number of issued shares** | 1,836,949,480 | 1,828,401,807 | 1,655,718,560 |

# NOTES TO THE FINANCIAL STATEMENTS

## 30: SHARE CAPITAL (CONTINUED)

### ORDINARY SHARES

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

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

| | The Company | | |
|---|---|---|---|
| Number of issued shares | 2005 | 2004 | 2003 |
| Balance at start of year | 1,818,401,807 | 1,521,686,560 | 1,503,886,082 |
| Bonus option plan | 1,749,584 | 1,771,864 | 1,534,987 |
| Dividend reinvestment plan | 7,306,891 | 7,815,830 | 6,223,866 |
| ANZ employee share acquisition plan | 1,979,649 | 3,891,978 | 3,615,714 |
| ANZ share option plan | 6,642,326 | 6,387,809 | 6,425,911 |
| Share capital buyback | (9,630,777) | – | – |
| ANZ share purchase scheme ANZ rights issue | – | 276,847,766 | – |
| **Balance at end of year** | 1,826,449,480 | 1,818,401,807 | 1,521,686,560 |

For a reconciliation of the movement in ordinary share capital refer to Statement of Changes in Shareholders' Equity on page 4

### PREFERENCE SHARES

**a) Trust Securities Issues (ANZ TrUEPrS)**
ANZ TrUEPrS were 124,032,000 fully paid non-converting non-cumulative preference shares issued for USD6.25 per share via Trust Securities Issues in 1998.

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

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

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

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

On 12 December 2003, the Group bought back its 124,032,000 preference shares issued via Trust Securities Issues for $1,045 million.

**b) ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS)**
On 23 September 2003, the Company issued 10 million ANZ StEPS at $100 each pursuant to a prospectus dated 14 August 2003 raising $1 billion (excluding issue costs of $13 million: net raising $987 million). ANZ StEPS comprise two fully paid securities - an interest paying unsecured note (issued by ANZ Holdings (New Zealand) Limited, a New Zealand subsidiary of the Company) stapled to a fully paid $100 preference share (issued by the Company).

Distributions on ANZ StEPS are non-cumulative and are payable quarterly in arrears based upon a floating distribution rate equal to the 90 day bank bill rate plus a 100 basis point margin. At each payment date the 90 day bank bill rate is reset for the next quarter. Distributions are subject to certain payment tests (ie APRA requirements and distributable profits being available) and the basis for their calculation may change on any reset date. Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference share while it is stapled to the note. If distributions are not paid on ANZ StEPS, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

On any reset date, ANZ may change certain terms (subject to certain restrictions) including the next reset date, market reset (from floating rate to a fixed rate, or vice versa), margin and the frequency and timing of the distribution payment dates. The first reset date is 15 September 2008. Holders of ANZ StEPS can require exchange on any reset date or earlier if certain specified events occur. On exchange, a holder will receive (at the Company's discretion) either $100 cash for each ANZ StEPS exchanged or a number of ordinary shares calculated in accordance with a conversion ratio based on $100 divided by the market price of ordinary shares at the date of conversion less 2.5%. In certain circumstances, the Company may also require exchange other than on a reset date.

Upon the occurrence of an assignment event, ANZ StEPS become unstapled. In this case, the note will be assigned to a subsidiary of the company, however, the holder will retain the preference share and the rights to exchange the preference share.

The preference shares forming part of ANZ StEPS rank equally with the preference shares issued in connection with US Trust Securities and Euro Trust Securities in all respects. Except in

## 30: SHARE CAPITAL (CONTINUED)
## PREFERENCE SHARES (CONTINUED)

**b) ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) (continued)**

certain limited circumstances, holders of ANZ StEPS do not have any right to vote in general meetings of the Company.

On a winding up of the Company, the rights of ANZ StEPS holders will be determined by the preference share component of ANZ StEPS. Those preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

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

**c) Euro Trust Securities**

On 13 December 2004, the Company issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ("Euro Trust Securities") at €1000 each pursuant to the offering circular dated 9 December 2004, raising $871 million (at the spot rate at the date of issue, net of issue costs). Euro Trust Securities comprise two fully paid securities – an interest paying unsecured note (issued by ANZ Jackson Funding PLC, a United Kingdom subsidiary of the Company) and a fully paid, €1000 preference share (issued by the Company), which are stapled together and issued as a Euro Trust Security by ANZ Capital Trust III (the "Trust"). Investors have the option to redeem the Euro Trust Security from the Trust and hold the underlying stapled security.

Distributions on Euro Trust Securities are non-cumulative and are payable quarterly in arrears and are funded by payments received by the Trust on the underlying note and or preference share. The distribution is based upon a floating distribution rate equal to the 3 month EURIBOR rate plus a 66 basis point margin up until 15 December 2014, after which date the distribution rate is the 3 month EURIBOR rate plus a 166 basis point margin. At each payment date the 3 month EURIBOR rate is reset for the next quarter. Distributions are subject to certain payment tests (eg APRA requirements and distributable profits being available). Distributions are expected to be payable on 15 March, 15 June, 15 September and 15 December of each year. Dividends are not payable on the preference shares while they are stapled to the note, except for the period after 15 December 2014 when the preference share will pay 100bpts to fund the increase in the margin. If distributions are not paid on Euro Trust Securities, the Company may not pay dividends or return capital on its ordinary shares or any other share capital or security ranking equal or junior to the preference share component.

At any time at ANZ's discretion or upon the occurrence of certain other "conversion events", such as the failure of the Trust to pay in full a distribution within seven business days of the relevant distribution payment date or the business day prior to 15 December, 2053, the notes that are represented by the relevant Euro Trust Securities will be automatically assigned to a Branch of the Company and the preference shares that are represented by the relevant Euro Trust Securities will be distributed to investor in redemption of such Euro Trust Securities. The distributed preference shares will immediately become dividend paying and holders will receive non-cumulative dividends equivalent to the scheduled payments in respect of the Euro Trust Securities for which the preference shares were distributed.

The preference shares forming part of the Euro Trust Security rank equal to the preference shares issued in connection with the ANZ StEPS and US Trust Securities in all respects. Except in limited circumstances, holders of Euro Trust Securities do not have any right to vote in general meetings of the company.

On winding up of the Company, the rights of Euro Trust Security holders will be determined by the preference share component of the Euro Trust Security. These preference shares rank behind all depositors and creditors, but ahead of ordinary shareholders.

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

| | Consolidated 2005 $m | Consolidated 2004 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|
| Preference share balance at start of year | | | | |
| - ANZ TrUEPrS (USD748 million)[1] | – | 1,225 | – | 1,225 |
| - ANZ StEPS[1] | 987 | 987 | 987 | 987 |
| | 987 | 2,212 | 987 | 2,212 |
| Buyback of ANZ TrUEPrS[2] | – | (1,225) | – | (1,225) |
| | 987 | 987 | 987 | 987 |
| Preference share net proceeds from new issues during the year | | | | |
| - Euro Trust Securities[1] | 871 | – | 871 | – |
| | 1,858 | 987 | 1,858 | 987 |
| Preference share balance at end of year | | | | |
| - Euro Trust Securities[1] | 871 | – | 871 | – |
| - ANZ StEPS[1] | 987 | 987 | 987 | 987 |
| **Balance at end of year** | 1,858 | 987 | 1,858 | 987 |

1 Net of issue costs
2 ANZ TrUEPrS bought back on 12 December 2003 for $1,045 million

## NOTES TO THE FINANCIAL STATEMENTS

### 31: OUTSIDE EQUITY INTERESTS

| | Consolidated 2005 $m | Consolidated 2004 $m |
|---|---|---|
| Share capital | 11 | 1 |
| Retained Profits | 16 | 17 |
| **Total outside equity interests** | 27 | 18 |

### 32: CAPITAL ADEQUACY

The Australian Prudential Regulation Authority (APRA) adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy.

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

The measurement of risk weighted assets is based on: a) a credit risk-based approach wherein risk weightings are applied to statement of financial position assets and to credit converted off balance sheet exposures. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and b) the recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity balance sheet positions do not attract a risk weighting under the credit risk-based approach.

| | Consolidated 2005 $m | Consolidated 2004 $m |
|---|---|---|
| **Qualifying capital** | | |
| **Tier 1** | | |
| Total shareholders' equity and outside equity interests | 19,488 | 17,925 |
| Hybrid loan capital[1] | 1,443 | 1,535 |
| Asset revaluation reserve | (31) | (31) |
| Dividend[2] | (1,077) | (983) |
| Accumulated retained profits and reserves of insurance, funds management and securitisation entities | (213) | (218) |
| Unamortised goodwill and other intangibles | (3,902) | (4,170) |
| Capitalised expenses[3] | (524) | (465) |
| Investment in ANZ Lenders Mortgage Insurance | (27) | (27) |
| **Tier 1 capital** | 15,157 | 13,566 |
| **Tier 2** | | |
| Asset revaluation reserve | 31 | 31 |
| Perpetual subordinated notes | 394 | 419 |
| General provision for doubtful debts[4] | 1,448 | 1,342 |
| | 1,873 | 1,792 |
| Subordinated notes[5] | 6,701 | 6,052 |
| **Tier 2 capital** | 8,574 | 7,844 |
| **Deductions** | | |
| Investment in Funds Management and securitisation entities | (84) | (107) |
| Investment in joint ventures with ING[6] | (528) | (708) |
| Other | (172) | (204) |
| | (784) | (1,019) |
| **Total qualifying capital** | 22,947 | 20,391 |
| **Adjusted common equity**[7] | 11,140 | 10,012 |
| **Total risk weighted assets** | 219,573 | 196,664 |
| **Capital adequacy ratios** | % | % |
| Tier 1 | 6.9 | 6.9 |
| Tier 2 | 3.9 | 4.0 |
| Deductions | (0.3) | (0.5) |
| **Total** | 10.5 | 10.4 |
| **Adjusted common equity**[7] | 5.1 | 5.1 |

1 Represents the US Trust Securities Issue approved by APRA as qualifying for Tier 1 status. Refer note 29
2 Relates to final dividend not provided for
3 Comprises loan and lease origination fees, capitalised securitisation establishment costs and costs associated with debt raisings
4 Net of attributable future income tax benefit
5 For capital adequacy calculation purposes, subordinated note issues are reduced by 20% of the original amount during each of the last five years to maturity
6 Joint ventures with ING in Australia and New Zealand
7 Tier 1 capital, less preference share capital (converted at 30 September 2005 rates), less deductions

## 32: CAPITAL ADEQUACY (CONTINUED)

| | Assets 2005 $m | Assets 2004 $m | Risk weighted assets 2005 $m | Risk weighted assets 2004 $m |
|---|---|---|---|---|
| **Statement of financial position** | | | | |
| Cash, claims on Australian Commonwealth, State Governments, Territory Governments, claims on OECD Central Governments, local currency claims on non-OECD Governments and other zero weighted assets | 23,160 | 24,467 | – | – |
| Claims on approved banks and local Governments | 16,054 | 12,593 | 3,211 | 2,519 |
| Advances secured by residential mortgages | 118,895 | 106,013 | 59,448 | 53,007 |
| Other assets – credit risk | 127,204 | 113,218 | 127,204 | 113,218 |
| Total statement of financial position assets – credit risk | 285,313 | 256,291 | 189,863 | 168,744 |
| Trading assets – market risk | 7,872 | 3,054 | n/a | n/a |
| **Total statement of financial position assets** | 293,185 | 259,345 | 189,863 | 168,744 |

| | Contract/ notional amount 2005 $m | Contract/ notional amount 2004 $m | Credit equivalent 2005 $m | Credit equivalent 2004 $m | Risk weighted assets 2005 $m | Risk weighted assets 2004 $m |
|---|---|---|---|---|---|---|
| **Off balance sheet exposures** | | | | | | |
| Direct credit substitutes | 9,657 | 10,262 | 9,657 | 10,262 | 7,337 | 8,173 |
| Trade and performance related items | 13,175 | 11,887 | 5,683 | 5,265 | 4,953 | 4,728 |
| Commitments | 87,319 | 78,914 | 14,017 | 12,385 | 12,249 | 10,239 |
| Foreign exchange, interest rate and other market related transactions | 782,380 | 672,500 | 12,309 | 11,692 | 3,681 | 3,790 |
| **Total off balance sheet exposures – credit risk** | 892,531 | 773,563 | 41,666 | 39,604 | 28,220 | 26,930 |
| **Total risk weighted assets – credit risk** | | | | | 218,083 | 195,674 |
| **Risk weighted assets – market risk** | | | | | 1,490 | 990 |
| **Total risk weighted assets** | | | | | 219,573 | 196,664 |

# NOTES TO THE FINANCIAL STATEMENTS

## 33: AVERAGE BALANCE SHEET AND RELATED INTEREST

Averages used in the following table are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. 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.

| | 2005 Average balance $m | 2005 Interest $m | 2005 Average rate % | 2004 Average balance $m | 2004 Interest $m | 2004 Average rate % | 2003 Average balance $m | 2003 Interest $m | 2003 Average rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Interest earning assets** | | | | | | | | | |
| **Due from other financial institutions** | | | | | | | | | |
| Australia | 807 | 42 | 5.2 | 578 | 29 | 5.0 | 432 | 21 | 4.9 |
| New Zealand | 2,242 | 126 | 5.6 | 2,284 | 115 | 5.0 | 582 | 23 | 4.0 |
| Overseas markets | 2,664 | 90 | 3.4 | 2,322 | 43 | 1.9 | 2,046 | 48 | 2.3 |
| **Investments in public securities** | | | | | | | | | |
| Australia | 8,202 | 444 | 5.4 | 7,231 | 389 | 5.4 | 6,390 | 301 | 4.7 |
| New Zealand | 2,226 | 133 | 6.0 | 3,038 | 150 | 4.9 | 1,642 | 73 | 4.4 |
| Overseas markets | 2,647 | 88 | 3.3 | 3,175 | 95 | 3.0 | 1,870 | 78 | 4.2 |
| **Loans, advances and bills discounted** | | | | | | | | | |
| Australia | 151,066 | 10,543 | 7.0 | 129,658 | 8,893 | 6.9 | 110,260 | 7,263 | 6.6 |
| New Zealand | 61,035 | 5,132 | 8.4 | 48,346 | 3,701 | 7.7 | 20,365 | 1,637 | 8.0 |
| Overseas markets | 9,060 | 461 | 5.1 | 9,810 | 421 | 4.3 | 12,213 | 503 | 4.1 |
| **Other assets** | | | | | | | | | |
| Australia | 2,124 | 101 | 4.8 | 1,524 | 127 | 8.3 | 1,606 | 105 | 6.5 |
| New Zealand | 2,912 | 101 | 3.5 | 2,252 | 58 | 2.6 | 1,353 | 46 | 3.4 |
| Overseas markets | 3,319 | 191 | 5.8 | 1,935 | 127 | 6.6 | 3,395 | 140 | 4.1 |
| **Intragroup assets** | | | | | | | | | |
| Overseas markets | 9,473 | 330 | 3.5 | 10,670 | 225 | 2.1 | 9,858 | 200 | 2.0 |
| | 257,777 | 17,782 | | 222,823 | 14,373 | | 172,012 | 10,438 | |
| Intragroup elimination | (9,473) | (330) | | (10,670) | (225) | | (9,858) | (200) | |
| | 248,304 | 17,452 | 7.0 | 212,153 | 14,148 | 6.7 | 162,154 | 10,238 | 6.3 |
| **Non-interest earning assets** | | | | | | | | | |
| **Acceptances** | | | | | | | | | |
| Australia | 13,166 | | | 13,398 | | | 13,492 | | |
| Overseas markets | 74 | | | 54 | | | 88 | | |
| **Premises and equipment** | 1,507 | | | 1,460 | | | 1,436 | | |
| **Other assets** | 18,784 | | | 18,224 | | | 15,781 | | |
| **Provisions for doubtful debts** | | | | | | | | | |
| Australia | (1,823) | | | (1,762) | | | (1,838) | | |
| New Zealand | (608) | | | (481) | | | (211) | | |
| Overseas markets | (15) | | | (66) | | | (75) | | |
| | 31,085 | | | 30,827 | | | 28,673 | | |
| Total assets | 279,389 | | | 242,980 | | | 190,827 | | |
| **Total average assets** | | | | | | | | | |
| Australia | 185,990 | | | 162,944 | | | 142,491 | | |
| New Zealand | 74,374 | | | 61,027 | | | 25,333 | | |
| Overseas markets | 28,498 | | | 29,679 | | | 32,861 | | |
| | 288,862 | | | 253,650 | | | 200,685 | | |
| Intragroup elimination | (9,473) | | | (10,670) | | | (9,858) | | |
| | 279,389 | | | 242,980 | | | 190,827 | | |
| % of total average assets attributable to overseas activities | 33.4% | | | 32.9% | | | 25.3% | | |

## 33: AVERAGE BALANCE SHEET AND RELATED INTEREST (CONTINUED)

| | 2005 Average balance $m | 2005 Interest $m | 2005 Average rate % | 2004 Average balance $m | 2004 Interest $m | 2004 Average rate % | 2003 Average balance $m | 2003 Interest $m | 2003 Average rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Interest bearing liabilities** | | | | | | | | | |
| **Time deposits** | | | | | | | | | |
| Australia | 39,388 | 2,126 | 5.4 | 30,839 | 1,589 | 5.2 | 25,171 | 1,165 | 4.6 |
| New Zealand | 25,582 | 1,597 | 6.2 | 20,910 | 1,138 | 5.4 | 10,666 | 570 | 5.3 |
| Overseas markets | 11,075 | 383 | 3.5 | 12,772 | 296 | 2.3 | 14,738 | 336 | 2.3 |
| **Savings deposits** | | | | | | | | | |
| Australia | 13,896 | 413 | 3.0 | 13,017 | 352 | 2.7 | 11,959 | 279 | 2.3 |
| New Zealand | 7,210 | 291 | 4.0 | 6,463 | 212 | 3.3 | 3,285 | 79 | 2.4 |
| Overseas markets | 417 | 3 | 0.7 | 386 | 3 | 0.8 | 405 | 3 | 0.7 |
| **Other demand deposits** | | | | | | | | | |
| Australia | 33,950 | 1,432 | 4.2 | 29,737 | 1,182 | 4.0 | 26,718 | 963 | 3.6 |
| New Zealand | 7,992 | 412 | 5.2 | 6,428 | 256 | 4.0 | 2,108 | 98 | 4.6 |
| Overseas markets | 794 | 13 | 1.6 | 662 | 9 | 1.4 | 642 | 9 | 1.4 |
| **Due to other financial institutions** | | | | | | | | | |
| Australia | 1,456 | 86 | 5.9 | 1,452 | 85 | 5.9 | 957 | 49 | 5.1 |
| New Zealand | 1,680 | 93 | 5.5 | 1,608 | 76 | 4.7 | 631 | 23 | 3.6 |
| Overseas markets | 4,642 | 166 | 3.6 | 3,736 | 77 | 2.1 | 6,446 | 111 | 1.7 |
| **Commercial paper** | | | | | | | | | |
| Australia | 5,355 | 299 | 5.6 | 5,824 | 313 | 5.4 | 5,216 | 252 | 4.8 |
| New Zealand | 7,717 | 521 | 6.8 | 6,764 | 383 | 5.7 | – | – | – |
| Overseas markets | 5,915 | 160 | 2.7 | 6,485 | 74 | 1.1 | 4,740 | 58 | 1.2 |
| **Borrowing corporations' debt** | | | | | | | | | |
| Australia | 7,344 | 403 | 5.5 | 7,092 | 371 | 5.2 | 6,626 | 337 | 5.1 |
| New Zealand | 1,954 | 125 | 6.4 | 1,925 | 110 | 5.7 | 1,824 | 108 | 5.9 |
| **Loan capital, bonds and notes** | | | | | | | | | |
| Australia | 38,305 | 2,144 | 5.6 | 29,631 | 1,575 | 5.3 | 19,783 | 1,011 | 5.1 |
| New Zealand | 4,757 | 335 | 7.0 | 2,009 | 121 | 6.0 | 521 | 37 | 7.1 |
| Overseas markets | 137 | 4 | 2.9 | 150 | 3 | 2.0 | 184 | 4 | 2.2 |
| **Other liabilities[1]** | | | | | | | | | |
| Australia | 4,593 | 443 | n/a | 4,232 | 538 | n/a | 2,714 | 292 | n/a |
| New Zealand | 106 | 163 | n/a | 40 | 83 | n/a | 96 | 97 | n/a |
| Overseas markets | 90 | 17 | n/a | 82 | 17 | n/a | 33 | 23 | n/a |
| **Intragroup Liabilities** | | | | | | | | | |
| Australia | 3,648 | (13) | -0.4 | 5,644 | (19) | -0.3 | 7,926 | 134 | 1.7 |
| New Zealand | 5,825 | 343 | 5.9 | 5,026 | 244 | 4.9 | 1,932 | 66 | 3.4 |
| | 233,828 | 11,959 | | 202,914 | 9,088 | | 155,321 | 6,104 | |
| Intragroup elimination | (9,473) | (330) | | (10,670) | (225) | | (9,858) | (200) | |
| | 224,355 | 11,629 | 5.2 | 192,244 | 8,863 | 4.6 | 145,463 | 5,904 | 4.1 |

1 Includes foreign exchange swap costs

# NOTES TO THE FINANCIAL STATEMENTS

## 33: AVERAGE BALANCE SHEET AND RELATED INTEREST (CONTINUED)

| | 2005 Average balance $m | 2004 Average balance $m | 2003 Average balance $m |
|---|---|---|---|
| **Non-interest bearing liabilities** | | | |
| **Deposits** | | | |
| Australia | 4,147 | 3,958 | 3,656 |
| New Zealand | 3,535 | 2,619 | 1,159 |
| Overseas markets | 976 | 867 | 683 |
| **Acceptances** | | | |
| Australia | 13,166 | 13,398 | 13,492 |
| Overseas markets | 74 | 54 | 88 |
| **Other liabilities** | 14,452 | 13,611 | 14,113 |
| | 36,350 | 34,507 | 33,191 |
| **Total liabilities** | 260,705 | 226,751 | 178,654 |
| **Total average liabilities** | | | |
| Australia | 175,691 | 153,927 | 134,462 |
| New Zealand | 70,037 | 57,550 | 24,071 |
| Overseas markets | 24,450 | 25,944 | 29,979 |
| | 270,178 | 237,421 | 188,512 |
| Intragroup elimination | (9,473) | (10,670) | (9,858) |
| | 260,705 | 226,751 | 178,654 |
| **Total average shareholders' equity** | | | |
| Ordinary share capital[1] | 17,000 | 15,000 | 10,929 |
| Preference share capital | 1,684 | 1,229 | 1,244 |
| | 18,684 | 16,229 | 12,173 |
| **Total average liabilities and shareholders' equity** | 279,389 | 242,980 | 190,827 |
| % of total average liabilities attributable to overseas activities | 34.0% | 34.6% | 29.2% |

1 Includes reserves and retained profits

## 34: INTEREST SPREADS AND NET INTEREST AVERAGE MARGINS

| | 2005 $m | 2004 $m | 2003 $m |
|---|---|---|---|
| **Net interest income**[1] | | | |
| Australia | 3,797 | 3,450 | 3,210 |
| New Zealand | 1,612 | 1,400 | 699 |
| Overseas markets | 414 | 433 | 425 |
| | 5,823 | 5,283 | 4,334 |
| **Average interest earning assets** | | | |
| Australia | 162,199 | 138,991 | 118,688 |
| New Zealand | 68,415 | 55,920 | 23,942 |
| Overseas markets | 27,163 | 27,912 | 29,382 |
| Intragroup elimination | (9,473) | (10,670) | (9,858) |
| | 248,304 | 212,153 | 162,154 |
| | % | % | % |
| **Gross earnings rate**[2] | | | |
| Australia | 6.86 | 6.79 | 6.48 |
| New Zealand | 8.03 | 7.20 | 7.43 |
| Overseas markets | 4.27 | 3.27 | 3.30 |
| Group | 7.03 | 6.67 | 6.31 |
| **Interest spreads and net interest average margins may be analysed as follows** | | | |
| **Australia** | | | |
| Gross interest spread | 1.92 | 2.11 | 2.31 |
| Interest forgone on impaired assets[3] | (0.01) | (0.02) | (0.02) |
| Net interest spread | 1.91 | 2.09 | 2.29 |
| Interest attributable to net non-interest bearing items | 0.43 | 0.39 | 0.41 |
| Net interest average margin – Australia | 2.34 | 2.48 | 2.70 |
| **New Zealand** | | | |
| Gross interest spread | 1.86 | 2.08 | 2.30 |
| Interest forgone on impaired assets[3] | (0.01) | (0.01) | – |
| Net interest spread | 1.85 | 2.07 | 2.30 |
| Interest attributable to net non-interest bearing items | 0.51 | 0.43 | 0.62 |
| Net interest average margin – New Zealand | 2.36 | 2.50 | 2.92 |
| **Overseas markets** | | | |
| Gross interest spread | 1.05 | 1.34 | 1.37 |
| Interest forgone on impaired assets[3] | (0.02) | (0.04) | (0.07) |
| Net interest spread | 1.03 | 1.30 | 1.30 |
| Interest attributable to net non-interest bearing items | 0.49 | 0.25 | 0.15 |
| Net interest average margin – Overseas markets | 1.52 | 1.55 | 1.45 |
| **Group** | | | |
| Gross interest spread | 1.86 | 2.08 | 2.28 |
| Interest forgone on impaired assets[3] | (0.01) | (0.02) | (0.03) |
| Net interest spread | 1.85 | 2.06 | 2.25 |
| Interest attributable to net non-interest bearing items | 0.50 | 0.43 | 0.42 |
| Net interest average margin – Group | 2.35 | 2.49 | 2.67 |

1 On a tax equivalent basis
2 Average interest rate received on interest earning assets. Overseas markets includes intragroup assets
3 Refer note 14

## NOTES TO THE FINANCIAL STATEMENTS

### 35: MARKET RISK

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

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

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

**The Value at Risk (VaR) Measure**

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is 97.5% or 99% probability that the loss will not exceed the VaR estimate on any given day. The 99% confidence level encompasses a wider range of potential outcomes.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates and prices over the previous 500 business days.

It should be noted that because VaR is driven by actual historical observations, and as such is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (eg. stress testing) and associated detailed control limits to measure and manage traded market risk.

Traded and non-traded market risks have been considered separately below.

**Traded Market Risks**

Trading activities are focused on customer trading, distribution and underwriting of a range of securities and derivative instruments. The principal activities include foreign exchange, interest rate and debt markets. These activities are managed on a global product basis.

Below are aggregate VaR exposures covering both derivative and non-derivative trading positions for the Group's principal trading centres.

| | As at Sep 05 $m | High for period Sep 05 $m | Low for period Sep 05 $m | Average for period Sep 05 $m | As at Sep 04 $m | High for period Sep 04 $m | Low for period Sep 04 $m | Average period Sep 04 $m |
|---|---|---|---|---|---|---|---|---|
| **Value at risk at 97.5% confidence** | | | | | | | | |
| Foreign exchange | 0.8 | 1.7 | 0.3 | 0.8 | 0.5 | 1.9 | 0.3 | 0.7 |
| Interest rate | 1.3 | 2.2 | 0.2 | 0.9 | 1.0 | 1.6 | 0.2 | 0.6 |
| Credit spread | 0.8 | 1.5 | 0.2 | 0.8 | 0.5 | 1.0 | 0.3 | 0.6 |
| Diversification benefit | (1.2) | n/a | n/a | (0.9) | (0.7) | n/a | n/a | (0.5) |
| Total VaR | 1.7 | 3.0 | 0.8 | 1.6 | 1.3 | 2.5 | 0.8 | 1.4 |
| **Value at risk at 99% confidence** | | | | | | | | |
| Foreign exchange | 0.9 | 2.1 | 0.4 | 1.1 | 0.9 | 2.8 | 0.4 | 1.0 |
| Interest rate | 1.7 | 2.8 | 0.2 | 1.2 | 0.8 | 2.0 | 0.1 | 0.7 |
| Credit spread | 1.4 | 2.4 | 0.4 | 1.2 | 1.0 | 1.5 | 0.5 | 0.8 |
| Diversification benefit | (1.8) | n/a | n/a | (1.3) | (0.9) | n/a | n/a | (0.6) |
| Total VaR | 2.2 | 4.0 | 1.0 | 2.2 | 1.8 | 3.4 | 1.0 | 1.9 |

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

## 35: MARKET RISK (CONTINUED)

**Non-Traded Market Risks (Balance Sheet Risk)**

The principal objectives of balance sheet management are to manage interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to hedge the market value of the Group's capital.

**Interest Rate Risk**

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long term. Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported as follows using three measures: VaR, scenario analysis (to a 1% shock) and disclosure of the interest rate sensitivity gap (refer note 36).

**a) VaR Interest Rate Risk**

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

| | As at Sep 05 $m | High for period Sep 05 $m | Low for period Sep 05 $m | Average for period Sep 05 $m | As at Sep 04 $m | High for period Sep 04 $m |
|---|---|---|---|---|---|---|
| **Value at risk at 97.5% confidence** | | | | | | |
| Group | 14.2 | 24.0 | 13.7 | 18.1 | 21.0 | 37.2 |

**b) Scenario Analysis - A 1% Shock on the Next 12 Months' Net Interest Income**

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the immediate forward period of 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years - expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

| | Consolidated 2005 | Consolidated 2004 |
|---|---|---|
| **Impact of 1% Rate Shock** | | |
| As at 30 September | 1.73% | 1.48% |
| Maximum exposure | 1.87% | 1.53% |
| Minimum exposure | 0.25% | (0.07)% |
| Average exposure (in absolute terms) | 1.21% | 0.71% |

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing. For example, when wholesale market rates are anticipating an official rate increase the Group does not reprice certain customer business until the first repricing date after the official rate rise.

The majority of the Group's non-traded interest exposure exists in Australia and New Zealand. In these centres, a separate balance sheet simulation process supplements this static gap information. This allows the net interest income outcomes of a number of different scenarios - with different market interest rate environments and future balance sheet structures - to be identified. This better enables the Group to accurately quantify the interest rate risks associated with the balance sheet, and to formulate strategies to manage current and future risk profiles.

# NOTES TO THE FINANCIAL STATEMENTS

## 35: MARKET RISK (CONTINUED)

**Foreign Currency Related Risks**

The Group's investment of capital in non-Australian operations generates an exposure to changes in the relative value of individual currencies against the Australian Dollar. Variations in the value of these foreign currency investments are reflected in the Foreign Currency Translation Reserve.

The Group incurs some non-traded foreign currency risk related to the potential repatriation of profits from non-Australian business units. This risk is routinely monitored and hedging is conducted where it is likely to add shareholder value. NZD revenue related hedge contracts outstanding at 30 September 2005 were AUD 3,957 million.

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

## 36: INTEREST SENSITIVITY GAP

The following table represents the interest rate sensitivity as at 30 September 2005 of the Group's assets, liabilities and off balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

Repricing gaps are based upon contractual repricing information except where the contractual terms are not considered to be reflective of actual interest rate sensitivity, for example, those assets and liabilities priced at the Group's discretion. In such cases, the rate sensitivity is based upon historically observed and/or anticipated rate sensitivity.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

| At 30 September 2005 | Less than 3 months $m | Between 3 months and 6 months $m | Between 6 months and 12 months $m | Between 1 year and 5 years $m | After 5 years $m | Not bearing interest $m | Total $m |
|---|---|---|---|---|---|---|---|
| Liquid assets and due from other financial institutions | 13,510 | 984 | 286 | 259 | 1,082 | 1,827 | 17,948 |
| Trading and investment securities | 8,050 | 1,263 | 627 | 2,489 | 700 | 97 | 13,226 |
| Net loans and advances | 164,347 | 8,698 | 14,061 | 44,391 | 1,032 | (1,577) | 230,952 |
| Other assets | 318 | 55 | 112 | 570 | 77 | 29,927 | 31,059 |
| Total assets | 186,225 | 11,000 | 15,086 | 47,709 | 2,891 | 30,274 | 293,185 |
| Certificates of deposit and term deposits | 58,515 | 10,176 | 5,190 | 4,565 | 10 | – | 78,456 |
| Other deposits | 58,497 | 898 | 1,771 | 4,614 | 45 | 10,378 | 76,203 |
| Other borrowings and due to other financial institutions | 31,381 | 4,055 | 3,007 | 1,596 | 1,023 | 1,998 | 43,060 |
| Other liabilities | 169 | 1 | 14 | 479 | 286 | 26,819 | 27,768 |
| Bonds, notes and loan capital | 28,207 | 2,585 | 1,235 | 11,830 | 4,353 | – | 48,210 |
| Total liabilities | 176,769 | 17,715 | 11,217 | 23,084 | 5,717 | 39,195 | 273,697 |
| Shareholders' equity and outside equity interests | | | | | | 19,488 | 19,488 |
| Off balance sheet items affecting interest rate sensitivity | 2,013 | 9,271 | (2,879) | (11,737) | 3,332 | – | – |
| **Interest sensitivity gap** | | | | | | | |
| **– net** | 11,469 | 2,556 | 990 | 12,888 | 506 | (28,409) | – |
| **– cumulative** | 11,469 | 14,025 | 15,015 | 27,903 | 28,409 | – | – |

The bulk of the Group's loan/deposit business is conducted in the domestic balance sheets of Australia and New Zealand and is priced on a floating rate basis. The mix of repricing maturities in these books is influenced by the underlying financial needs of customers.

Offshore operations, which are generally wholesale in nature, are able to minimise interest rate sensitivity through closely matching the maturity of loans and deposits. Given both the size and nature of their business, the interest rate sensitivities of these balance sheets contribute little to the aggregate risk exposure, which is primarily a reflection of the positions in Australia and New Zealand.

In Australia and New Zealand, a combination of pricing initiatives and off-balance sheet instruments is used in the management of interest rate risk. For example, where a strong medium to long term rate view is held, hedging and pricing strategies are used to modify the profile's rate sensitivity so that it is positioned to take advantage of the expected movement in interest rates. However, such positions are taken within the overall risk limits specified by policy.

## 36: INTEREST SENSITIVITY GAP (CONTINUED)

The following table represents the interest rate sensitivity as at 30 September 2004 of the Group's assets, liabilities and off balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

| At 30 September 2004 | Less than 3 months $m | Between 3 months and 6 months $m | Between 6 months and 12 months $m | Between 1 year and 5 years $m | After 5 years $m | Not bearing interest $m | Total $m |
|---|---|---|---|---|---|---|---|
| Liquid assets and due from other financial institutions | 8,030 | 788 | 508 | 823 | 6 | 989 | 11,144 |
| Trading and investment securities | 8,326 | 1,261 | 1,538 | 1,667 | 293 | 139 | 13,224 |
| Net loans and advances | 147,883 | 8,415 | 12,914 | 36,740 | 673 | (1,663) | 204,962 |
| Other assets | 383 | 134 | 127 | 607 | 5 | 28,759 | 30,015 |
| Total assets | 164,622 | 10,598 | 15,087 | 39,837 | 977 | 28,224 | 259,345 |
| Certificates of deposit and term deposits | 54,245 | 7,596 | 4,574 | 4,199 | 7 | – | 70,621 |
| Other deposits | 53,843 | 843 | 1,648 | 4,997 | – | 7,927 | 69,258 |
| Other borrowings and due to other financial institutions | 27,733 | 2,784 | 2,844 | 1,805 | 7 | 854 | 36,027 |
| Other liabilities | 127 | 151 | 186 | 749 | 166 | 28,058 | 29,437 |
| Bonds, notes and loan capital | 18,738 | 2,474 | 962 | 9,955 | 3,948 | – | 36,077 |
| Total liabilities | 154,686 | 13,848 | 10,214 | 21,705 | 4,128 | 36,839 | 241,420 |
| Shareholders' equity and outside equity interests | – | – | – | – | – | 17,925 | 17,925 |
| Off balance sheet items affecting interest rate sensitivity | 6,655 | 3,114 | (8,887) | (4,777) | 3,895 | – | – |
| **Interest sensitivity gap** | | | | | | | |
| **– net** | 16,591 | (136) | (4,014) | 13,355 | 744 | (26,540) | – |
| **– cumulative** | 16,591 | 16,455 | 12,441 | 25,796 | 26,540 | – | – |

# NOTES TO THE FINANCIAL STATEMENTS

## 37: NET FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Quoted market prices, where available, are adjusted for material transaction costs and used as the measure of net fair value. In cases where quoted market values are not available, net fair values are based on present value estimates or other valuation techniques. For the majority of short-term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the net fair value was assumed to equate to the carrying amount in the Group's statement of financial position.

The fair values are based on relevant information available as at 30 September 2005. While judgement is used in obtaining the net fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The net fair value amounts have not been updated for the purposes of these financial statements since 30 September 2005, and therefore the net fair value of the financial instruments subsequent to 30 September 2005 may be different from the amounts reported.

| Financial Assets | Net fair value 2005 $m | Net fair value 2004 $m | Carrying value 2005 $m | Carrying value 2004 $m |
|---|---|---|---|---|
| Liquid assets | 11,600 | 6,363 | 11,600 | 6,363 |
| Due from other financial institutions | 6,348 | 4,781 | 6,348 | 4,781 |
| Trading securities | 6,285 | 5,478 | 6,285 | 5,478 |
| Investment securities, shares in associates and joint venture entities | 9,252 | 9,878 | 8,813 | 9,706 |
| Loans and advances | 232,724 | 206,788 | 230,952 | 204,962 |
| Customer's liabilities for acceptances | 13,449 | 12,466 | 13,449 | 12,466 |
| Other financial assets | 9,866 | 9,458 | 9,751 | 9,088 |

### LIQUID ASSETS AND DUE FROM OTHER FINANCIAL INSTITUTIONS

The carrying values of these financial instruments are considered to approximate their net fair values as they are short-term in nature or are receivable on demand.

### TRADING SECURITIES

Trading securities are carried at market value. Market value is generally based on quoted market prices, broker or dealer price quotations, or prices for securities with similar credit risk, maturity and yield characteristics.

### INVESTMENT SECURITIES

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

### SHARES IN ASSOCIATES AND JOINT VENTURE ENTITIES

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

## 37: NET FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### LOANS, ADVANCES AND CUSTOMERS' LIABILITIES FOR ACCEPTANCES

The carrying value of loans, advances and acceptances is net of specific and general provisions for doubtful debts and income yet to mature. The estimated net fair value of loans, advances and acceptances is based on the discounted amount of estimated future cash flows and accordingly has not been adjusted for either specific or general provisions for doubtful debts.

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate which includes a premium for the uncertainty of the flows.

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

Net lease receivables, with a carrying value of $3,523 million (2004: $3,079 million) and a net fair value of $3,523 million (2004: $3,080 million), are included in loans and advances.

### OTHER FINANCIAL ASSETS

Included in this category are accrued interest, fees receivable and derivative financial instruments. The carrying values of accrued interest and fees receivable are considered to approximate their net fair values as they are short term in nature or are receivable on demand.

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

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

| | Net fair value | | Carrying value | |
|---|---|---|---|---|
| Financial Liabilities | 2005 $m | 2004 $m | 2005 $m | 2004 $m |
| Due to other financial institutions | 12,027 | 7,349 | 12,027 | 7,349 |
| Deposits and other borrowings | 185,645 | 168,542 | 185,693 | 168,557 |
| Liability for acceptances | 13,449 | 12,466 | 13,449 | 12,466 |
| Bonds and notes | 39,137 | 27,747 | 39,073 | 27,602 |
| Loan capital | 9,215 | 8,540 | 9,137 | 8,475 |
| Other financial liabilities | 10,939 | 13,665 | 10,921 | 13,525 |

### DUE TO OTHER FINANCIAL INSTITUTIONS

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

### DEPOSITS AND OTHER BORROWINGS

The net fair value of a deposit liability without a specified maturity or at call is deemed by AASB 1033 to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

For interest bearing fixed maturity deposits and other borrowings and acceptances without quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows.

### BONDS AND NOTES AND LOAN CAPITAL

The aggregate net fair value of bonds and notes and loan capital at 30 September 2005 was calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the instrument was used.

### OTHER FINANCIAL LIABILITIES

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 37: NET FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### COMMITMENTS AND CONTINGENCIES

As outlined in note 47, the Group has various credit related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

### TRANSACTION COSTS

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

## 38: DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The principal interest rate contracts used by the Group are forward rate agreements, interest rate futures, interest rate swaps and options. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

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

### CREDIT RISK

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

The following table provides an overview of the Group's exchange rate, credit, commodity and interest rate derivatives. It includes all trading and other than trading contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative.

The credit equivalent amount is calculated in accordance with the Australian Prudential Regulation Authority's Capital Adequacy guidelines. It combines the aggregate gross replacement cost with an allowance for the potential increase in value over the remaining term of the transaction should market conditions change.

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

## 38: DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| Consolidated | Notional principal amount 2005 $m | Credit equivalent amount 2005 $m | Fair value 2005 $m | Notional principal amount 2004 $m | Credit equivalent amount 2004 $m | Fair value 2004 $m |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts**[1] | | | | | | |
| Spot and forward contracts | 184,958 | 3,082 | (178) | 183,825 | 3,216 | (1,411) |
| Swap agreements | 68,892 | 3,638 | (561) | 51,437 | 3,095 | (25) |
| Futures contracts[2] | 256 | n/a | 4 | 251 | n/a | 2 |
| Options purchased | 9,340 | 315 | 186 | 13,288 | 398 | 224 |
| Options sold[3] | 14,925 | n/a | (174) | 18,852 | n/a | (226) |
| Other contracts | 4,963 | 573 | (2) | 2,686 | 436 | 115 |
| | 283,334 | 7,608 | (725) | 270,339 | 7,145 | (1,321) |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | 47,734 | 8 | 1 | 39,572 | 9 | 5 |
| Swap agreements | 405,152 | 3,443 | 431 | 321,585 | 3,682 | 424 |
| Futures contracts[2] | 35,111 | n/a | 8 | 38,270 | n/a | 4 |
| Options purchased | 12,810 | 96 | 62 | 12,810 | 111 | 64 |
| Options sold[3] | 16,715 | n/a | (42) | 15,214 | n/a | (35) |
| | 517,522 | 3,547 | 460 | 427,451 | 3,802 | 462 |
| **Credit contracts** | | | | | | |
| Credit default swaps[4] | 15,437 | 2,929 | (1) | 11,743 | 3,381 | 31 |
| | 816,293 | 14,084 | (266) | 709,533 | 14,328 | (828) |

1 The fair value of foreign exchange contracts includes a net additional $586 million (September 2004: net $(519) million) in respect of cash collateral paid/(received) under credit support agreements
2 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
3 Options sold have no credit exposure, as they represent obligations rather than assets
4 Credit default swaps include structured financing transactions that expose the Group to the performance of certain assets. The total investment of the Group in these transactions is USD 500 million (2004: USD 750 million)

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

| Consolidated At 30 September 2005 | Remaining life: Less than 1 year $m | Remaining life: 1 to 5 years $m | Remaining life: Greater than 5 years $m | Total $m | Trading $m | Other than Trading $m |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | 178,705 | 6,107 | 146 | 184,958 | 165,781 | 19,177 |
| Swap agreements | 17,148 | 40,788 | 10,956 | 68,892 | 15,906 | 52,986 |
| Futures contracts | 254 | 2 | – | 256 | 256 | – |
| Options purchased | 8,536 | 692 | 112 | 9,340 | 9,340 | – |
| Options sold | 14,167 | 696 | 62 | 14,925 | 14,925 | – |
| Other contracts | 2,439 | 2,339 | 185 | 4,963 | 4,961 | 2 |
| | 221,249 | 50,624 | 11,461 | 283,334 | 211,169 | 72,165 |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | 47,168 | 566 | – | 47,734 | 45,961 | 1,773 |
| Swap agreements | 145,049 | 198,495 | 61,608 | 405,152 | 305,862 | 99,290 |
| Futures contracts | 30,909 | 4,202 | – | 35,111 | 27,589 | 7,522 |
| Options purchased | 7,694 | 4,552 | 564 | 12,810 | 12,774 | 36 |
| Options sold | 9,725 | 6,447 | 543 | 16,715 | 16,715 | – |
| | 240,545 | 214,262 | 62,715 | 517,522 | 408,901 | 108,621 |
| **Credit contracts** | | | | | | |
| Credit default swaps | 2,666 | 12,041 | 730 | 15,437 | 13,159 | 2,278 |
| **Total** | 464,460 | 276,927 | 74,906 | 816,293 | 633,229 | 183,064 |

# NOTES TO THE FINANCIAL STATEMENTS

## 38: DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| Consolidated At 30 September 2004 | Less than 1 year $m | Remaining life 1 to 5 years $m | Greater than 5 years $m | Total $m | Trading $m | Other than Trading $m |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | 178,501 | 5,033 | 291 | 183,825 | 162,072 | 21,753 |
| Swap agreements | 9,945 | 33,631 | 7,861 | 51,437 | 13,670 | 37,767 |
| Futures contracts | 243 | 8 | – | 251 | 251 | – |
| Options purchased | 12,361 | 863 | 64 | 13,288 | 13,288 | – |
| Options sold | 18,001 | 789 | 62 | 18,852 | 18,852 | – |
| Other contracts | 1,015 | 1,436 | 235 | 2,686 | 2,681 | 5 |
| | 220,066 | 41,760 | 8,513 | 270,339 | 210,814 | 59,525 |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | 39,514 | 58 | – | 39,572 | 31,437 | 8,135 |
| Swap agreements | 121,594 | 153,556 | 46,435 | 321,585 | 248,186 | 73,399 |
| Futures contracts | 35,759 | 2,511 | – | 38,270 | 32,498 | 5,772 |
| Options purchased | 4,546 | 7,680 | 584 | 12,810 | 12,773 | 37 |
| Options sold | 7,506 | 7,267 | 441 | 15,214 | 15,214 | – |
| | 208,919 | 171,072 | 47,460 | 427,451 | 340,108 | 87,343 |
| **Credit contracts** | | | | | | |
| Credit default swaps | 1,310 | 9,472 | 961 | 11,743 | 8,775 | 2,968 |
| **Total** | 430,295 | 222,304 | 56,934 | 709,533 | 559,697 | 149,836 |

Concentrations of credit risk exist for groups of counterparties when they have similar economic characteristics. Major concentrations of credit risk arise by location and type of customer.

The following table shows the concentrations of credit risk, by class of counterparty and by geographic location, measured by credit equivalent amount.

Approximately 57% (2004: 47%) of the Group's exposures are with counterparties which are either Australian banks or banks based in other OECD countries.

| Consolidated At 30 September 2005 | OECD governments $m | Australian and OECD banks $m | Corporations, non-OECD banks and others $m | Total $m |
|---|---|---|---|---|
| Australia | 140 | 6,185 | 4,997 | 11,322 |
| New Zealand | 55 | 1,610 | 606 | 2,271 |
| Overseas markets | 31 | 236 | 224 | 491 |
| | 226 | 8,031 | 5,827 | 14,084 |

| Consolidated At 30 September 2004 | OECD governments $m | Australian and OECD banks $m | Corporations, non-OECD banks and others $m | Total $m |
|---|---|---|---|---|
| Australia | 147 | 5,258 | 6,534 | 11,939 |
| New Zealand | 12 | 1,228 | 839 | 2,079 |
| Overseas markets | 2 | 212 | 96 | 310 |
| | 161 | 6,698 | 7,469 | 14,328 |

## NOTES TO THE FINANCIAL STATEMENTS

### 38: DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The next table shows the fair values of the Group's derivatives by product type, disaggregated into gross unrealised gains and gross unrealised losses.

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

| Consolidated | Other than Trading Fair value[1] as at 2005 $m | Fair value[1] as at 2004 $m | Trading Fair value[1] as at 2005 $m | Fair value[1] as at 2004 $m | Total Fair value Average 2005 $m | Fair value Average 2004 $m |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | | | | | | |
| Gross unrealised gains | 552 | 875 | 664[2] | 687[2] | 1,729 | 1,719 |
| Gross unrealised losses | (3,233) | (2,392) | 1,839[2] | (581)[2] | (2,670) | (927) |
| Swap agreements | | | | | | |
| Gross unrealised gains | 447 | 532 | (48)[2] | 110[2] | 558 | 498 |
| Gross unrealised losses | (629) | (430) | (331)[2] | (237)[2] | (1,011) | (254) |
| Futures contracts | | | | | | |
| Gross unrealised gains | – | – | 18 | 8 | 6 | – |
| Gross unrealised losses | – | – | (14) | (6) | (3) | – |
| Options purchased | – | – | 186 | 224 | 214 | 352 |
| Options sold | – | – | (174) | (226) | (190) | (337) |
| Other contracts | | | | | | |
| Gross unrealised gains | – | – | 377 | 298 | 313 | 247 |
| Gross unrealised losses | – | – | (379) | (183) | (249) | (111) |
| | (2,863) | (1,415) | 2,138 | 94 | (1,303) | 1,187 |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | | | | | | |
| Gross unrealised gains | – | – | 5 | 8 | 3 | 6 |
| Gross unrealised losses | – | – | (4) | (3) | (4) | (4) |
| Swap agreements | | | | | | |
| Gross unrealised gains | 512 | 467 | 1,112 | 1,825 | 1,569 | 2,127 |
| Gross unrealised losses | (256) | (181) | (937) | (1,687) | (1,271) | (1,790) |
| Futures contracts | | | | | | |
| Gross unrealised gains | 11 | 6 | 141 | 54 | 114 | 52 |
| Gross unrealised losses | (6) | (4) | (138) | (52) | (111) | (43) |
| Options purchased | 11 | 8 | 51 | 56 | 58 | 65 |
| Options sold | – | – | (42) | (35) | (47) | (36) |
| Other contracts | | | | | | |
| Gross unrealised gains | – | – | – | – | – | – |
| Gross unrealised losses | – | – | – | – | – | – |
| | 272 | 296 | 188 | 166 | 311 | 377 |
| **Credit contracts** | | | | | | |
| Credit default swaps | | | | | | |
| Gross unrealised gains | 6 | 42 | 111 | 44 | 92 | 37 |
| Gross unrealised losses | (3) | (6) | (115) | (49) | (99) | (42) |
| | 3 | 36 | (4) | (5) | (7) | (5) |
| **Total** | (2,588) | (1,083) | 2,322 | 255 | (999) | 1,559 |

1 The fair values of derivatives vary over time depending on movements in interest and exchange rates and the trading or hedging strategies used
2 The fair value of foreign exchange contracts trading is impacted by netting arrangements and timing of collateral paid under credit support agreements

# NOTES TO THE FINANCIAL STATEMENTS

## 38: DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group classifies derivatives into two types according to the purpose they are entered into: trading or 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 principal objectives of asset and liability management are to hedge the market value of the Group's capital and to manage and control the sensitivity of the Group's income while maintaining acceptable levels of interest rate and liquidity risk. The Group also uses a variety of foreign exchange derivatives to hedge against adverse movements in the value of foreign currency denominated assets and liabilities and future revenue streams.

Income and loss relating to trading derivatives is reported in the statement of financial performance as other operating income. The fair value of trading derivatives is recorded on a gross basis as other assets or other liabilities as appropriate unless there is a legal right of set off. The fair value of a derivative financial instrument is the net present value of future expected cash flows arising from that instrument.

In order to be classified as a hedging derivative the hedging relationship must be expected to be effective.

An effective hedging relationship is one where there is expected to be a high degree of negative correlation between changes in the fair value of the financial asset being hedged and the derivative nominated as the hedging instrument. This effectiveness is assessed on initial classification of the hedging relationship. A hedging relationship is either effective or non-effective in its entirety, no accounting adjustment is made for an assessed percentage of ineffectiveness. Where a hedging relationship is deemed effective it is accounted for in the same manner as the underlying asset or liability it is hedging.

During the year NZD0.7 billion hedge of NZD revenue were put in place to lock in historically high NZD exchange rates. Hedge contracts outstanding at 30 September 2005 totalled NZD4.4 billion (AUD 4.0 billion).

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 balance sheet hedging and revenue related hedging.

| Consolidated | Notional principal amount 2005 $m | Credit equivalent amount 2005 $m | Fair value 2005 $m | Notional principal amount 2004 $m | Credit equivalent amount 2004 $m | Fair value 2004 $m |
|---|---|---|---|---|---|---|
| **Foreign exchange and commodity contracts** | | | | | | |
| Customer-related and trading purposes | 211,169 | 4,676 | 2,138 | 210,814 | 4,511 | 94 |
| Balance sheet hedging purposes | 68,208 | 2,852 | (2,904) | 56,039 | 2,585 | (1,371) |
| Revenue related hedging | 3,957 | 80 | 41 | 3,486 | 49 | (44) |
| | 283,334 | 7,608 | (725) | 270,339 | 7,145 | (1,321) |
| **Interest rate contracts** | | | | | | |
| Customer-related and trading purposes | 408,901 | 2,902 | 188 | 340,108 | 3,163 | 166 |
| Balance sheet hedging purposes | 108,621 | 645 | 272 | 87,343 | 639 | 296 |
| | 517,522 | 3,547 | 460 | 427,451 | 3,802 | 462 |
| **Credit contracts** | | | | | | |
| Customer-related and trading purposes | 13,159 | 1,154 | (4) | 8,775 | 745 | (5) |
| Balance sheet hedging purposes | 2,278 | 1,775 | 3 | 2,968 | 2,636 | 36 |
| | 15,437 | 2,929 | (1) | 11,743 | 3,381 | 31 |
| **Total** | 816,293 | 14,084 | (266) | 709,533 | 14,328 | (828) |

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

| | Foreign Exchange Contracts | | Interest Rate and Credit Contracts | | | |
|---|---|---|---|---|---|---|
| Consolidated | 2005 $m | 2004 $m | 2005 $m | 2004 $m | Total 2005 $m | Total 2004 $m |
| **Expected recognition in income** | | | | | | |
| Within one year | 7 | (37) | 45 | 71 | 52 | 34 |
| One to two years | 14 | (14) | 60 | 127 | 74 | 113 |
| Two to five years | 20 | – | (5) | 40 | 15 | 40 |
| Greater than five years | – | – | (23) | (3) | (23) | (3) |
| | 41 | (51) | 77 | 235 | 118 | 184 |

## 39: SECURITISATION

During the year ended 30 September 2005, the Group did not securitise any residential mortgage loans (2004: $1,481 million).

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

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

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

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

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

The following table summarises the cash flows from the SPEs to the Group in respect of assets securitised by the Group.

| | 2005 $m | 2004 $m |
|---|---|---|
| Proceeds from securitising loans | – | 1,481 |
| Servicing fees received | 6 | 4 |
| Other cash inflows | 11 | 7 |

# NOTES TO THE FINANCIAL STATEMENTS

## 40: SEGMENT ANALYSIS

For management purposes the Group is organised into six major business segments including Personal, Institutional, New Zealand Business, Corporate, Esanda and UDC and Asia Pacific. An expanded description of the principal activities for each of the business segments is contained in the Glossary on pages 120 to 121.

A summarised description of each business segment is shown below:

| | |
|---|---|
| Personal | Comprises the activities of Regional Commercial and Agribusiness Products, Banking Products, Consumer Finance, Wealth Management, Mortgages and other (including the branch network) |
| Institutional | Comprises businesses that provide a full range of financial services to the Group's largest corporate and institutional customers including Corporate and Structured Financing, Client Relationship Group, Markets and Trade and Transaction Services |
| New Zealand Business | Provides a full range of banking services for personal, small business and corporate customers in New Zealand and comprises ANZ Retail, NBNZ Retail, Corporate Banking, Rural Banking and Central Support |
| Corporate | Comprises Corporate Banking, Business Banking and Small Business banking in Australia |
| Esanda and UDC | Provides vehicle and equipment finance, rental services and fixed and at call investments. Operates in Australia as Esanda and Esanda FleetPartners and in New Zealand as UDC and Esanda FleetPartners |
| Asia Pacific | Provides retail banking services in the Pacific region and Asia, including ANZ's share of PT Panin Bank in Indonesia. This business excludes Institutional businesses in the Asia Pacific region that are included in the Institutional division. |

As the composition of segments has changed over time, September 2004 comparatives have been adjusted to be consistent with the 2005 segment definitions. Comparatives for the year ended 30 September 2003 have not been provided because the data could not reasonably be disaggregated into the amended segments.

## BUSINESS SEGMENT ANALYSIS[1, 2]

| Consolidated 30 September 2005 | Personal $m | Institutional $m | New Zealand Business $m | Corporate $m | Esanda and UDC $m | Asia Pacific $m | Other[3] $m | Consolidated Total $m |
|---|---|---|---|---|---|---|---|---|
| External interest income | 6,817 | 3,169 | 4,581 | 1,078 | 1,143 | 172 | 467 | 17,427 |
| External interest expense | (1,585) | (2,581) | (2,932) | (623) | (695) | (163) | (3,050) | (11,629) |
| Net intersegment interest | (3,128) | 174 | (215) | 242 | (79) | 154 | 2,852 | – |
| Net interest income | 2,104 | 762 | 1,434 | 697 | 369 | 163 | 269 | 5,798 |
| Other external operating income | 919 | 1,429 | 513 | 293 | 121 | 108 | 12 | 3,395 |
| Share of net profit/loss of equity accounted investments | 94 | 4 | – | 1 | – | 41 | 17 | 157 |
| Net intersegment income | 125 | (30) | 6 | (94) | (9) | – | 2 | – |
| **Operating income** | 3,242 | 2,165 | 1,953 | 897 | 481 | 312 | 300 | 9,350 |
| Other external expenses | (1,363) | (623) | (950) | (232) | (162) | (172) | (1,013) | (4,515) |
| Net intersegment expenses | (276) | (143) | (5) | (62) | (26) | 1 | 511 | – |
| **Operating expenses** | (1,639) | (766) | (955) | (294) | (188) | (171) | (502) | (4,515) |
| Charge for doubtful debts | (198) | (139) | (92) | (66) | (62) | (23) | – | (580) |
| Income tax expense | (392) | (336) | (292) | (161) | (72) | (22) | 41 | (1,234) |
| Outside equity interests | – | (1) | – | – | – | (1) | (1) | (3) |
| **Profit after income tax** | 1,013 | 923 | 614 | 376 | 159 | 95 | (162) | 3,018 |
| **Non-Cash Expenses** | | | | | | | | |
| Depreciation | (119) | (18) | (49) | (6) | (16) | (10) | (87) | (305) |
| Amortisation of goodwill | – | – | – | – | – | – | (179) | (179) |
| **Financial Position** | | | | | | | | |
| Total external assets | 106,043 | 70,901 | 60,157 | 21,263 | 15,405 | 2,890 | 16,526 | 293,185 |
| Associate investments | 15 | 52 | 151 | 40 | – | 152 | 1,462 | 1,872 |
| Total external liabilities | 44,340 | 53,350 | 53,426 | 24,110 | 13,306 | 5,811 | 79,354 | 273,697 |

1 Results are equity standardised
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis
3 Includes Treasury, Operations, Technology & Shared Services, Corporate Centre, Risk Management, Group Financial Management and significant items

# NOTES TO THE FINANCIAL STATEMENTS

## 40: SEGMENT ANALYSIS (CONTINUED)

The following analysis details financial information by business segment.

### BUSINESS SEGMENT ANALYSIS[1, 2]

| Consolidated 30 September 2004 | Personal $m | Institutional $m | New Zealand Business $m | Corporate $m | Esanda and UDC $m | Asia Pacific $m | Other[3] $m | Consolidated Total $m |
|---|---|---|---|---|---|---|---|---|
| External interest income | 5,784 | 2,782 | 3,002 | 919 | 1,060 | 167 | 403 | 14,117 |
| External interest expense | (1,334) | (2,647) | (1,623) | (529) | (593) | (123) | (2,014) | (8,863) |
| Net intersegment interest | (2,538) | 573 | (168) | 250 | (107) | 109 | 1,881 | – |
| Net interest income | 1,912 | 708 | 1,211 | 640 | 360 | 153 | 270 | 5,254 |
| Other external operating income | 828 | 1,355 | 453 | 274 | 103 | 102 | 131 | 3,246 |
| Share of net profit/loss of equity accounted investments | 84 | 1 | – | 1 | 1 | 45 | 13 | 145 |
| Net intersegment income | 118 | (23) | 6 | (86) | (8) | – | (7) | – |
| **Operating income** | 2,942 | 2,041 | 1,670 | 829 | 456 | 300 | 407 | 8,645 |
| Other external expenses | (1,263) | (576) | (801) | (214) | (159) | (145) | (868) | (4,026) |
| Net intersegment expenses | (270) | (144) | (17) | (66) | (27) | 2 | 522 | – |
| **Operating expenses** | (1,533) | (720) | (818) | (280) | (186) | (143) | (346) | (4,026) |
| Charge for doubtful debts | (183) | (160) | (97) | (61) | (67) | (23) | (41) | (632) |
| Income tax expense | (343) | (303) | (242) | (147) | (60) | (20) | (53) | (1,168) |
| Outside equity interests | – | (1) | – | – | – | (3) | – | (4) |
| **Profit after income tax** | 883 | 857 | 513 | 341 | 143 | 111 | (33) | 2,815 |
| **Non-Cash Expenses** | | | | | | | | |
| Depreciation | (112) | (19) | (52) | (6) | (25) | (10) | (85) | (309) |
| Amortisation of goodwill | – | – | – | – | – | – | (146) | (146) |
| **Financial Position** | | | | | | | | |
| Total external assets | 93,232 | 60,144 | 53,434 | 19,098 | 14,524 | 2,446 | 16,467 | 259,345 |
| Associate investments | 14 | 55 | 2 | 14 | 1 | 176 | 1,698 | 1,960 |
| Acquisition of NBNZ assets including goodwill | – | 11,225 | 28,521 | – | – | – | 3,265 | 43,011 |
| Total external liabilities | 40,454 | 48,747 | 47,247 | 21,836 | 12,261 | 5,298 | 65,577 | 241,420 |

1 Results are equity standardised
2 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis
3 Includes Treasury, Operations, Technology & Shared Services, Corporate Centre, Risk Management and Group Financial Management

The following analysis details financial information by geographic location.

### GEOGRAPHIC SEGMENT ANALYSIS[4, 5]

| Consolidated | $m | 2005 % | $m | 2004 % | $m | 2003 % |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Australia | 13,496 | 64 | 11,767 | 67 | 9,508 | 73 |
| New Zealand | 6,211 | 30 | 4,632 | 27 | 2,149 | 17 |
| Overseas markets | 1,272 | 6 | 1,109 | 6 | 1,366 | 10 |
| | 20,979 | 100 | 17,508 | 100 | 13,023 | 100 |
| **Total assets** | | | | | | |
| Australia | 195,500 | 67 | 170,455 | 66 | 151,538 | 77 |
| New Zealand[6] | 78,474 | 27 | 69,801 | 27 | 25,696 | 13 |
| Overseas markets | 19,211 | 6 | 19,089 | 7 | 18,357 | 10 |
| | 293,185 | 100 | 259,345 | 100 | 195,591 | 100 |
| **Net profit before tax[7]** | | | | | | |
| Australia | 2,975 | 70 | 2,785 | 70 | 2,371 | 72 |
| New Zealand | 832 | 20 | 763 | 19 | 495 | 15 |
| Overseas markets | 448 | 10 | 439 | 11 | 411 | 13 |
| | 4,255 | 100 | 3,987 | 100 | 3,277 | 100 |

4 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis
5 The geographic segments represent the locations in which the transaction was booked
6 2004 amount includes NBNZ assets, including goodwill acquired of $3.1 billion
7 Includes outside equity interests

## 41: NOTES TO THE STATEMENTS OF CASH FLOWS

| | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| **a) Reconciliation of net profit after income tax to net cash provided by operating activities** | | | | | |
| | | Inflows (Outflows) | | | Inflows (Outflows) |
| Net profit after income tax | 3,018 | 2,815 | 2,348 | 2,227 | 1,972 |
| **Adjustments to reconcile net profit after income tax to net cash provided by operating activities** | | | | | |
| Provision for doubtful debts | 580 | 632 | 614 | 388 | 433 |
| Depreciation and amortisation | 484 | 455 | 265 | 230 | 220 |
| Provision for employee entitlements, restructuring and other provisions | 556 | 429 | 219 | 363 | 352 |
| Payments from provisions | (498) | (395) | (349) | (334) | (390) |
| (Profit) loss on sale of premises and equipment | 22 | 5 | 5 | 25 | 5 |
| Provision for surplus lease space | – | 7 | (11) | – | 7 |
| Unrealised (gain) loss on revaluation of treasury instruments | (723) | (169) | 262 | 51 | (535) |
| **Net decrease (increase)** | | | | | |
| Trading securities | (821) | 514 | 1,669 | (523) | (1,147) |
| Interest receivable | 88 | (478) | (189) | (8) | (326) |
| Accrued income | 4 | – | 51 | 8 | – |
| Tax balances | 162 | 921 | (386) | 246 | 817 |
| Amortisation of discounts/premiums included in interest income | (93) | (27) | (19) | (12) | 16 |
| **Net increase (decrease)** | | | | | |
| Interest payable | 214 | 605 | 180 | 105 | 377 |
| Accrued expenses | 52 | 75 | 69 | 82 | (49) |
| Other | (15) | (139) | (109) | (9) | (7) |
| Total adjustments | 12 | 2,435 | 2,271 | 612 | (227) |
| Net cash provided by operating activities | 3,030 | 5,250 | 4,619 | 2,839 | 1,745 |

**b) Reconciliation of cash and cash equivalents**

Cash and cash equivalents include liquid assets and amounts due from other financial institutions with an original term to maturity of less than 90 days. Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the statements of financial position as follows

| | Consolidated 2005 $m | Consolidated 2004 $m | Consolidated 2003 $m | The Company 2005 $m | The Company 2004 $m |
|---|---|---|---|---|---|
| Liquid assets – less than 90 days | 9,600 | 4,998 | 5,509 | 5,315 | 2,408 |
| Due from other financial institutions – less than 90 days | 4,102 | 2,856 | 1,806 | 2,584 | 1,834 |
| | 13,702 | 7,854 | 7,315 | 7,899 | 4,242 |

# NOTES TO THE FINANCIAL STATEMENTS

## 41: NOTES TO THE STATEMENTS OF CASH FLOWS (CONTINUED)

### c) Acquisitions

| | Consolidated 2005 $m | 2004 $m | 2003 $m |
|---|---|---|---|
| **Details of aggregate assets and liabilities of controlled entities and branches acquired by the Group are as follows:** | | | |
| Fair value of net assets acquired | | | |
| Liquid assets | – | 842 | – |
| Due from other financial institutions | – | 2,737 | – |
| Net loans and advances | – | 32,215 | – |
| Trading securities | – | 1,742 | – |
| Investment securities | – | 225 | – |
| Other assets | – | 1,815 | – |
| Premises and equipment | – | 169 | – |
| Due to other financial institutions | – | (1,151) | – |
| Payables and other liabilities | – | (2,588) | – |
| Deposits and other borrowings | – | (32,352) | – |
| Provisions | – | (115) | – |
| Unsubordinated debt | – | (1,179) | – |
| Loan capital | – | (514) | – |
| Fair value of net assets acquired | – | 1,846 | – |
| Goodwill on acquisition | – | 3,266 | – |
| Consideration paid | – | 5,112 | – |
| Cash consideration paid | – | 4,842 | – |
| Foreign currency translation | – | 270 | – |

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

| | Consolidated 2005 $m | 2004 $m | 2003 $m | The Company 2005 $m | 2004 $m |
|---|---|---|---|---|---|
| **Share capital issues** | | | | | |
| Dividend reinvestment plan | 153 | 135 | 115 | 153 | 135 |

### e) Financing arrangements

| | Consolidated 2005 Available $m | 2005 Unused $m | 2004 Available $m | 2004 Unused $m |
|---|---|---|---|---|
| **Financing arrangements which are available under normal financial arrangements** | | | | |
| **Credit standby arrangements** | | | | |
| Standby lines | 865 | 851 | 889 | 884 |
| **Other financing arrangements** | | | | |
| Overdrafts and other financing arrangements | 3,694 | 890 | 4,115 | 433 |
| Total finance available | 4,559 | 1,741 | 5,004 | 1,317 |

## 42: CONTROLLED ENTITIES

| | Incorporated in | Nature of Business |
|---|---|---|
| **All controlled entities are 100% owned unless otherwise noted.** | | |
| The material controlled entities of the Group are: | | |
| **Amerika Samoa Bank** | America Samoa | Banking |
| **ANZ Capel Court Limited** | Australia | Investment Banking |
| **ANZ Capital Funding Pty Ltd** | Australia | Funding |
| **ANZ Capital Hedging Pty Ltd** | Australia | Hedging |
| **ANZcover Insurance Pty Ltd** | Australia | Self-Insurance |
| **ANZ (Delaware) Inc** | USA | Finance |
| **ANZ Executors & Trustee Company Limited** | Australia | Trustee/Nominee |
| **ANZ Financial Products Pty Ltd** | Australia | Investment |
| **ANZ Funds Pty Ltd** | Australia | Holding Company |
| ANZ Bank (Europe) Limited* | England | Banking |
| ANZ Bank (Samoa) Limited* | Samoa | Banking |
| ANZ Holdings (New Zealand) Limited* | New Zealand | Holding Company |
| ANZ National Bank Limited* | New Zealand | Banking |
| ANZ National (Int'l) Limited* | New Zealand | Finance |
| Arawata Finance Limited* | New Zealand | Finance |
| Arawata Capital Limited* | New Zealand | Investment |
| APAC Investments Limited*[1] | New Zealand | Finance |
| Burnley Investments Limited* | New Zealand | Investment |
| Cortland Finance Limited* | New Zealand | Investment |
| Arawata Holdings Limited* | New Zealand | Holding Company |
| Harcourt Corporation Limited* | New Zealand | Investment |
| Airlie Investments Limited* | New Zealand | Investment |
| Nerine Finance No. 2[1] | New Zealand | Finance |
| Endeavour Finance Limited* | New Zealand | Finance |
| Tui Endeavour Limited* | New Zealand | Finance |
| National Bank of New Zealand Custodians Limited* | New Zealand | Custodians |
| Alos Holdings Limited* | New Zealand | Investment |
| NBNZ Holdings Ltd* | New Zealand | Holding Company |
| Tui Securities Limited* | New Zealand | Investment |
| UDC Finance Limited* | New Zealand | Finance |
| Truck Leasing Limited* | New Zealand | Leasing |
| ANZ International (Hong Kong) Limited* | Hong Kong | Holding Company |
| ANZ Asia Limited* | Hong Kong | Banking |
| ANZ Bank (Vanuatu) Limited* | Vanuatu | Banking |
| ANZ International Private Limited* | Singapore | Holding Company |
| ANZ Singapore Limited* | Singapore | Merchant Banking |
| ANZ Royal Bank (Cambodia) Limited*[1] | Cambodia | Banking |
| Bank of Kiribati Ltd*[1] | Kiribati | Banking |
| LFD Limited | Australia | Holding Company |
| Minerva Holdings Limited* | England | Holding Company |
| ANZEF Limited* | England | Finance |
| Votraint No. 1103 Pty Limited | Australia | Investment |
| **ANZ Investment Holdings Pty Ltd** | Australia | Investment |
| 530 Collins Street Property Trust | Australia | Investment |
| **ANZ Lenders Mortgage Insurance Pty Limited** | Australia | Mortgage Insurance |
| **ANZ Orchard Investments Pty Ltd** | Australia | Holding Company |
| **ANZ Rural Products Pty Ltd** | Australia | Investment |
| **Australia and New Zealand Banking Group (PNG) Limited*** | Papua New Guinea | Banking |
| **Esanda Finance Corporation Limited** | Australia | General Finance |
| Fleet Partners Pty Limited | Australia | Finance |
| **NMRSB Pty Ltd** | Australia | Investment |
| **PT ANZ Panin Bank***[1] | Indonesia | Banking |
| **Upspring Limited*** | England | Investment |

* Audited by overseas KPMG firms

1 Outside equity interests hold ordinary shares or units in the controlled entities listed above as follows: Bank of Kiribati - 150,000 $1 ordinary shares (25%) (2004 : 150,000 $1 ordinary shares 25%); PT ANZ Panin Bank – 7,500 IDR 1M shares (15%) (2004: 7,500 IDR 1M shares 15%); Nerine Finance No. 2 - 3,650 NZ$100,000 redeemable preference shares (42%) (2004: 3,650 NZ$100,000 redeemable preference shares 42%); ANZ Royal Bank (Cambodia) Limited – 8,100,000 $1 ordinary shares (45%); APAC Investments Limited – 3,500 $1 ordinary shares (35%)

# NOTES TO THE FINANCIAL STATEMENTS

## 43: ASSOCIATES

Significant associates of the Group are as follows:

| | Ownership Interest held | Voting Interest | Incorporated in | Carrying Value[6] $m | Reporting date | Principal activity |
|---|---|---|---|---|---|---|
| PT Panin Indonesia Bank[1] | 29% | 29% | Indonesia | 133 | 31 December | Banking |
| Bush's International Pty Ltd[2] | 15% | 15% | Australia | 22 | 30 June | Manufacturing |
| Metrobank Card Corporation Inc[3] | 40% | 40% | Philippines | 17 | 31 December | Cards Issuing |
| ETrade Australia Limited[4] | 34% | 34% | Australia | 15 | 30 June | Online Stockbroking |
| Sleepmaster Pty Ltd[5] | 70% | 49% | Australia | 11 | 30 June | Manufacturing |
| Other associates | | | | 64 | | |
| Total shares in associates | | | | 262 | | |

1 An associate from 1 April 2001. In 2004 the Group exercised options over a further 18% of PT Panin Indonesia Bank
2 An associate from 21 June 2005
3 An associate from 9 October 2003
4 An associate from 1 October 2002
5 An associate from 10 December 2004
6 2004 carrying values as follows: PT Panin Indonesia Bank $160 million, Metrobank Card Corporation Inc $16 million, ETrade $14 million, and Other associates $73 million. Total $263 million

## 44: INTERESTS IN JOINT VENTURE ENTITIES

The Group has interests in joint venture entities as follows:

| | Interest held | Voting Interest | Incorporated in | Carrying Value $m | Reporting date | Principal activity |
|---|---|---|---|---|---|---|
| ING Australia Limited[1] | 49%[2] | 49%[2] | Australia | 1,479 | 31 December | Funds Management and Insurance |
| ING (NZ) Holdings Limited[3] | 49%[4] | 50%[4] | New Zealand | 131 | 31 December | Funds Management and Insurance |
| Total interests in Joint Venture entities | | | | 1,610 | | |

1 A joint venture entity from 1 May 2002
2 This represents the Group's 49% share of the assets and liabilities of ING Australia Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING Australia Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both Shareholders (ie require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key issues (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.
- Refer to Critical Accounting Policies item f) for details regarding valuation of investment in ING Australia Limited.

The Joint Venture includes the majority of the Group's and ING's funds management and insurance activities in Australia.
3 A joint venture entity from 30 September 2005
4 This represents the Group's 49% share of assets and liabilities of ING (NZ) Holdings Limited. The Group has joint control of the joint venture, and accordingly the entity is not consolidated.
Key details of the joint venture are:
- ING (NZ) Holdings Limited is owned 51% by ING Group and 49% by ANZ.
- Both shareholders have an equal say in strategic decisions with a number of matters requiring the approval of both shareholders (ie require unanimous approval). These include major items of capital expenditure, acquisitions or disposals in excess of $20 million and changes to the Board structure.
- Equal board representation with four Group nominees and four ING Group nominees. All key decisions (including business plans, major capital expenditure, acquisitions etc) require unanimous Board approval.

The joint venture includes the majority of the Group's and ING's funds management and insurance activities in New Zealand.

## 44: INTERESTS IN JOINT VENTURE ENTITIES (CONTINUED)

| | ING Australia Limited 2005 $m | ING Australia Limited 2004 $m | ING (NZ) Holdings Limited 2005 $m | ING (NZ) Holdings Limited 2004 $m | Total 2005 $m | Total 2004 $m |
|---|---|---|---|---|---|---|
| **Retained profits attributable to the joint venture entity** | | | | | | |
| At the beginning of the year | 116 | 57 | – | – | 116 | 57 |
| At the end of the year | 141 | 116 | _ | – | 141 | 116 |
| **Movement in the carrying amount of the joint venture entity** | | | | | | |
| Carrying amount at the commencement of the year/from acquisition | 1,697 | 1,648 | _ | – | 1,697 | 1,648 |
| Carrying amount at the commencement of the joint venture entity | n/a | n/a | 131 | – | 131 | – |
| Share of net profit | 107 | 97 | – | – | 107 | 97 |
| Completion accounts adjustment | – | (10) | – | – | – | (10) |
| Dividend received | (82) | (38) | – | – | (82) | (38) |
| Capital return | (245) | – | – | – | (245) | – |
| Foreign currency translation adjustment | 2 | – | – | – | 2 | – |
| Carrying amount at the end of the year | 1,479 | 1,697 | 131 | – | 1,610 | 1,697 |
| **Share of assets and liabilities**[1] | | | | | | |
| Investments | 11,424 | 10,301 | 98 | – | 11,522 | 10,301 |
| Other assets | 904 | 768 | 133 | – | 1,037 | 768 |
| Total assets | 12,328 | 11,069 | 231 | – | 12,559 | 11,069 |
| Policy holder liabilities | 10,710 | 9,565 | 60 | – | 10,770 | 9,565 |
| Other liabilities | 720 | 375 | 23 | – | 743 | 375 |
| Total liabilities | 11,430 | 9,940 | 83 | – | 11,513 | 9,940 |
| Net assets | 898 | 1,129 | 148 | – | 1,046 | 1,129 |
| **Share of revenues, expenses and results** | | | | | | |
| Revenues | 430 | 386 | – | – | 430 | 386 |
| Expenses | (239) | (220) | – | – | (239) | (220) |
| Profit from ordinary activities before income tax | 191 | 166 | – | – | 191 | 166 |
| Income tax expense | (41) | (28) | – | – | (41) | (28) |
| Profit from ordinary activities after income tax | 150 | 138 | – | – | 150 | 138 |
| Amortisation of notional goodwill | (43) | (41) | – | – | (43) | (41) |
| Net equity accounted profit | 107 | 97 | – | – | 107 | 97 |
| **Share of commitments** | | | | | | |
| Lease commitments | 163 | 173 | 3 | – | 166 | 173 |
| Other commitments | 9 | 16 | – | – | 9 | 16 |
| Total expenditure commitments | 172 | 189 | 3 | – | 175 | 189 |
| Share of contingent liabilities[2] | 80 | 73 | – | – | 80 | 73 |

1 This represents the Group's share of the assets and liabilities of ING Australia Limited and ING (NZ) Holdings Limited, less outside equity interests and including goodwill on acquisition of ANZ Funds Management entities
2 This represents Deeds of Subordination with ASIC and buyer of last resort

## 45: FIDUCIARY ACTIVITIES

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

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, where the primary obligation is incurred in an agency capacity as trustee of the trust rather than on the Group's own account, a right of indemnity exists against the assets of the applicable funds or trusts. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Company or its controlled entities will be required to settle the liabilities, the liabilities are not included in the financial statements.

The aggregate amounts of funds concerned are as follows:

| | 2005 $m | 2004 $m |
|---|---|---|
| Trusteeships | 1,927 | 1,632 |

Funds management activities are conducted through the ING Australia Joint Venture and certain subsidiaries of ANZ National Bank Limited. During the period, ANZ National Bank Limited and ING in New Zealand established the ING NZ Joint Venture. In doing so, ANZ National Bank Limited transferred some of its managed funds activities into the new joint venture and INGA transferred its NZ business.

As at 30 September 2005, the ANZ/ING Australia Joint Venture had funds under management of $34,569 million (30 September 2004: $35,780 million), the ING NZ Joint Venture had funds under management of $6,839 million (30 September 2004: $nil) and certain subsidiaries of ANZ National Bank Limited had funds under management of $3,371 million (30 September 2004: $3,764 million).

Custodian services are conducted through ANZ Custodian Services. As at 30 September 2005, ANZ Custodian Services had funds under custody of $98.3 billion (30 September 2004: $59.8 billion).

## 46: COMMITMENTS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 $m | 2004 $m | 2005 $m | 2004 $m |
| **Capital expenditure** | | | | |
| Contracts for outstanding capital expenditure | | | | |
| Not later than 1 year | 80 | 60 | 26 | 20 |
| Later than 1 year but not later than 5 years | – | – | – | – |
| Total capital expenditure commitments | 80 | 60 | 26 | 20 |
| **Lease rentals** | | | | |
| Future rentals in respect of leases | | | | |
| **Land and buildings** | | | | |
| Not later than 1 year | 205 | 201 | 136 | 135 |
| Later than 1 year but not later than 5 years | 547 | 495 | 390 | 336 |
| Later than 5 years | 431 | 442 | 405 | 405 |
| | 1,183 | 1,138 | 931 | 876 |
| **Furniture and equipment** | | | | |
| Not later than 1 year | 21 | 13 | 13 | 7 |
| Later than 1 year but not later than 5 years | 21 | 19 | 13 | 12 |
| | 42 | 32 | 26 | 19 |
| Total lease rental commitments | 1,225 | 1,170 | 957 | 895 |
| Total commitments | 1,305 | 1,230 | 983 | 915 |

The Group leases land and buildings under operating leases expiring from one to five years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Contingent rentals are not included in lease rental commitments, are not provisioned for due to their immateriality, therefore are expensed as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

## 47: CONTINGENT LIABILITIES, CONTINGENT ASSET AND CREDIT RELATED COMMITMENTS

### CREDIT RELATED COMMITMENTS

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

The majority of undrawn facilities are subject to customers maintaining specific credit standards. The amount does not necessarily represent future cash requirements as many of these facilities are expected to be partially used or to expire unused.

| | Consolidated | | The Company | | Controlled Entities | |
|---|---|---|---|---|---|---|
| | 2005 Contract amount $m | 2004 Contract amount $m | 2005 Contract amount $m | 2004 Contract amount $m | 2005 Contract amount $m | 2004 Contract amount $m |
| Undrawn facilities | 87,319 | 78,851 | 68,491 | 62,118 | 18,828 | 16,733 |
| Underwriting facilities | – | 63 | – | – | – | 63 |
| | 87,319 | 78,914 | 68,491 | 62,118 | 18,828 | 16,796 |

### CONTINGENT LIABILITIES

The qualitative details of the estimated maximum amount of contingent liabilities that may become payable relate to non-customer contingent liabilities. These contingent liabilities relate to transactions that the Group has entered into as principal. By contrast, the quantitative tabular presentation relates to customer contingent liabilities, ie direct credit substitutes and trade and performance related items. Hence, as the contingent liabilities refer to different aspects of Group operations, there are no reconciling items.

Guarantees, Credit derivatives – sold, Standby letters of credit, Bill endorsements and Other are classified by APRA as direct credit substitutes and exhibit the same credit risk characteristics as a direct extension of credit. The maximum potential amount of future payments represents the contract amount that could be lost if the counterparty fails to meet its financial obligations.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingents are liabilities that oblige the Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

The Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

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

| | Consolidated | | The Company | | Controlled Entities | |
|---|---|---|---|---|---|---|
| | 2005 Contract amount $m | 2004 Contract amount $m | 2005 Contract amount $m | 2004 Contract amount $m | 2005 Contract amount $m | 2004 Contract amount $m |
| Guarantees | 4,878 | 5,065 | 4,744 | 4,923 | 134 | 142 |
| Credit derivatives – sold | 1,775 | 2,636 | 1,775 | 2,636 | – | – |
| Standby letters of credit | 1,446 | 1,057 | 1,277 | 1,036 | 169 | 21 |
| Bill endorsements | 125 | 168 | 125 | 168 | – | – |
| Documentary letters of credit | 3,015 | 2,262 | 2,763 | 2,045 | 252 | 217 |
| Performance related contingents | 10,160 | 9,625 | 9,864 | 9,352 | 296 | 273 |
| Other | 1,433 | 1,336 | 1,128 | 931 | 305 | 405 |
| **Total contingent liabilities** | 22,832 | 22,149 | 21,676 | 21,091 | 1,156 | 1,058 |

## 47: CONTINGENT LIABILITIES, CONTINGENT ASSET AND CREDIT RELATED COMMITMENTS (CONTINUED)

The details and estimated maximum amount of contingent liabilities that may become payable are set out below.

### i) Clearing and Settlement Obligations

In accordance with the clearing and settlement arrangements set out:

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

### ii) Nominee Activities

The Group will indemnify each customer of controlled entities engaged in nominee activities against loss suffered by reason of such entities failing to perform any obligation undertaken by them to a customer.

### iii) Interbank Deposit Agreement

ANZ has entered into an Interbank Deposit Agreement with the major banks in the payments system. This agreement is a payment system support facility certified by the Australian Prudential Regulation Authority, where the terms are such that if any bank is experiencing liquidity problems, the other participants are required to deposit equal amounts of up to $2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

### iv) Contingent Tax Liability

The Group in Australia was during the year subjected to client risk reviews by the Australian Taxation Office (ATO) across a broad spectrum of matters, as part of normal ATO procedures. The reviews mainly covered years up to 2003.

Some matters have been listed by the ATO for further investigation.

The ATO is also reviewing the taxation treatment of certain other transactions undertaken by the Group in the course of normal business activities.

In addition, at the Company's request the ATO is reviewing the taxation treatment of the sale of Grindlays in 2000. It is also reviewing the transfer of the life and funds management businesses into the joint venture with ING in 2002.

During the year the Company and the ATO settled the remaining outstanding issues from the large case tax audit which commenced in 1995. The settlement was within existing provisions.

The Group in New Zealand is being audited by the Inland Revenue Department (IRD) as part of normal revenue authority procedures, with a particular focus on certain kinds of structured finance transactions. The IRD has issued Notices of Proposed Adjustment (the 'Notices') in respect of some of those structured finance transactions. The Notices are not tax assessments and do not establish a tax liability, but are the first step in a formal disputes process. In addition, some tax assessments have been received. Should the same position be adopted by the IRD on the remaining transactions of that kind as reflected in the Notices and tax assessments received, the maximum potential tax liability would be approximately NZD432 million (including interest tax effected) for the period to 30 September 2005. Of that maximum potential liability, approximately NZD124 million is subject to tax indemnities provided by Lloyds TSB Bank PLC under the agreement by which ANZ acquired the National Bank of New Zealand and which relate to transactions undertaken by the National Bank of New Zealand before December 2003.

General or issue-specific audits and other investigations are being undertaken by revenue authorities in the United States, the United Kingdom and in other jurisdictions as part of normal revenue authority activity in those countries.

The Company has assessed these and other taxation claims arising in Australia, New Zealand and elsewhere, including seeking independent advice where appropriate, and believes that it holds appropriate provisions.

### v) Sale of Grindlays businesses

On July 31 2000, ANZ completed the sale to Standard Chartered Bank ("SCB") of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issues below have not impacted the reported results. All settlements and costs have been covered within the provisions established at the time. ANZ remains liable in relation to the Foreign Exchange Regulation Act (FERA) and differential cheques matters described below.

FERA

In 1991, amounts of INR 689m (AUD 21m) were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India, mainly to the convertible vostro account at Girobank, maintained at Bombay. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities have served notices on Grindlays and certain of its officers in India that could lead to possible penalties. Grindlays has commenced proceedings in the courts contesting the validity of these notices. In November 1998 the Bombay High Court dismissed the writ petitions. In March 1999 the Supreme Court granted leave to appeal and ordered that, pending the disposal of the appeals, the prosecutions and adjudications against the officers shall not be proceeded with further. Final hearing of the appeals before the Supreme Court of India is expected in late 2005.

## 47: CONTINGENT LIABILITIES, CONTINGENT ASSET AND CREDIT RELATED COMMITMENTS (CONTINUED)

Differential Cheques

In June 2003, Grindlays was successful in its appeal against orders to repay, with interest, two payments it received from a stockbroker in 1991 in connection with securities transactions Grindlays had entered into with counterparty banks. These orders, requiring Grindlays to show cause why the payments made by the stockbroker should not be set aside on the grounds that they were not made in the ordinary course of business and were not genuine, had directed repayment of Indian Rupees 24 million (AUD 0.7m), plus interest accruing at 24% since 1991. The Custodian has yet to file an appeal against this judgment. Grindlays is awaiting the outcome of proceedings in relation to a further ten payments received by it in 1991 in similar circumstances totalling Indian Rupees 202 million (AUD 6.0m), including interest at 24% this is approximately Indian Rupees 884 million (AUD 26.4 m).

In addition, ANZ provided an indemnity relating to tax liabilities of Grindlays (and its subsidiaries) and the Jersey Sub-Group to the extent to which such liabilities were not provided for in the Grindlays accounts as at 31 July 2000. Claims have been made under this indemnity also, with no material impact on the Group expected.

vi) Pursuant to class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and publication of individual financial statements. The results of these companies are included in the consolidated Group results. The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- ANZ Nominees Ltd[1]
- ANZ Infrastructure Investments Limited[3]
- Alliance Holdings Pty Ltd[1]
- Jikk Pty Ltd[1]
- ANZ Orchard Investments Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- E S & A Holdings Pty Ltd[1]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]

1 Relief granted on 21 August 2001
2 Relief granted on 13 August 2002
3 Relief granted on 9 September 2003

It is the condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee under the class order was lodged and approved by the Australian Securities and Investments Commission. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. The Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The consolidated statement of financial performance and consolidated statement of financial position of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee are:

| | Consolidated 2005 $m | Consolidated 2004 $m |
|---|---|---|
| Profit before tax | 3,107 | 3,017 |
| Income tax expense | (754) | (771) |
| Profit after income tax | 2,353 | 2,246 |
| Retained profits at start of year [1] | 6,825 | 6,100 |
| Total available for appropriation | 9,178 | 8,346 |
| Ordinary share dividends provided for or paid | (1,877) | (1,598) |
| Transfer from reserves | – | 224 |
| Retained profits at end of year | 7,301 | 6,972 |
| **Assets** | | |
| Liquid assets | 7,193 | 3,747 |
| Investment securities | 5,398 | 6,107 |
| Net loans and advances | 153,461 | 134,566 |
| Other assets | 40,591 | 35,806 |
| Premises and equipment | 1,132 | 1,114 |
| Total assets | 207,775 | 181,340 |
| **Liabilities** | | |
| Deposits and other borrowings | 113,089 | 99,811 |
| Income tax liability | 1,566 | 1,551 |
| Payables and other liabilities | 74,746 | 62,713 |
| Provisions | 650 | 618 |
| **Total liabilities** | 190,051 | 164,693 |
| **Net assets** | 17,724 | 16,647 |
| **Shareholders' equity**[2] | 17,724 | 16,647 |

1 The Companies included in the class order changed in 2005, accordingly retained profits did not carry forward in 2005
2 Shareholders' equity excludes retained profits and reserves of controlled entities within the class order

## 47: CONTINGENT LIABILITIES, CONTINGENT ASSET AND CREDIT RELATED COMMITMENTS (CONTINUED)

vii) The Company has guaranteed payment on maturity of the principal and accrued interest of commercial paper notes issued by ANZ (Delaware) Inc. of $6,400 million as at 30 September 2005 (2004: $7,081 million).

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

ix) The Company is party to an underpinning agreement with Australia and New Zealand Banking Group (PNG) Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by Australia and New Zealand Banking Group (PNG) Limited to individual customers which exceed 25% of Australia and New Zealand Banking Group (PNG) Limited's capital base.

x) On 10 March 2005, leave was given by the High Court in London to certain parties to make a claim against ANZ over its role in 1996 as arranger and escrow agent in respect of a buyback of Nigerian Government bills of exchange ("the Noga claim"). The claim was disclosed by ANZ in view of its potential size (DEM 973 million [$833 million at 31 March 2005 exchange rates] plus interest). ANZ considered the Noga claim to be opportunistic and that the chances of it being successful were very remote. ANZ took the opportunity to settle the proceedings at an early stage at a level which is not material to the bank.

## GENERAL

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in the light of such advice, provisions as deemed necessary have been made. The gross amounts of accruals made for material litigation contingencies is $233 million (2004: $168 million).

**Contingent Asset**

National Housing Bank

In 1992, Grindlays received a claim aggregating approximately Indian Rupees 5.06 billion from the National Housing Bank (NHB) in India. The claim arose out of cheques drawn by NHB in favour of Grindlays, the proceeds of which were credited to the account of a Grindlays customer.

Grindlays won an arbitration award in March 1997, under which NHB paid Grindlays an award of Indian Rupees 9.12 billion. NHB subsequently won an appeal to the Special Court of Mumbai, after which Grindlays filed an appeal with the Supreme Court of India. Grindlays paid the disputed money including interest into court. Ultimately, the parties settled the matter and agreed to share the moneys paid into court which by then totalled Indian Rupees 16.45 billion (AUD 661 million at 19 January 2002 exchange rates), with Grindlays receiving Indian Rupees 6.20 billion (AUD 248 million at 19 January 2002 exchange rates) of the disputed monies. ANZ in turn received a payment of USD124 million (USD equivalent of the Indian Rupees received by Grindlays) from Standard Chartered Bank under the terms of an indemnity given in connection with the sale of Grindlays to Standard Chartered Bank.

ANZ Claims

ANZ is pursuing two separate actions arising from the above.

(a) A $130 million plus compound interest claim against its insurers. $130 million is the balance of the limit of indemnity under ANZ's insurance arrangements for the 1991–92 policy year.

The proceedings, in the Supreme Court of Victoria, are against ANZ's captive insurance company ANZcover Insurance Pty Ltd (ANZcover). ANZcover is an authorised general insurer restricted to insuring the interests of ANZ and its subsidiaries. ANZcover in turn purchases reinsurance from global reinsurers, primarily in the London reinsurance market. ANZcover has no retained exposure to the NHB claim, which is fully reinsured, save for a small exposure arising from the insolvency of some reinsurers in the London market.

The insurers contest liability and the proceedings remain on foot. The trial before the Supreme Court of Victoria is scheduled to be heard in early 2006.

(b) ANZ is entitled to share with NHB in the proceeds of any recovery from the estate of the customer whose account was credited with the cheques drawn by NHB. However, the Indian Taxation Department is claiming a statutory priority to all of the funds available for distribution to creditors of that customer.

No amounts receivable under either of these actions have been recognised in these accounts, except for $0.9 million which has been received from insurers, by way of settlement or distributions from schemes of arrangement, representing, in aggregate, $1.1 million of indemnity.

## NOTES TO THE FINANCIAL STATEMENTS

### 48: SUPERANNUATION COMMITMENTS

A number of pension and superannuation schemes have been established by the Group worldwide. The Group may be obliged to contribute to the schemes as a consequence of legislation and provisions of trust deeds. Legal enforceability is dependent on the terms of the legislation and trust deeds. The major schemes with assets in excess of $25 million are:

| Country | Scheme | Scheme type | Contribution levels Employee | Employer |
|---|---|---|---|---|
| Australia | ANZ Australian Staff Superannuation Scheme[1,2] | Defined Contribution Scheme Section C[3] | optional[7] | Balance of cost[9] |
| | | or | | |
| | | Defined Contribution Scheme Section A | optional | 9% of salary[10] |
| | | or | | |
| | | Defined Benefit Scheme Pension Section[4] | nil | Balance of cost[11] |
| New Zealand | ANZGROUP (New Zealand) Staff Superannuation Scheme[1,2] | Defined Benefit Scheme[5] | nil | Balance of cost[12] |
| | | or | | |
| | | Defined Contribution Scheme | minimum of 2.5% of salary | 7.5% of salary[13] |
| | National Bank Staff Superannuation Fund[1,2] | Defined Benefit Scheme[6] | 5.0% of salary | Balance of cost[14] |
| | | or | | |
| | | Defined Contribution Scheme | minimum of 2.0% of salary | 11.2% of salary[15] |
| England | ANZ UK Staff Pension Scheme[1] | Defined Benefit Scheme | 5.0% of salary[8] | Balance of cost[16] |

Balance of cost: the Group's contribution is assessed by the actuary after taking account of members' contributions and the value of the schemes' assets

1 These schemes provide for pension benefits
2 These schemes provide for lump sum benefits
3 Closed to new members in 1997
4 Closed to new members. Operates to make pension payments to retired members or their dependents
5 Closed to new members on 31 March 1990. Operates to make pension payments to retired members of that section of the scheme or their dependents
6 Closed to new members on 1 October 1991
7 Optional but with minimum of 1% of salary
8 From 1 October 2003, members of the Senior Management section commenced contributions at the rate of 5% of salary, and all new members at the rate of 5% of salary
9 As determined by the Trustee on the recommendation of the actuary – currently 9% (2004: 9%) of members' salaries
10 2004: 9% of salary
11 As determined by the Trustee on the recommendation of the actuary – currently nil (2004: nil)
12 As recommended by the actuary – currently nil (2004: nil)
13 2004: 7.5% of salary
14 As recommended by the actuary – currently 22.3% (2004: 22.3%) of members' salaries
15 2004: 11.2% of salary
16 The Group recommenced contributions to the Scheme, effective from 1 October 2003. Contributions are currently 25% of pensionable salaries. Additional half yearly contributions of GBP 500,000 for 15 years have commenced, with the first payment made in November 2004

**The details of defined benefit sections of the schemes are as follows:**

| **2005** **Schemes** | Employer's contribution $m | Accrued benefits $m | Net market value of assets held by scheme $m | Excess of net market value of assets over accrued benefits $m | Vested benefits $m |
|---|---|---|---|---|---|
| ANZ Australian Staff Superannuation Scheme Pension Section[1] | – | 40 | 35 | (5) | 40 |
| ANZ UK Staff Pension Scheme[1] | 11 | 855 | 811 | (44) | 835 |
| ANZ Group (New Zealand) Staff Superannuation Scheme[1] | – | 6 | 6 | – | 6 |
| National Bank Staff Superannuation Fund[2] | 7 | 173 | 165 | (8) | 176 |
| Other[3,4] | 1 | 6 | 5 | (1) | 7 |
| Totals | 19 | 1,080 | 1,022 | (58) | 1,064 |

1 Amounts were measured at 31 December 2004
2 Amounts were measured at 31 March 2005
3 Amounts were measured at 30 September 2005
4 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan

## 48: SUPERANNUATION COMMITMENTS (CONTINUED)

| **2004** **Schemes** | Employer's contribution $m | Accrued benefits $m | Net market value of assets held by scheme $m | Excess of net market value of assets over accrued benefits $m | Vested benefits $m |
|---|---|---|---|---|---|
| ANZ Australian Staff Superannuation Scheme | | | | | |
| Pension Section[1] | – | 41 | 35 | (6) | 41 |
| ANZ UK Staff Pension Scheme[1] | 8 | 869 | 844 | (25) | 844 |
| ANZ Group (New Zealand) Staff Superannuation Scheme[2] | – | 6 | 6 | – | 6 |
| National Bank Staff Superannuation Fund[3] | 3 | 175 | 164 | (11) | 179 |
| Other[4] | 1 | 3 | 4 | 1 | 7 |
| Totals | 12 | 1,094 | 1,053 | (41) | 1,077 |

1 Amounts were measured at 31 December 2003
2 Amounts were measured at 30 June 2004
3 Amounts were measured at 30 September 2004
4 Other includes the defined benefit arrangements in Japan, Philippines and Taiwan

### ANZ Australian Staff Superannuation Scheme Pension Section

The Pension Section of the ANZ Australian Staff Superannuation Scheme is closed to new members. A full actuarial valuation, conducted by the Scheme Actuary, Russell Employee Benefits, as at 31 December 2004 showed a deficit of $5 million and the expectation is that this deficit has remained materially unchanged since that date.

The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund the deficit. An interim actuarial valuation will be conducted as at 31 December 2005, at which time the funding position will be reassessed. The next full actuarial valuation is due to be conducted as at 31 December 2007.

### ANZ UK Staff Pension Scheme

The deficit disclosed above for the UK Staff Pension Scheme has been determined for the purpose of AASB1028 "Employee Benefits".

Consulting actuaries Watson Wyatt LLP have advised that as at 31 December 2003 the Scheme would have met the minimum funding requirement (MFR) test as defined in UK legislation, being 115% funded on that basis. Following an interim actuarial valuation of the Scheme at 31 December 2004, the actuary expects the Scheme's funding level to be comfortably within the MFR and statutory surplus limits.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit, but it does have a contingent liability if the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Bank for additional contributions under the UK Employer Debt Regulations. This is calculated based on an insurance buy-out of the Scheme. This is considered unlikely, given the Group intends to continue the Scheme on an on-going basis and the financial strength of the Group.

From 1 October 2003, the Group recommenced contributions at the rate of 25% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. In order to address the deficit, the Group has agreed to pay half yearly additional contributions of GBP 500,000 for a period of 15 years, commencing for the year beginning 1 October 2004, with the first payment made in November 2004.

### National Bank Staff Superannuation Fund

The last full actuarial valuation of the pension section of the National Bank Staff Superannuation Fund was conducted by Aon Consulting NZ as at 31 March 2004, and showed a deficit of NZD6 million ($6 million). Based on an interim actuarial valuation, a deficit of NZD12 million ($11 million) was disclosed as at 30 September 2004. An actuarial valuation conducted as at 31 March 2005 showed a deficit of NZD8.6 million ($8 million). The Group has no present liability under the Scheme's Trust Deed to fund the deficit, but it does have a contingent liability if the Scheme was wound up. Under the Scheme's Trust Deed, if the Scheme were wound up, the Group is required to pay the Trustees of the Scheme an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled.

# NOTES TO THE FINANCIAL STATEMENTS

## 49: EMPLOYEE SHARE AND OPTION PLANS

The Company has three share purchase and option incentive plans available for employees and directors of the Group: the ANZ Employee Share Acquisition Plan[1]; the ANZ Share Option Plan; and the ANZ Directors' Share Plan. Shareholders of the Company have approved the implementation of each of the current plans. Fully paid ordinary shares issued under these plans are held in trust on behalf of participants and generally rank equally with other existing fully paid ordinary shares, other than in respect of voting rights while the shares remain in trust. However, Performance Shares issued to the ANZ CEO on 31 December 2004, do not attract a dividend.

Each option granted under the ANZ Share Option Plan entitles a holder to purchase one ordinary share subject to any terms and conditions imposed on issue. The exercise price of the options, determined in accordance with the rules of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the options.

An offer to employees and directors cannot be made under any of the plans if an issue pursuant to that offer will result in the aggregate of shares issued and options granted over unissued shares held for employees under various employee share and option incentive schemes exceeding 7% of the issued capital (and unexercised options) of the Company. The closing market price of one ordinary share at 30 September 2005 was $24.00.

1 The ANZ Employee Share Acquisition Plan includes the $1,000 Share Plan, the Deferred Share Plan and the Employee Share Save Scheme

## ANZ EMPLOYEE SHARE ACQUISITION PLAN

**$1,000 Share Plan**

Subject to Board approval this plan allows for the issue of up to $1,000 of shares to all eligible employees each financial year.

The shares are generally issued for no consideration, except in New Zealand where employees are required to pay NZD 1 cent per share at the time the shares are transferred to them. During the financial year, 1,151,157 shares with an average issue price of $20.03 were issued under the $1,000 Share Plan (2004: 1,244,654 shares with an average issue price of $18.04 were issued). These shares are issued from the Share Capital account, hence only an increase in the number of shares on issue results.

Details of the movement in employee shares under the $1,000 Share Plan are as follows:

| | The Company 2005 | The Company 2004 |
|---|---|---|
| Number of shares at beginning of the year | 5,229,252 | 4,537,676 |
| Number of shares issued to the trust | 1,394,587 | 1,512,886 |
| Number of shares distributed to employees | (946,224) | (787,873) |
| Number of shares forfeited | (71,997) | (33,437) |
| Number of shares at end of the year[1] | 5,605,618 | 5,229,252 |

1 Includes shares issued under the bonus option plan and the dividend reinvestment plan

| | The Company 2005 | The Company 2004 |
|---|---|---|
| Number of shares acquired since commencement of the $1,000 Share Plan[1] | 9,409,732 | 8,258,575 |

1 Excludes shares issued under the bonus option plan and the dividend reinvestment plan

**Deferred Share Plan**

Selected employees may also be issued deferred shares, which vest in the employee up to three years from the date of issue. Ordinary shares issued under this plan may be held in trust for up to 10 years, and may be required to meet performance hurdles before being able to be traded after the restriction period has expired. The issue price is based on the volume weighted average price of the shares traded on the ASX in the 5 trading days leading up to and including the date of issue. Unvested shares are forfeited on resignation, dismissal, or termination on notice (LTI deferred shares only), or if a performance condition has not been met.

During the financial year, 655,261 (2004: 2,750,277) deferred shares were issued under this Plan.

Details of the movement in employee shares under the Deferred Share Plan are as follows:

| | The Company 2005 | The Company 2004 |
|---|---|---|
| Number of shares at beginning of the year | 8,715,896 | 8,020,848 |
| Number of shares issued to the trust | 732,032 | 2,851,886 |
| Number of shares distributed to employees | (1,766,494) | (2,034,234) |
| Number of shares forfeited | (228,116) | (122,604) |
| Number of shares at end of the year[1] | 7,453,318 | 8,715,896 |

1 Includes shares issued under the bonus option plan and the dividend reinvestment plan

| | The Company 2005 | The Company 2004 |
|---|---|---|
| Number of shares acquired since commencement of the Deferred Share Plan[1] | 17,283,723 | 16,628,462 |

1 Excludes shares issued under the bonus option plan and the dividend reinvestment plan

## 49: EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

### ANZ EMPLOYEE SHARE SAVE SCHEME

Eligible employees have the opportunity to request that a proportion of their income be directed to the purchase of ANZ shares. The amount they elect to contribute is deducted fortnightly and shares are purchased on market quarterly in arrears by the trust. The Company contributes 5% of the purchase price and pays for brokers fees and stamp duty. Senior executives may participate but are not eligible to receive the 5% discount. Employees are eligible to participate in the Scheme if they are permanent full-time or part-time employees of the Company and have been employed since 1 October immediately prior to the invitation being made by the Company. Employees nominate a restriction period between 1 to 10 years during which period the shares are held in trust. Dividends are paid to the employees.

Details of the movement in employee shares under the ANZ Employee Share Save Scheme are as follows:

| | The Company 2005 | 2004 |
|---|---|---|
| Number of shares at beginning of the year | 452,130 | 394,405 |
| Number of shares purchased | 306,377 | 279,723 |
| Number of shares issued to the trust | 23,789 | 24,243 |
| Number of shares distributed to employees | (268,184) | (246,241) |
| Number of shares at end of the year | 514,112 | 452,130 |

| | The Company 2005 | 2004 |
|---|---|---|
| Number of shares acquired since commencement of the ANZ Employee Share Save Scheme | 1,349,752 | 1,043,375 |

Costs associated with the ANZ Employee Share Save Scheme were recognised in Personnel Expenses and Liquid Assets (amounts were less than $500,000).

### ANZ SHARE PURCHASE SCHEME

The ANZ Share Purchase Scheme is a closed scheme. Shares have been progressively paid up by eligible officers, with the last remaining shares held under the scheme fully paid up and redeemed during the 2004 financial year. No fully paid ordinary shares have been issued under this Scheme since 1996.

Details of the movement in employee shares under the ANZ Share Purchase Scheme are as follows:

| | The Company 2005 | 2004 |
|---|---|---|
| Number of shares at beginning of the year | – | 229,500 |
| Number of shares redeemed by employees[1] | – | (229,500) |
| Number of shares at end of the year | – | – |

1 Redeemed once paid out by employee

# NOTES TO THE FINANCIAL STATEMENTS

## 49: EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

### ANZ SHARE OPTION PLAN

Selected employees may be granted options, which entitle them to purchase ordinary fully paid shares in the Company at or greater than a price fixed at the time when the options are issued (depending on whether the exercise price is indexed or not). Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of the options over unissued ordinary shares as at the beginning and end of the financial year and movements during the year are set out below.

| Grant date | Exercise price $ | Earliest exercise date | Expiry date | No. options at beginning of the year | Options granted | Options lapsed and surrendered | Options exercised | No. options outstanding at 30 September 2005 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | On issue | Vested | Hurdle |
| 23/02/2000 | 9.39 | 23/02/2003 | 22/02/2007 | 147,000 | – | – | 25,000 | 122,000 | Yes | B |
| 23/05/2000 | 11.09 | 23/05/2003 | 23/05/2007 | 163,750 | – | – | 78,250 | 85,500 | Yes | N |
| 26/09/2000 | 12.03 | 26/09/2003 | 25/09/2007 | 30,000 | – | – | 7,500 | 22,500 | Yes | N |
| 21/11/2000 | 13.62 | 22/11/2003 | 21/11/2007 | 705,219 | – | – | 252,415 | 452,804 | Yes | B |
| 27/12/2000 | 13.91 | 25/10/2003 | 07/02/2008 | 994,722 | – | 9,000 | 306,972 | 678,750 | Yes | N |
| 27/01/2001 | 13.91 | 07/02/2004 | 07/02/2008 | 671,800 | – | 12,750 | 194,250 | 464,800 | Yes | N |
| 21/02/2001 | 14.20 | 21/02/2004 | 20/02/2008 | 2,971,568 | – | 21,000 | 978,476 | 1,972,092 | Yes | N |
| 27/02/2001 | 14.75 | 27/02/2004 | 26/02/2008 | 25,000 | – | – | 25,000 | – | Yes | B |
| 24/04/2001 | 12.98 | 25/04/2004 | 24/04/2008 | 531,300 | – | – | 361,600 | 169,700 | Yes | B |
| 24/04/2001 | 12.98 | 25/04/2004 | 24/04/2008 | 1,668,527 | – | 14,175 | 583,938 | 1,070,414 | Yes | N |
| 07/05/2001 | 12.98 | 07/05/2004 | 06/05/2008 | 104,100 | – | 1,100 | 62,200 | 40,800 | Yes | N |
| 01/06/2001 | 14.61 | 01/06/2004 | 31/05/2008 | 310,000 | – | 3,000 | 136,750 | 170,250 | Yes | N |
| 23/08/2001 | 15.77 | 21/08/2004 | 20/08/2008 | 76,000 | – | – | – | 76,000 | Yes | B |
| 27/08/2001 | 16.09 | 27/08/2004 | 26/08/2008 | 63,000 | – | 3,000 | 15,000 | 45,000 | Yes | N |
| 24/10/2001 | 16.33 | 24/10/2004 | 23/10/2008 | 50,000 | – | – | – | 50,000 | Yes | B |
| 24/10/2001 | 16.33 | 25/10/2004 | 24/10/2008 | 753,300 | – | 3,600 | 461,300 | 288,400 | Yes | B |
| 24/10/2001 | 16.33 | 25/10/2004 | 24/10/2008 | 2,811,600 | – | 50,650 | 1,007,780 | 1,753,170 | Yes | N |
| 31/12/2001 | 16.48 | 31/12/2004 | 31/12/2005 | 500,000 | – | – | 500,000 | – | Yes | E |
| 31/12/2001 | 16.80 | 31/12/2003 | 31/12/2007 | 500,000 | – | – | – | 500,000 | Yes | F |
| 28/02/2002 | 17.49 | 26/02/2005 | 25/02/2009 | 20,000 | – | – | 20,000 | – | Yes | B |
| 24/04/2002 | 18.03 | 24/04/2005 | 24/04/2009 | 380,000 | – | 1,112 | 33,888 | 345,000 | Yes | C |
| 24/04/2002 | 18.03 | 24/04/2005 | 24/04/2009 | 760,501 | – | 10,119 | 314,282 | 436,100 | Yes | C |
| 24/04/2002 | 18.03 | 24/04/2005 | 24/04/2009 | 2,880,641 | – | 128,856 | 589,907 | 2,161,878 | Yes | N |
| 31/05/2002 | 18.55 | 14/05/2005 | 13/05/2009 | 145,000 | – | – | 20,000 | 125,000 | Yes | N |
| 27/06/2002 | 18.55 | 28/06/2005 | 27/06/2009 | 261,810 | – | 15,947 | 51,028 | 194,835 | Yes | N |
| 21/07/2002 | 17.18 | 22/07/2005 | 21/07/2009 | 17,000 | – | – | – | 17,000 | 50% | C |
| 23/10/2002 | 17.34 | 23/10/2005 | 22/10/2009 | 2,120,765 | – | 167,399 | 58,481 | 1,894,885 | No | N |
| 23/10/2002 | 17.34 | 23/10/2005 | 22/10/2009 | 2,288,527 | – | 141,111 | 144,194 | 2,003,222 | No | D |
| 20/11/2002 | 17.56 | 20/11/2005 | 19/11/2009 | 40,000 | – | – | – | 40,000 | No | D |
| 31/12/2002 | 16.69 | 31/12/2004 | 31/12/2007 | 1,000,000 | – | – | – | 1,000,000 | 50% | F |
| 20/05/2003 | 17.60 | 20/05/2006 | 19/05/2010 | 2,027,696 | – | 145,398 | 37,659 | 1,844,639 | No | N |
| 20/05/2003 | 17.60 | 20/05/2006 | 19/05/2010 | 2,597,240 | – | 246,741 | 135,639 | 2,214,860 | No | D |
| 09/06/2003 | 18.12 | 09/06/2006 | 08/06/2010 | 10,000 | – | – | – | 10,000 | No | N |
| 05/11/2003 | 17.55 | 05/11/2006 | 04/11/2010 | 1,195,665 | – | 92,648 | 69,213 | 1,033,804 | No | C |
| 05/11/2003 | 17.55 | 05/11/2006 | 04/11/2010 | 2,658,242 | – | 190,959 | 42,097 | 2,425,186 | No | N |
| 31/12/2003 | 17.48 | 31/12/2005 | 31/12/2008 | 1,000,000 | – | – | – | 1,000,000 | No | F |
| 11/05/2004 | 18.22 | 11/05/2007 | 10/05/2011 | 1,630,235 | – | 97,318 | 62,762 | 1,470,155 | No | C |
| 11/05/2004 | 18.22 | 11/05/2007 | 10/05/2011 | 2,690,420 | – | 205,886 | 25,563 | 2,458,971 | No | N |
| 05/11/2004 | 20.68 | 05/11/2007 | 04/11/2011 | – | 1,486,617 | 78,788 | 1,348 | 1,406,481 | No | G |
| 05/11/2004 | 20.68 | 05/11/2007 | 04/11/2011 | – | 3,048,066 | 169,455 | 17,464 | 2,861,147 | No | N |
| 05/11/2004 | 0.00 | 05/11/2004 | 04/11/2006 | – | 11,699 | – | 11,699 | – | Yes | N |
| 08/12/2004 | 0.00 | 08/12/2007 | 08/12/2011 | – | 42,435 | – | – | 42,435 | No | DSR |
| 31/12/2004 | 20.49 | 31/12/2006 | 31/12/2008 | – | 500,000 | – | – | 500,000 | No | F |
| 13/05/2005 | 0.00 | 13/05/2005 | 12/05/2007 | – | 10,671 | – | 10,671 | – | Yes | N |
| **Totals** | | | | 36,800,628 | 5,099,488 | 1,810,012 | 6,642,326 | 33,447,778 | | |

The aggregate fair value of shares issued as a result of the exercise of options during the 2005 financial year was $141 million.

## 49: EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

On 24 October 2003 the Company issued a prospectus to invite shareholders to participate in a pro-rata renounceable rights issue. In accordance with the rules set out in the ANZ Share Option Plan in the event of a rights issue, the exercise price of options granted under the plan is to be reduced in accordance with ASX Listing Rule 6.22. As as result, the exercise price of each option issued under the ANZ Share Option Plan is reduced by 72 cents from the amount previously disclosed.

**Details of performance hurdles applicable to options are as follows:**

**A** The percentage change of the ANZ Total Shareholder Return (ANZ TSR) to exceed the percentage change of the S&P/ASX 200 Banks (Industry Group) Accumulation Index from date of issue to any time from the third anniversary date up to and including the proposed exercise date.

**B & C** During the four-year period commencing three years, and ending seven years, after the issue date of the options:

- 50% of the options allocated may be exercised by the option holder subject to the ANZ TSR exceeding the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index measured over the same period and calculated as at the last trading day of any month; and
- 50% of the options allocated may be exercised by the option holder subject to the ANZ TSR exceeding the percentage change in the S&P/ASX 100 Accumulation Index measured over the same period and calculated as at the last trading day of any month.

**D** Options may be exercised at month's end during the four-year period commencing three years, and ending seven years, after the issue date of the options. The exercise price will be set according to the movement in the S&P/ASX 200 Banks (Industry Group) Accumulation Index (excluding ANZ) since issue date, and can be no lower than the base issue price.

**DSR** No performance hurdles apply. Deferred Share Rights may only be exercised between the third and seventh anniversary of their issue.

**E** The options may be exercised only if the ANZ Accumulation Index over the period from the date on which the options are granted to the last trading day of any month occurring during the relevant exercise period, equals or exceeds the S&P/ASX 100 Accumulation Index calculated over the same period (applicable to the CEO only).

**F** One half of the options may be exercised only if the ANZ TSR calculated over the period commencing on the date of grant and ending on the last day of any month after the second anniversary of their date of grant exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index over that same period; and the other half of the options may be exercised only if the ANZ TSR calculated over the relevant period exceeds the percentage change in the S&P/ASX 100 Accumulation Index over that same period (applicable to the CEO only).

**G** Exercise of options is subject to the satisfaction of time and performance based hurdles. Options may be exercised during the four year period commencing three years, and ending seven years, after the issue date of the Options subject to meeting the following performance hurdle. The performance hurdle will be measured during the exercise period by comparing ANZ's Total Shareholder Return (ANZ's TSR) against a comparator group of major financial services companies in the ASX Top 50, excluding the ANZ, as determined by the Board Compensation and Human Resources Committee. The options become exercisable depending on ANZ's ranking within the comparator group. ANZ must rank at the 50th percentile for 50% of the options to become exercisable. For each 1% increase above the 50th percentile an additional 2% of options will become exercisable, with 100% being exercisable where ANZ ranks at or above the 75th percentile. This will be calculated as at the last trading day of any month (once the exercise period has commenced).

**N** No performance hurdles apply. Once the exercise period has been reached, the options may be exercised. As their purpose is predominately retention and to share in any growth in the share price, additional hurdles are not applied.

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

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

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

## 49: EMPLOYEE SHARE AND OPTION PLANS (CONTINUED)

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

| Exercise price $ | No. of shares issued | Proceeds received $ | Exercise price $ | No. of shares issued | Proceeds received $ |
|---|---|---|---|---|---|
| 0.00 | 10,671 | 0.00 | 18.03 | 33,888 | 611,001 |
| 0.00 | 11,699 | 0.00 | 18.03 | 314,282 | 5,666,504 |
| 9.39 | 25,000 | 234,750 | 18.03 | 589,907 | 10,636,023 |
| 11.09 | 78,250 | 867,793 | 18.22 | 25,563 | 465,758 |
| 12.03 | 7,500 | 90,225 | 18.22 | 62,762 | 1,143,524 |
| 12.98 | 62,200 | 807,356 | 18.55 | 20,000 | 371,000 |
| 12.98 | 361,600 | 4,693,568 | 18.55 | 51,028 | 946,569 |
| 12.98 | 583,938 | 7,579,515 | 18.94 | 6,183 | 117,106 |
| 13.62 | 252,415 | 3,437,892 | 19.30 | 8,458 | 163,239 |
| 13.91 | 194,250 | 2,702,018 | 20.05 | 597 | 11,970 |
| 13.91 | 306,972 | 4,269,981 | 20.20 | 8,044 | 162,489 |
| 14.20 | 978,476 | 13,894,359 | 20.43 | 827 | 16,896 |
| 14.61 | 136,750 | 1,997,918 | 20.58 | 6,909 | 142,187 |
| 14.75 | 25,000 | 368,750 | 20.68 | 1,348 | 27,877 |
| 16.09 | 15,000 | 241,350 | 20.68 | 17,464 | 361,156 |
| 16.33 | 461,300 | 7,533,029 | 21.21 | 26,583 | 563,825 |
| 16.33 | 1,007,780 | 16,457,047 | 21.21 | 4,232 | 89,761 |
| 16.48 | 500,000 | 8,240,000 | 21.61 | 42,000 | 907,620 |
| 17.34 | 58,481 | 1,014,061 | 23.57 | 90,000 | 2,121,300 |
| 17.49 | 20,000 | 349,800 | 24.01 | 86,000 | 2,064,860 |
| 17.55 | 42,097 | 738,802 | | | |
| 17.55 | 69,213 | 1,214,688 | | | |
| 17.60 | 37,659 | 662,798 | | | |

For those options exercised by employees and former employees during the financial year, the market price of the Company's shares during the year were as follows:

| | |
|---|---|
| High | $24.45 |
| Low | $19.02 |
| As at 30 September 2005 | $24.00 |

As at the date of the Financial Report, unexercised options over ordinary shares are as per the table on page 73, adjusted for the exercise of the following options which were exercised by employees and former employees since the end of the financial year.

| Exercise price $ | No. of shares issued | Proceeds received $ | Exercise price $ | No. of shares issued | Proceeds received $ |
|---|---|---|---|---|---|
| 13.91 | 17,575 | 244,468 | 18.55 | 15,000 | 278,250 |
| 13.91 | 13,500 | 187,785 | 18.55 | 11,125 | 206,369 |
| 14.20 | 53,350 | 757,570 | 17.34 | 114,245 | 1,981,008 |
| 12.98 | 26,406 | 342,750 | 17.60 | 5,499 | 96,782 |
| 12.98 | 1,850 | 24,013 | 17.55 | 6,347 | 111,390 |
| 16.09 | 1,500 | 24,135 | 18.22 | 260 | 4,737 |
| 16.33 | 43,749 | 714,421 | 18.22 | 5,221 | 95,127 |
| 18.03 | 63,350 | 1,142,201 | 20.68 | 1,605 | 33,191 |
| 18.03 | 34,000 | 613,020 | | | |

Amounts received from exercising options under the ANZ Share Option Plan during the financial year were recognised as follows:

| | The Company 2005 $m | The Company 2004 $m |
|---|---|---|
| Share capital | 104 | 86 |
| Liquid assets | 104 | 86 |

## ANZ DIRECTORS' SHARE PLAN

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

Details of the movement in shares under this Scheme are as follows:

| | The Company 2005 | The Company 2004 |
|---|---|---|
| Number of shares at beginning of the year | 662,122 | 464,467 |
| Number of shares purchased | 175,356 | 197,655 |
| Number of shares sold | (6,563) | – |
| Number of shares forfeited | – | – |
| Number of shares at end of the year[1] | 830,915 | 662,122 |

1 Include shares issued under the dividend reinvestment plan

## 50: DIRECTORS AND SPECIFIED EXECUTIVES REMUNERATION DISCLOSURES

The remuneration details concerning the Directors of the Company (Table 1) and the Corporations Act 2001 and AASB 1046 "Director and Executive Disclosures by Disclosing Entities" Specified Executives of the Group and Company (Table 2) are detailed as follows.

## SECTION A: REMUNERATION TABLES

**TABLE 1: DIRECTOR REMUNERATION**
**For the year ended 30 September 2005 details of the remuneration of the directors are set out below:**

| | | PRIMARY[1] | | | |
|---|---|---|---|---|---|
| | | Cash salary/fees $ | Long service leave accrued during the year $ | Value of shares acquired in lieu of cash salary/fees[2] $ | Associated entity Board fees (cash) $ |
| **Non-executive Directors** | | | | | |
| **CB Goode (Appointed director July 1991; appointed Chairman August 1995)** | **2005** | **79,415** | **n/a** | **420,585** | **–** |
| Independent Non Executive Director, Chairman | 2004 | 91,000 | n/a | 338,000 | – |
| **GJ Clark (Appointed February 2004)** | **2005** | **130,000** | **n/a** | **–** | **–** |
| Independent Non Executive Director | 2004 | 86,667 | n/a | – | – |
| **JC Dahlsen (Appointed May 1985; retired February 2005)** | **2005** | **44,417** | **n/a** | **–** | **–** |
| Independent Non Executive Director | 2004 | 130,000 | n/a | – | – |
| **RS Deane (Appointed September 1994)** | **2005** | **130,000** | **n/a** | **–** | **122,384[9]** |
| Independent Non Executive Director | 2004 | 130,000 | n/a | – | 117,958[9] |
| **JK Ellis (Appointed October 1995)** | **2005** | **103,000** | **n/a** | **27,000** | **–** |
| Independent Non Executive Director | 2004 | 103,000 | n/a | 27,000 | – |
| **DM Gonski (Appointed February 2002)** | **2005** | **88,970** | **n/a** | **41,030** | **22,150** |
| Independent Non Executive Director | 2004 | 130,000 | n/a | – | 50,150 |
| **MA Jackson (Appointed March 1994)** | **2005** | **130,000** | **n/a** | **–** | **–** |
| Independent Non Executive Director | 2004 | 130,000 | n/a | – | – |
| **DE Meiklejohn (Appointed October 2004)** | **2005** | **130,000** | **n/a** | **–** | **–** |
| Independent Non Executive Director | 2004 | – | n/a | – | – |
| **JP Morschel (Appointed October 2004)** | **2005** | **100,000** | **n/a** | **30,000** | **–** |
| Independent Non Executive Director | 2004 | – | n/a | – | – |
| **BW Scott (Appointed August 1985; retired April 2005)** | **2005** | **72,857** | **n/a** | **–** | **28,516** |
| Independent Non Executive Director | 2004 | 130,000 | n/a | – | 24,389 |
| **TOTAL OF NON-EXECUTIVE DIRECTORS** | **2005** | **1,008,659** | **n/a** | **518,615** | **173,050** |
| | 2004[13] | 930,667 | n/a | 365,000 | 192,497 |
| **Executive Director** | | | | | |
| **J McFarlane (Appointed October 1997)[8]** | **2005** | **44** | **31,242** | **1,882,896** | **–** |
| Chief Executive Officer | 2004 | 43 | 78,211 | 1,882,831 | – |
| **TOTAL OF ALL DIRECTORS** | **2005** | **1,008,703** | **31,242** | **2,401,511** | **173,050** |
| | 2004[13] | 930,710 | 78,211 | 2,247,831 | 192,497 |

### COMMENTARY ON CHANGES BETWEEN 2004 AND 2005

**Non-Executive Directors (NEDs)**

Primary Total Remuneration has increased by $212,114. This increase is as a result of:

i) Timing differences between the appointment of DE Meiklejohn and JP Morschel, and the retirement of BW Scott and JC Dahlsen.

ii) Increase in Chairman's fees of $71,000 in recognition of increased demands of the role, relativity to peers, and to maintain equitable relativity with other NEDs.

iii) The full year effect of the addition of GJ Clark to the Board.

The Post-Employment Retirement Benefit accrued during the year has increased by $511,120 from the previous period due to the following:

i) $95,286 resulting from fee increases over the last 3 years being taken into account for the purpose of the directors' retirement benefits.

ii) $415,634 of this is due to amendments made during the year to the individual agreements with NEDs to make the formula for calculating the amount payable under them consistent for all NEDs. In some instances this has resulted in the amount accrued during the year being increased to take account of the impact of the change to the formula on previous years' accrued benefits. In each case under the relevant agreement, the maximum amount that may be paid to a NED as a retirement benefit is subject to the limits in the Corporations Act.

**Executive Director (Chief Executive Officer)**

There was no change to J McFarlane's fixed remuneration which remained at $2,000,000, including superannuation contributions. His short-term incentive target for 2005 was increased to $2,000,000 (100% of his fixed remuneration) in accordance with his contract extension announced on 26 October 2004. His actual payment was $2,100,000 (compared to $1,850,000 in 2004) reflecting the Board's assessment of his performance against agreed balanced scorecard objectives which include ANZ's financial performance and its performance against specified measures for shareholders, customers, staff and the community.

| | | | POST EMPLOYMENT | | EQUITY[5] | | OTHER | |
|---|---|---|---|---|---|---|---|---|
| Committee fees (cash) | Value of shares acquired in lieu of cash incentive[2,3] | Primary total | Super contributions | Retirement benefit accrued during the year[4] | Total amortisation of LTI shares | Total amortisation of LTI options | | Total[7] |
| $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **–** | **n/a** | **500,000** | **11,723** | **243,284** | **n/a** | **n/a** | **–** | **755,007** |
| – | n/a | 429,000 | 11,297 | 99,586 | n/a | n/a | – | 539,883 |
| **25,440** | **n/a** | **155,440** | **11,723** | **50,189** | **n/a** | **n/a** | **–** | **217,352** |
| 10,834 | n/a | 97,501 | 7,597 | 33,008 | n/a | n/a | – | 138,106 |
| **18,809** | **n/a** | **63,226** | **4,423** | **111,303** | **n/a** | **n/a** | **–** | **178,952** |
| 65,050 | n/a | 195,050 | 11,296 | 74,356 | n/a | n/a | – | 280,702 |
| **17,618** | **n/a** | **270,002** | **11,723** | **49,169** | **n/a** | **n/a** | **–** | **330,894** |
| 19,500 | n/a | 267,458 | 10,321 | 70,998 | n/a | n/a | – | 348,777 |
| **42,250** | **n/a** | **172,250** | **11,723** | **110,981** | **n/a** | **n/a** | **–** | **294,954** |
| 52,250 | n/a | 182,250 | 11,297 | 65,780 | n/a | n/a | – | 259,327 |
| **22,512** | **n/a** | **174,662** | **11,723** | **104,001** | **n/a** | **n/a** | **–** | **290,386** |
| 16,050 | n/a | 196,200 | 11,297 | 67,227 | n/a | n/a | – | 274,724 |
| **42,250** | **n/a** | **172,250** | **11,723** | **122,008** | **n/a** | **n/a** | **–** | **305,981** |
| 42,250 | n/a | 172,250 | 10,899 | 56,352 | n/a | n/a | – | 239,501 |
| **31,027** | **n/a** | **161,027** | **11,723** | **64,781** | **n/a** | **n/a** | **–** | **237,531** |
| – | n/a | – | – | – | n/a | n/a | – | – |
| **19,500** | **n/a** | **149,500** | **11,723** | **60,459** | **n/a** | **n/a** | **–** | **221,682** |
| – | n/a | – | – | – | n/a | n/a | – | – |
| **17,234** | **n/a** | **118,607** | **6,803** | **127,089** | **n/a** | **n/a** | **–** | **252,499** |
| 30,750 | n/a | 185,139 | 11,297 | 64,839 | n/a | n/a | – | 261,275 |
| **236,640** | **n/a** | **1,936,964** | **105,010** | **1,043,264** | **n/a** | **n/a** | **–** | **3,085,238** |
| 236,684 | n/a | 1,724,848 | 85,301 | 532,146 | n/a | n/a | – | 2,342,295 |
| **–** | **2,100,004** | **4,014,186** | **417,000[10]** | **–** | **982,987** | **1,791,718[6]** | **4,031[12]** | **7,209,922** |
| – | 1,850,006 | 3,811,091 | 417,000[10] | – | – | 2,584,880 | 90,619[11] | 6,903,590 |
| **236,640** | **2,100,004** | **5,951,150** | **522,010** | **1,043,264** | **982,987** | **1,791,718** | **4,031** | **10,295,160** |
| 236,684 | 1,850,006 | 5,535,939 | 502,301 | 532,146 | – | 2,584,880 | 90,619 | 9,245,885 |

1 Non-monetary benefits for all directors are nil.
2 Shares acquired through participation in Directors' Share Plan (relates to CEO only in relation to cash incentive, as NEDs do not participate in Short-Term Incentive arrangements). Value reflects the price at which the shares were purchased on market (amortisation not applicable).
3 100% of the CEO's cash incentive vested during the financial year.
4 Accrual relates to Directors' Retirement Scheme. The following benefits were paid under the Directors' Retirement Scheme to the following former directors: JC Dahlsen (retired 3 February 2005) – $513,668; BW Scott (retired 23 April 2005)– $516,214. If each of the current NEDs had ceased to be a director as at 30 September 2005, the following benefits would have been payable under the Directors' Retirement Scheme: CB Goode – $1,312,539; GJ Clark – $83,197; RS Deane – $693,285; JK Ellis – $523,039; DM Gonski – $249,445; MA Jackson – $487,022; DE Meiklejohn – $64,781; JP Morschel – $60,459. The Directors' Retirement Scheme will be discontinued effective 30 September 2005. Refer to section B2 for more information pertaining to the Directors' Retirement Scheme.
5 In accordance with the requirements of AASB1046A, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that 100% of the options will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed). The fair value is determined at grant date and is allocated on a straight-line basis over the expected vesting period. The fair value is determined using a binomial option-pricing model that is explained in Note 51 Equity Instruments Transactions section I. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options become exercisable. For deferred shares, the fair value is the weighted average price of the Company's shares traded on the ASX on the day the shares were granted.
6 Amortisation value of options as a percentage of his total remuneration (as shown in the Total column above) was 25% in 2005 (37% in 2004).
7 Amounts disclosed for remuneration of directors exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including executive officers of the entity and directors, executive officers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.
8 J McFarlane elected to use almost all his cash salary and incentive to purchase on market deferred shares under the Directors' Share Plan.
9 Amounts paid in NZD are converted to AUD at an average rate for the year of 1.0847 (1.1254 in 2004).
10 Includes $300,000 additional employer contribution, agreed as part of contract extension announced 26 October 2004. Refer section D2
11 Relates to reimbursement to J McFarlane for the additional tax liability on his UK Pension Plan holdings, arising as a result of Australian Foreign Investment Fund rules, and J McFarlane's continuing Australian residency (in accordance with the contractual arrangements detailed in section D2.
12 Relates to professional services rendered in respect of taxation matters.
13 2004 aggregate amounts relate to those directors reported in 2004.

# NOTES TO THE FINANCIAL STATEMENTS

## 50: DIRECTORS AND SPECIFIED EXECUTIVES REMUNERATION AND SHARE AND OPTION DISCLOSURES (CONTINUED)

**TABLE 2: SPECIFIED EXECUTIVES REMUNERATION**

For the year ended 30 September 2005 details of the remuneration of the top seven executives (Specified Executives), other than the Chief Executive Officer, are set out below and include the five most highly remunerated executives in the Company and the Group (as required under the Corporations Act 2001) and the top executives in the Group by authority (as required by AASB1046):

| | | PRIMARY | | | | |
|---|---|---|---|---|---|---|
| | | Cash salary/fees $ | Long service leave accrued during the year $ | Non monetary benefits[1] $ | Total cash short term Incentive[2,3] $ | **Primary total $** |
| **Specified Executives** | | | | | | |
| **Sir J Anderson[8,9]** | **2005** | **838,110** | **–** | **–** | **460,960** | **1,299,070** |
| Chief Executive & Director, ANZ National Bank Ltd New Zealand | 2004 | 672,792 | – | – | 449,618 | 1,122,410 |
| **Dr RJ Edgar** | **2005** | **727,696** | **13,928** | **28,281** | **800,000** | **1,569,905** |
| Chief Operating Officer | 2004 | 723,651 | 56,212 | 31,552 | 393,000 | 1,204,415 |
| **E Funke Kupper** | **2005** | **654,550** | **10,860** | **7,277** | **770,000** | **1,442,687** |
| Group Managing Director Asia-Pacific | 2004 | 654,550 | 10,846 | 7,277 | 385,500 | 1,058,173 |
| **BC Hartzer** | **2005** | **694,435** | **19,469** | **61,542** | **1,080,000** | **1,855,446** |
| Group Managing Director Personal Banking | 2004 | 543,062 | 15,694 | 57,091 | 424,000 | 1,039,847 |
| **GK Hodges** | **2005** | **648,556** | **46,140** | **11,465** | **863,000** | **1,569,161** |
| Group Managing Director Corporate | 2004 | 510,081 | 39,006 | 17,357 | 343,000 | 909,444 |
| **PR Marriott** | **2005** | **748,700** | **12,422** | **7,277** | **920,000** | **1,688,399** |
| Chief Financial Officer | 2004 | 728,451 | 29,098 | 7,277 | 482,000 | 1,246,826 |
| **S Targett[9]** | **2005** | **748,700** | **12,497** | **7,277** | **880,000** | **1,648,474** |
| Group Managing Director Institutional | 2004 | 305,407 | 5,101 | 2,934 | 267,000 | 580,442 |
| **TOTAL** | **2005** | **5,060,747** | **115,316** | **123,119** | **5,773,960** | **11,073,142** |
| | 2004 | 4,179,538 | 128,629 | 113,408 | 2,726,118 | 7,147,693 |

## COMMENTARY ON CHANGES BETWEEN 2004 AND 2005

**Specified Executives**

The differences in Total Remuneration between 2004 and 2005 for Specified Executives are as a result of the following:

i) Total Employment Costs (TEC) or fixed remuneration increases between 2004 and 2005 are in line with ANZ's guiding principles (refer to sections C1 and C3), and to reflect role changes for BC Hartzer; increased responsibility for GK Hodges and market pressures.

ii) Increase in target short term incentive (STI) amounts (for all Specified Executives except for Sir J Anderson), from 67% of TEC to 100% of TEC in order to meet competitive pressures.

iii) With the exception of Sir J Anderson, change in STI delivery to 100% cash in 2005 versus 75% cash and 25% deferred shares (amortised over 3 years) for 2004.

iv) Sir J Anderson and S Targett commenced part way through 2004, being 1 December 2003 and 5 May 2004 respectively.

v) Two of S Targett's deferred share grants fell into the 2005 financial year (refer to footnote 6).

vi) 2004 aggregate amounts relate to those Specified Executives reported in 2004.

| POST EMPLOYMENT | | | EQUITY[5] | | | | |
|---|---|---|---|---|---|---|---|
| Super contributions $ | Retirement benefit accrued during year[4] $ | **Annual remuneration (Primary plus Post Employment) $** | Total amortisation value of STI shares $ | Total amortisation value of LTI shares $ | Total amortisation value of LTI options $ | Total amortisation of other equity allocations[6] $ | **Total[7,10] $** |
| **83,811** | **33,367** | **1,416,248** | **–** | **–** | **–** | **477,452** | **1,893,700** |
| 67,279 | 32,160 | 1,221,849 | – | – | – | 219,168 | 1,441,017 |
| **46,800** | **1,672** | **1,618,377** | **173,907** | **555,470** | **264,095** | **–** | **2,611,849** |
| 46,752 | 7,163 | 1,258,330 | 197,681 | 342,662 | 256,110 | – | 2,054,783 |
| **40,950** | **–** | **1,483,637** | **184,924** | **221,068** | **239,523** | **–** | **2,129,152** |
| 40,950 | – | 1,099,123 | 232,208 | 232,024 | 333,500 | – | 1,896,855 |
| **46,800** | **–** | **1,902,246** | **149,259** | **237,943** | **282,929** | **–** | **2,572,377** |
| 37,224 | – | 1,077,071 | 201,364 | 192,239 | 298,814 | – | 1,769,488 |
| **40,838** | **1,635** | **1,611,634** | **131,825** | **186,089** | **218,920** | **–** | **2,148,468** |
| 32,600 | 2,919 | 944,963 | 147,516 | 127,584 | 195,847 | – | 1,415,910 |
| **46,800** | **–** | **1,735,199** | **208,525** | **295,175** | **317,175** | **–** | **2,556,074** |
| 45,542 | – | 1,292,368 | 243,435 | 276,714 | 369,376 | – | 2,181,893 |
| **46,800** | **–** | **1,695,274** | **–** | **40,544** | **39,059** | **789,238** | **2,564,115** |
| 18,976 | – | 599,418 | – | – | – | 188,081 | 787,499 |
| **352,799** | **36,674** | **11,462,615** | **848,440** | **1,536,289** | **1,361,701** | **1,266,690** | **16,475,735** |
| 300,598 | 42,270 | 7,490,561 | 1,089,594 | 1,250,614 | 1,551,766 | 407,249 | 11,789,784 |

1 Non monetary benefits provided to Specified Executives consist of salary packaged items such as car parking and novated lease motor vehicles.
2 Total cash incentive relates to the full incentive amount for the financial year ended 30 September 2005. A portion of the STI was delivered as deferred shares in 2004.
3 100% of the Specified Executives' cash incentive vested to the person in the financial year.
4 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, RJ Edgar and GK Hodges are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: 3 months of notional salary (which is 65% of fixed remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years, less the total accrual value of long service leave (including taken and untaken).
5 In accordance with the requirements of AASB1046A, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. It is assumed that 100% of the options will vest at the commencement of their exercise period (i.e. the shortest possible vesting period is assumed) and that deferred shares will vest after 3 years. The fair value is determined at grant date and is allocated on a straight-line basis over the 3-year vesting period. For options, the fair value is determined using a Binomial Option Pricing model that is explained in Note 51 section I. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options become exercisable. For deferred shares, the fair value is the weighted average price of the Company's shares traded on the ASX on the day the shares were granted.
6 Amortisation of other equity allocations for Sir J Anderson relates to the granting of zero priced options (ZPO). ZPOs are granted as part of his employment contract. Refer to section E2 for further details. Amortisation of other equity allocations for S Targett relates to the grant of deferred shares beginning on 11 May 2004 (four tranches to the value of $700,000 each to be issued at 6 month intervals in May and November in 2004 and 2005, subject to Board approval and continued employment) and hurdled A options (refer to Note 51 Equity Instruments Transactions section K for performance hurdle details) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer.
7 Amounts disclosed for remuneration of Specified Executives exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including executive officers of the entity and directors, executive officers and secretaries of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.
8 Amounts paid in NZD are converted to AUD at an average rate for the year of 1.0847 (1.1254 in 2004).
9 Sir J Anderson was appointed 1 December 2003 (i.e. 2 months after the start of the 2004 financial year) and S Targett was appointed 5 May 2004 (i.e. 7 months after the start of the 2004 financial year)
10 Amortisation value of options as a % of total remuneration for the 2005 financial year was as follows; Sir J Anderson - 25% (15% in 2004); Dr R J Edgar - 10% (12% in 2004); E Funke Kupper - 11% (18% in 2004); B C Hartzer - 11% (17% in 2004); G K Hodges - 10% (14% in 2004); P R Marriott - 12% (17% in 2004); S Targett - 11% (12% in 2004)

# SECTION B. NON-EXECUTIVE DIRECTORS' REMUNERATION

## B1. NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

Non-executive Directors' (NEDs) fees are reviewed annually and are determined by the Board of Directors based on advice from external advisors and with reference to fees paid to other NEDs of comparable companies. NEDs' fees are within the maximum aggregate limit agreed to by shareholders at the Annual General Meeting held on 13 December 2002 ($2.5 million, excluding retirement allowances and superannuation), and are set at levels that fairly represent the responsibilities of, and the time spent by, the NEDs on Group matters. NEDs receive a fee for being a director of the Board, and additional fees for either chairing or being a member of a committee. Work on special committees may attract additional fees of an amount considered appropriate in the circumstances. An additional fee is also paid if a NED serves as a director of ANZ National Bank Limited, ING Australia Ltd or Metrobank Card Corporation. NEDs do not receive any performance/incentive payments and are not eligible to participate in any of the Group's incentive arrangements.

The Chairman Fee was increased to $500,000 effective 1 October 2004 in recognition of the demands of the role, market practice and in order to maintain desired relativity with other directors. No other adjustments were made to NED fees for the year ending 30 September 2005.

The fee structure is illustrated in Table 3 below:

**TABLE 3**

| Role | 2004 Fee | 2005 Fee |
|---|---|---|
| Chairman | $429,000 | $500,000 |
| Non-Executive Director | $130,000 | $130,000 |
| Committee Chair[1] | $32,500 | $32,500 |
| Committee Member[1] | $9,750 | $9,750 |

1 Except Nominations & Corporate Governance Committee and Technology Committee, where the current Chair and Member Fees are $21,000 and $6,300 respectively.

For details of remuneration paid to directors for the year ended 30 September 2005, refer to Table 1 in section A.

**NED Shareholding Guidelines**

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

## B2. NON-EXECUTIVE DIRECTORS' RETIREMENT POLICY

All NEDs participated in the ANZ Directors' Retirement Scheme up to the year ended 30 September 2005. Under this scheme, a lump-sum retirement benefit was payable to NEDs upon their ceasing to be a director. The lump-sum retirement benefit payable where the NED held office for 8 years or more was equal to the total remuneration (excluding retirement benefit accrual) of the NED in respect of the 3 years immediately preceding the NED ceasing to be a NED. For periods of less than 8 years, a proportionate part of such remuneration was payable. The NEDs are not entitled to the statutory entitlements of long service leave and annual leave.

Consistent with Principle 9.3 of the Australian Stock Exchange (ASX) Corporate Governance Rules, which states that NEDs should not be provided with retirement benefits other than statutory superannuation, the ANZ Directors' Retirement Scheme was closed effective 30 September 2005.

Accrued entitlements were fixed at 30 September 2005 and will be carried forward to retirement, and collected by the NED when they retire. The entitlements may be carried forward as:

- **Cash Alternative:** A cash payment, being the entitlement accrued to 30 September 2005, plus escalation based on the 30 day bank bill rate until retirement date; and/or
- **Shares Alternative:** A number of ANZ shares purchased on market on 27 October 2005 to the value of the accrued entitlement, plus escalation based on the 30-day bank bill rate for the period 1 October 2005 to 26 October 2005 (subject to Shareholder approval at the 2005 Annual General Meeting). Shares will then be held in ANZ Employee Share Trust for the benefit of the Director until retirement.

NEDs have been asked to nominate the proportion of their accrued entitlement to be directed towards each alternative, subject to shareholder approval.

Fees for NEDs will be increased by 27.5% effective 1 October 2005 to compensate for the removal of this contractual benefit. This amount was determined based on an independent actuarial valuation of the scheme by Mercer Finance & Risk Consulting and advice from expert remuneration consultants PricewaterhouseCoopers. This increase is also in line with market practice in relation to fee increases due to the removal of the Directors' Retirement Scheme, where increases have typically ranged from 25% to 30%.

**NED Fee Cap**

There has been no increase in the NED fee pool since 2002. Shareholder approval will be sought at the 2005 Annual General Meeting for an increase to the NED Fee Cap by $500,000. This proposed increase would take the maximum aggregate amount from $2.5m to $3.0m – an amount which is considered necessary in order to:

- accommodate the fee adjustment to compensate for the removal of the Directors' Retirement Scheme (27.5%) – while the discontinued retirement benefits under the Constitution are outside the maximum aggregate limit, the compensating increase to fees will be within the limit;
- allow for annual adjustments in line with market NED movements; and
- allow for the addition of another NED in either 2006 or early 2007.

It is critical that the Company has the capacity to pay adequate fees to NEDs in order to attract and retain directors of the highest calibre.

## B3. DIRECTORS' SHARE PLAN

The Directors' Share Plan is available to both non-executive and executive directors. Directors may elect to forgo remuneration to which they may have otherwise become entitled and receive shares to the value of the remuneration forgone. Participation in the plan is voluntary, except to the extent that the NED Shareholding Guidelines must be met and therefore the shares acquired are not subject to performance conditions.

Shares acquired under the plan are purchased on market and are held in trust for up to 10 years. Shares are subject to a minimum 1 year restriction, during which the shares cannot be traded, and are subject to forfeiture for serious misconduct. All costs associated with the plan are met by the Company.

## SECTION C. EXECUTIVE REMUNERATION STRUCTURE

### C1. REMUNERATION GUIDING PRINCIPLES

ANZ's reward policy guides the Compensation & Human Resources Committee and management in shaping remuneration strategies and initiatives.

The following principles underpin ANZ's reward policy:

1. Focus on creating and enhancing value for ANZ's shareholders;

2. Differentiation of individual rewards commensurate with contribution to overall results and according to individual accountability, performance and potential;

3. Significant emphasis on "at risk" components of total rewards linked to the enhancement of shareholder value through improvements in Economic Value Added™ (EVA™); and

4. The provision of a competitive reward proposition to successfully attract, motivate and retain the highest quality individuals required to deliver ANZ's business and growth strategies.

During 2005 a comprehensive review of reward structures has been conducted against the backdrop of these principles and against the Company's growth strategy and corporate governance principles. As a result, a number of changes have been made. These changes are detailed in section C4.

**Shareholding Guidelines**
Direct Reports to the CEO are expected to accumulate ANZ shares, over a five year period, to the value of 200% of their Total Employment Cost (TEC) and to maintain this shareholding while an executive of ANZ. Our next most senior executives are expected to accumulate ANZ shares to the value of 100% of their TEC and to maintain this shareholding while an executive of ANZ. This guideline was introduced in June 2005. New executives will be expected to accumulate the required holdings within five years of appointment.

### C2. REMUNERATION STRUCTURE OVERVIEW

ANZ's reward structures are designed to meet the needs of ANZ's specialised business units as well as the markets in which they operate. As a result, the mix of remuneration components can vary across the organisation although, where practicable, ANZ applies structures and opportunities on a consistent basis for similar roles and levels. There is a strong emphasis on variable remuneration opportunities with total employee remuneration differentiated significantly on the basis of performance.

The executive remuneration program (which includes the remuneration of senior managers and the company secretaries) is designed to support the reward principles detailed in section C1, and to underpin the Company's growth strategy. This program aims to differentiate remuneration on the basis of achievement against group, business unit and individual performance targets which are aligned to sustained growth in shareholder value using a balanced scorecard approach.

The program comprises the following components:

- fixed remuneration component (TEC): salary, non-monetary benefits and superannuation contributions (Refer to C3).
- variable or "at risk" component (Refer to C4):
  - Short-Term Incentive (STI); and
  - Long-Term Incentive (LTI).

The relative weighting of fixed and variable components, for target performance, is set according to the size of the role and competitive market in which the role operates, with the proportion of remuneration "at risk" increasing for the most senior or complex roles, or for those roles where there is strong market pressure to provide greater levels of remuneration. Figure 1 below shows the relative mix of Fixed, STI and LTI at target payment levels.

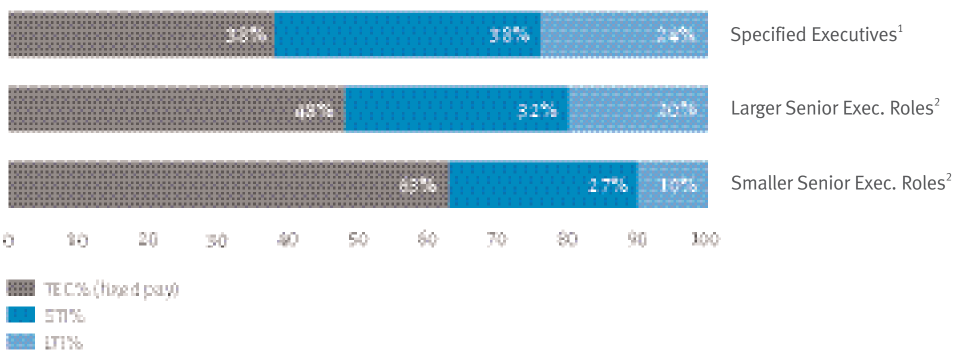
Fixed remuneration is set around the median of the market. STI and LTI payments for on target performance are also set at market median, however the plan design allows for the opportunity to earn upper quartile total remuneration for significant out performance, and significantly reduced payment for underperformance. In this way the remuneration structure is heavily weighted towards "reward for performance".

### C3. FIXED REMUNERATION

For most executives, fixed remuneration consists of what is referred to as Total Employment Cost (TEC). TEC comprises cash salary, a superannuation contribution, and the remainder as nominated benefits. The types of benefits that can be packaged by executives include novated car leases, additional superannuation contributions, car parking, child care, laptops and contributions towards the Employee Share Save Scheme (see note 49 of the 2005 Financial Report for details of the Employee Share Save Scheme).

To ensure fixed remuneration remains competitive, the TEC component of executive remuneration is reviewed annually based on individual performance and market data. ANZ operates with a midpoint targeted to the market median being paid in the finance industry in the relevant global markets in which ANZ operates, and a range around this midpoint. International remuneration levels are considered in assessing market competitiveness where an executive's primary place of residence is outside of Australia or New Zealand, in which case the local market is considered.

**FIGURE 1**
Target Reward Mix




1 Specified Executives' reward mix pertains to Dr R J Edgar, E Funke Kupper, B C Hartzer, G K Hodges, P R Marriott and S Targett. Refer to E2 for composition of Sir J Anderson's remuneration
2 The reward mix for larger senior executive roles and smaller senior executive roles is based on average data

## C4. VARIABLE REMUNERATION

Variable remuneration forms a significant part of executives' potential remuneration, providing an at-risk component that is designed to drive performance in both the short-term (annually) and in the medium and long-term (over 3 years or more).

The opportunities available to executives under ANZ's variable reward programs are calibrated to reflect executives' potential impact on the business, to manage internal relativities, and to ensure competitiveness in the relevant markets in which they operate.

Most executives participate in the short-term incentive (STI) plan detailed in section C4.1 and the long-term incentive (LTI) plan detailed in section C4.2, subject to individual performance thresholds. In some instances, customised STI plans will exist for executives to ensure closer alignment of their rewards with business objectives and market practice. For example, staff in ANZ's Institutional Division participate in a customised incentive plan more closely aligned with that market. No executive, however, may participate in more than one STI plan.

Equity allocated under ANZ incentive schemes remain at risk until fully vested (in the case of Deferred Shares) or are exercisable (in the case of options or Performance Rights). As such, it is a condition of grant that no schemes are entered into that specifically protect the unvested value of shares, options and Performance Rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares or options.

### C4.1 Short-Term Incentives

ANZ's STI approach supports our strategic objectives by providing rewards that are significantly differentiated on the basis of achievement against performance targets. Most executives participate in the plan explained below. All STI plans are reviewed and approved by the Compensation & Human Resources Committee.

#### Determination of Award Levels

The size of the overall pool available each year is determined based on ANZ Group performance against a balanced scorecard of financial and qualitative measures. This pool is then distributed amongst divisions and then individuals based on relative performance.

Each executive has a target STI which is determined according to seniority and market relativities. The size of the actual STI payment made at the end of each financial year to individuals may be at, above or below the target and this will be determined according to ANZ Group, Division and Individual Performance.

Performance objectives are set at the start of each financial year according to a balanced scorecard of measures at the Group, Division and Individual level. These measures are aligned with the achievement of ANZ's business plan, and are the most appropriate indicators of performance. Division and Individual objectives are a subset of the Group objectives, which ensures there is alignment of objectives through the executive population.

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

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

The STI is payable 100% in cash (except where specific business plans require otherwise). Executives are able to elect to sacrifice part or all of their incentive towards the purchase of ANZ shares which are restricted from sale for 12 months, or towards additional superannuation contributions.

The target STI award level for Specified Executives is 100% of TEC in 2005 (increasing from 67% of TEC), with a maximum STI award of 150% of TEC. For larger senior executive roles in the general ANZ STI plan, the target STI is 67% of TEC, with a maximum of 100% of TEC, and for smaller senior executive roles the target is 43% of TEC and the maximum 65% of TEC. Note, the target and maximum STI amounts for larger and smaller senior executive roles may vary for customised incentive schemes.

### C4.2 Long-Term Incentives

Long-term incentives (LTIs) are used as a mechanism to link a significant portion of executives' remuneration to the attainment of sustained growth in shareholder value.

A comprehensive review of ANZ's Long-Term Incentive Program was conducted in 2005 which resulted in a number of changes. The annual LTI allocation to be made in November 2005 will now be delivered as 100% Performance Rights. It was previously delivered as Hurdled Options (50% of grant LTI value) and Deferred Shares (50% of grant LTI value). It was decided that the entire LTI allocation should be linked to a single long-term performance measure.

The size of individual LTI grants is determined by an individual's level of responsibility, performance and the assessed potential of the executive. Typically at the most senior levels the Target LTI value will range from around 10% to 24% of the individual's target reward mix, as shown in Figure 1 in Section C2.

Executives are advised of their LTI dollar value, which is then converted into a number of Performance Rights based on an audited valuation. ANZ engages external experts (PricewaterhouseCoopers and Mercer Finance & Risk Consulting) to independently value the Performance Right, taking into account factors including the performance conditions, life of instrument, share price at grant date etc. These valuations are then audited by KPMG. The Board then approves use of the highest value. The LTI dollar value is then divided by the approved value of the Performance Right to determine the number of rights to be allocated.

**EXAMPLE**

- Executive granted LTI value of $60,000
- Approved Performance Right Valuation is $10.85 per Performance Right
- $60,000 / $10.85 = 5,530 Performance Rights allocated to executive

LTI allocations are made annually in or around November.

**Performance Rights**
**(To be granted from October 2005)**

A Performance Right is a right to acquire a share at nil cost, subject to satisfactorily meeting time and performance hurdles. Upon exercise, each Performance Right entitles the holder to one ordinary share. Performance Rights are ANZ's preferred LTI delivery vehicle as they provide a clearer, more tangible value to the executive, subject to satisfactorily performing relative to the performance hurdle for vesting. Performance Rights are designed to reward executives for share price growth dependent upon the Company's Total Shareholder Return (TSR) outperforming peers. TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance.

The TSR vesting scale is designed to ensure that executive rewards are directly linked to the Company's TSR and are therefore aligned to the outcomes experienced by other shareholders. The proportion of Performance Rights that become exercisable will depend upon the TSR achieved by ANZ relative to the companies in the comparator group (shown below) over a three-year period. There will not be any retesting feature.

Performance equal to the 50th percentile of the comparator group will result in half the Performance Rights becoming exercisable. Performance above the 50th percentile will result in further Performance Rights becoming exercisable, increasing on a straight-line basis until all of the Performance Rights become exercisable where ANZ's TSR is at or above the 75th percentile when compared with the comparator group. TSR is measured on a pro-rata basis; where ANZ's performance falls between two of the comparators, the actual relative level of TSR, rather than simple ranking, will determine the level of vesting.

An averaging calculation will be used for TSR over a 90 day period for start and end values in order to reduce share price volatility.

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

The conditions under which Performance Rights are granted are approved by the Board in accordance with the rules of the ANZ Share Option Plan. Performance conditions are explained in more detail below.

**Each Performance Right has the following features**

- The performance hurdle is tested at the end of three years;
- No dividends will be payable on the Performance Rights until they vest;
- A two-year exercise period that commences three years after the grant date subject to the performance hurdle being cleared;
- Upon exercise, each Performance Right entitles the holder to one ordinary share;
- In case of dismissal for misconduct, Performance Rights are forfeited;
- In case of resignation or termination on notice, only Performance Rights that become exercisable by the end of the notice period may be exercised;
- In case of retrenchment or retirement, Performance Rights will be performance tested at the date of termination, and where performance hurdles have been met, Performance Rights will be pro-rated and a grace period provided in which to exercise;
- In case of death or total and permanent disablement, a grace period is provided in which to exercise all Performance Rights. The hurdles would be waived; and
- Performance hurdle, which is explained above.

**Comparator Group**

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

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

This comparator group was chosen because it represents ANZ's key competitors in the financial services industry, are an appropriate reference group for investors and are of sufficient size by market capitalisation and weight in ASX Top 50.

Refer to Equity Instruments Transactions Section K in Note 51 for details pertaining to legacy LTI equity vehicles (which are yet to vest).

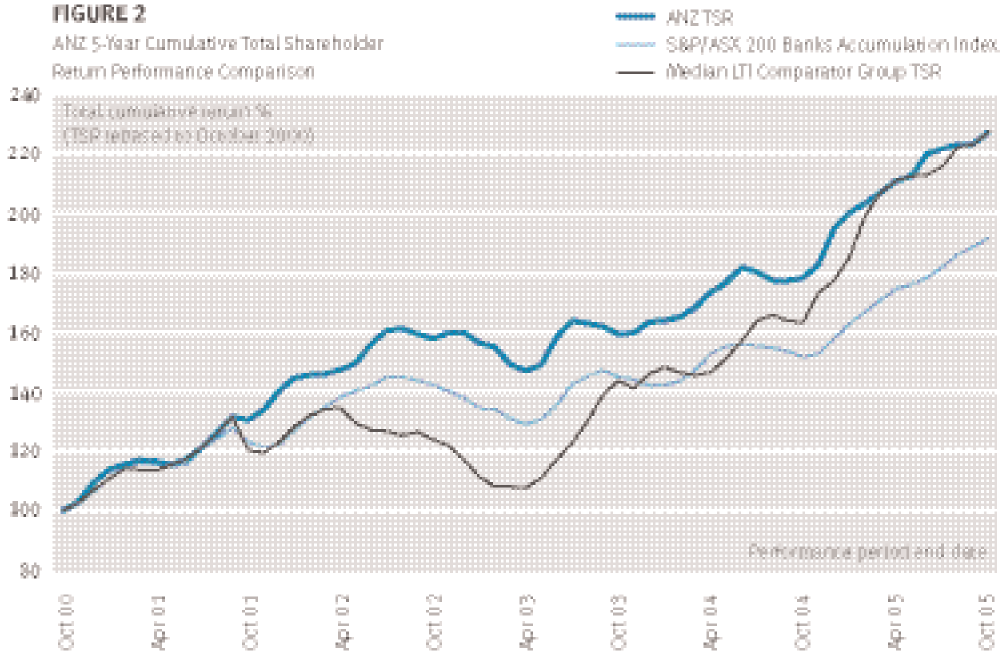
## C5. PERFORMANCE OF ANZ

Table 4 shows ANZ's annual performance over the five-year period spanning 1 October 2000 to 30 September 2005. The table illustrates the impact of ANZ's performance on shareholder wealth, taking into account dividend payments, share price changes and returns on capital during the financial year.

| TABLE 4 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 |
|---|---|---|---|---|---|
| Basic Earnings Per Share (EPS) | 112.7 | 141.4 | 142.4 | 153.1 | 160.9 |
| NPAT ($m) | 1,870 | 2,322 | 2,348 | 2,815 | 3,018 |
| Total Dividend (cps) | 73 | 85 | 95 | 101 | 110 |
| Share price at 30 September ($) | 15.28 | 16.88 | 17.17 | 19.02 | 24.00 |
| Total Shareholder Return (%) | 26.2 | 15.3 | 6.7 | 17.0 | 32.6 |

In table 4, ANZ's Total Shareholder Return (TSR, which includes share price growth, dividends and other capital adjustments) has been shown for each individual financial year between 2001 and 2005. Figure 2 however, compares ANZ's TSR performance against the median TSR of the LTI comparator group and the S&P/ASX 200 Banks Accumulation Index over the 2000 to 2005 measurement period. The difference between S&P/ASX 200 Banks Accumulation Index and the median of ANZ's comparator group over the 2004 and 2005 financial years is due to the weightings in the Index of the large banking institutions that have underperformed comparatively during this period; whereas the organisations in ANZ's comparator group are weighted evenly.

**FIGURE 2**
ANZ 5-Year Cumulative Total Shareholder Return Performance Comparison



## SECTION D. CHIEF EXECUTIVE OFFICER'S REMUNERATION

### D1. CEO REMUNERATION OVERVIEW

The structure of J McFarlane's remuneration, which is in accordance with his employment agreement, is as follows:

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

- **Short-Term Incentive**: The Board sets J McFarlane's balanced scorecard at the beginning of the financial year. The Board then assesses performance against these objectives at the end of the year. These objectives are aligned with the achievement of ANZ's business plan, and are the most appropriate indicators of performance. These objectives include a number of quantitative and qualitative measures, which include (but are not limited to) financial, customer, people, environment and community measures. J McFarlane's STI may be paid in cash or in shares purchased under the Directors' Share Plan. J McFarlane has typically elected to receive shares.

- **Long-Term Incentive**: J McFarlane's Long-Term Incentive is made up of Hurdled Options and Performance Shares as approved by shareholders at the 2001 and 2004 Annual General Meetings respectively. The performance conditions pertaining to the options issued during the year are indicated in Equity Instruments Transactions Section K1 Hurdled A options of Note 51.

The remuneration of J McFarlane for the year ended 30 September 2005 is set out in Table 1 in Section A. The mix of remuneration for J McFarlane under his current contract is made up as follows:

- Fixed Remuneration of $2,000,000 per annum;

- Target variable Short-Term Incentive of $2,000,000 per annum;

- Long-Term Incentive of $2,600,000 – one allocation only (based on valuation of 175,000 performance shares at issue).

#### Shareholding Guideline

The Chief Executive Officer of ANZ is expected to accumulate ANZ shares, over a five year period, to the value of 200% of his Fixed Remuneration and to maintain this shareholding while CEO of ANZ. This shareholding guideline was introduced in September 2005 and adherence to this guideline will be regularly monitored.

### D2. CEO'S CONTRACT TERMS

On 26 October 2004, the Company announced an extension to J McFarlane's contract:

- The term of the contract was extended by one year to 30 September 2007;

- In addition to mandatory superannuation contributions, the Company makes additional employer contributions of $300,000 per annum (effective from 1 October 2003), paid quarterly to J McFarlane's chosen superannuation fund; and

- J McFarlane was granted 175,000 Performance Shares on 31 December 2004.

A separate agreement, made on 23 October 2001, provides for reimbursements to J McFarlane for any additional tax liabilities that may arise on his UK Pension Plan holdings as a result of his continuing Australian residency. Under this agreement, ANZ reimburses J McFarlane for any additional tax liability incurred on his UK Pension Plan during his employment with ANZ, arising as a consequence of Australian Foreign Investment Fund rules. In the event of decreased Australian tax liabilities due to a decreased value in J McFarlane's UK Pension Plan, the reduced liability will be used to offset potential subsequent reimbursements.

### D3. CEO'S RETIREMENT AND TERMINATION BENEFITS

In accordance with J McFarlane's contract variation (refer section D2), J McFarlane's nominated superannuation fund receives $300,000 per annum (effective from 1 October 2003, paid quarterly) in addition to mandatory superannuation contributions.

J McFarlane can terminate his employment agreement by providing 12 months' notice. ANZ may terminate the employment agreement by providing notice equal to the unexpired term of the employment agreement (which ends on 30 September 2007). If ANZ terminates the employment agreement without notice and thus breaches its obligation to provide the required notice, ANZ has agreed with J McFarlane that the damages payable by ANZ for breach of contract would be equal to the Total Employment Cost (TEC) that would otherwise be received over the remainder of the contract (TEC comprises salary or fees, non-monetary benefits and mandatory superannuation contributions). In circumstances of serious misconduct, J McFarlane is only entitled to payment of TEC up to the date of termination.

Payment of accumulated superannuation benefits plus statutory entitlements of long service leave and annual leave (calculated on the basis of salary or fees) applies in all events of separation.

In the event of resignation not approved by the Board or dismissal for serious misconduct, all unexercised options and Performance Shares will be forfeited. In the event of termination on notice or agreed separation, all vested options and Performance Shares must be exercised within 6 months of the termination or agreed separation date, subject to meeting the relevant performance hurdles. In the event of serious misconduct, shares held in the Directors' Share Plan will be forfeited. On resignation or termination on notice, shares held under the Directors' Share Plan will be released.

### D4. CEO'S PARTICIPATION IN EQUITY PROGRAMS

#### Hurdled Options

At the 2001 Annual General Meeting, four tranches of options were approved for granting by the Board: 500,000 in 2001; 1,000,000 in 2002; 1,000,000 in 2003 and 500,000 in 2004. For options granted to the CEO, the exercise price is equal to the weighted average share price on the ASX during the 5 trading days immediately before or after the Company's Annual General Meeting that immediately precedes the allocation. The exercise of these options is subject to performance hurdles being satisfied. J McFarlane's specific performance hurdles, for options granted during the year, are indicated in Equity Instruments Transactions Section K1 (Hurdled A) of Note 51, and for Performance Shares in Equity Instruments Transactions Section K3 of Note 51. For options granted to the CEO, the life and exercise period may differ, as disclosed in Equity Instruments Transactions Section C of Note 51.

#### Performance Shares

175,000 Performance Shares were issued to J McFarlane on 31 December 2004 as part of his contract extension, as approved by shareholders at the 2004 Annual General Meeting. No dividends will be payable on the shares until they vest. Vesting will be subject to time and performance hurdles being satisfied as detailed in Equity Instruments Transactions Section K3 of Note 51. As these Performance Shares were granted as part of J McFarlane's contract extension, as opposed to a new contract, the conditions of grant were aligned with those of the original contract apart from the application of a TSR performance hurdle.

#### Directors' Share Plan

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

Please refer to Equity Instruments Transactions in Note 51 for details of grants and holdings.

## SECTION E. SPECIFIED EXECUTIVES' CONTRACT TERMS

Contractual terms for most executives are similar, but do, on occasion, vary to suit different needs. Section E1 details the contractual terms for those Specified Executives who are on open-ended contracts. Section E2 details the contractual terms for Sir J Anderson, who is on a fixed term contract.

### E1. OPEN-ENDED CONTRACTS (Dr RJ EDGAR, E FUNKE KUPPER, BC HARTZER, GK HODGES, PR MARRIOTT, S TARGETT)

| | |
|---|---|
| Length of Contract | Open-ended. |
| Fixed Remuneration | Remuneration consists of salary, mandatory employer superannuation contributions and benefits. |
| Short-Term Incentive | Eligible to participate. Target opportunity of 100% of Total Employment Cost (refer to section C4.1 for details of short-term incentive arrangements). |
| Long-Term Incentive | Eligible to participate at the Board's discretion – refer to section C4.2 for long-term incentive arrangements. |
| Resignation | Employment may be terminated by giving 6 months' written notice.<br>On resignation any options and unvested deferred shares will be forfeited. |
| Retirement | On retirement, shares and options are released in full. |
| Termination on Notice by ANZ | ANZ may terminate the executive's employment by providing 12 months' written notice or payment in lieu of the notice period based on Total Employment Cost (TEC).<br>On termination on notice by ANZ any options or LTI deferred shares that have vested, or will vest during the notice period will be released, in accordance with the ANZ Share Option Plan Rules. LTI shares that have not yet vested will generally be forfeited, although for some executives (E Funke Kupper, BC Hartzer and PR Marriott) these shares will be released in full. Deferred shares granted under STI arrangements will vest in full for all executives.<br>There is discretion to pay incentives on a pro-rata basis (depending on termination date and subject to business performance). |
| Redundancy | If ANZ terminates employment for reasons of bona fide redundancy, a severance payment will be made that is equal to 12 months TEC.<br>All STI deferred shares are released. All options granted since 24 April 2002 are released on a pro-rata basis – all prior grants may be exercised. All LTI deferred shares granted since 23 October 2002 are released on a pro-rata basis – all prior grants will vest.<br>There is discretion to pay incentives on a pro-rata basis (depending on termination date and subject to business performance). |
| Death or Total and Permanent Disablement | All options and shares released; pro-rata incentive. |
| Termination for serious misconduct | ANZ may immediately terminate the executive's employment at any time without notice in the case of serious misconduct, and the employee will only be entitled to payment of TEC up to the date of termination.<br>On termination for serious misconduct any options and any deferred shares still held in trust will be forfeited. |
| Other Aspects | S Targett: Subject to continued employment and the approval of the Board, four tranches to the value of $700,000 each of deferred shares to be granted at six month intervals in May and November in 2004 and 2005, and Hurdled Options with a value of $750,000 granted within 3 months of commencement of employment, to compensate for the loss of equity from S Targett's previous employer. On Termination on Notice, sign-on options can be exercised as a pro-rata proportion to the period of employment. Sign-on deferred shares will vest in full, including any scheduled to be granted during the notice period. |

## E2. FIXED TERM CONTRACT (SIR J ANDERSON)

| | |
|---|---|
| Length of Contract | Contract was effective from 1 December 2003 to 30 September 2005, and extended to 15 April 2006. |
| Fixed Remuneration | The Total Employment Cost (TEC) package is NZD1,000,000 per annum and is inclusive of employer contributions to the superannuation fund. |
| Short-Term Incentive | STI payments are subject to both business and individual performance. The target payment is 50% of TEC. |
| Equity Participation | A Zero priced option (ZPO) is a right to acquire a share at nil cost. ZPOs are granted as part of Sir J Anderson's contract under the ANZ Share Option Plan. They were designed to deliver equity to the CEO of The National Bank of New Zealand (NBNZ) and to meet the particular needs and circumstances at the time of the acquisition of NBNZ. Grants are fixed at NZD500,000 worth of ZPOs annually, granted in two tranches per annum and with a nil exercise price. The ZPOs have no time based vesting criteria, and so can be exercised at any time during employment and within 6 months of the termination of employment. |
| Resignation | Sir J Anderson may terminate his employment by giving 12 months' written notice. On resignation any ZPOs which have not been exercised as at the termination date will lapse. |
| Retirement | A policy for payment of retirement gratuities was in place with NBNZ employees prior to the acquisition by the Company of NBNZ. This policy has been continued for eligible staff who were ANZ National Bank Limited employees as at 1 December 2003, including Sir J Anderson. Under this policy, a payment will be made to Sir J Anderson on his retirement that is equal to the number of full years' service divided by 35 and multiplied by 85% of finishing salary (where finishing salary is fixed remuneration less any superannuation contribution). This value is then grossed up for tax (i.e. divided by 0.61) and from this value the total accrual value of long service leave taken is deducted. |
| Termination on Notice by ANZ | ANZ National Bank Limited may terminate Sir J Anderson's employment by providing notice or payment in lieu of notice equal to the unexpired term of the employment agreement (which ends on 15 April 2006). On termination on notice, any options may be exercised in accordance with the ANZ Share Option Plan Rules. |
| Death or Total and Permanent Disablement | Exercise any ZPOs; pro-rata incentive. |
| Termination for serious misconduct | ANZ National Bank Limited may terminate Sir J Anderson's employment at any time without notice for serious misconduct, and Sir J Anderson will only be entitled to payment up to the date of termination. On termination for serious misconduct any ZPOs which have not been exercised as at the termination date will lapse. |

## E3. PARTICIPATION IN EQUITY PROGRAMS

A number of shares and options are granted to executives under the remuneration programs detailed in Section C. For Specified Executives, details of all grants made during the year and legacy LTI programs are listed in Equity Instruments Transactions Section K, of Note 51. Aggregate holdings of shares and options are also shown. The deferred shares component of the LTI is administered under the ANZ Employee Share Acquisition Plan. For executives, the shares are deferred for three years.

The directors and specified executives shares and options disclosures are detailed in Note 51: Directors and Specified Executives – Related Party Transactions.

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS

This note covers the related party transactions (excluding remuneration information as detailed in Note 50) of the directors of the Company and the specified executives as required by AASB1046 "Director and Executive Disclosures by Disclosing Entities" and the Corporations Act 2001.

**Directors**

**Non Executive**
CB Goode
GJ Clark
JC Dahlsen (retired 3 February 2005)
RS Deane
JK Ellis
DM Gonski
MA Jackson
DE Meiklejohn
JP Morschel
BW Scott (retired 23 April 2005)

**Executive**
J McFarlane

**Specified Executives**

Sir J Anderson
Dr RJ Edgar
E Funke Kupper
BC Hartzer
GK Hodges
PR Marriott
S Targett

**Australian Securities and Investments Commission (ASIC) Class Order 98/110 dated 10 July 1998 (as amended)**

The directors and specified executives have been exempted, subject to certain conditions, by an ASIC class order, 98/110 dated 10 July 1998 (as amended), from making disclosures of loans regularly made, guaranteed or secured directly or indirectly by the Group to related parties or in respect of a financial instrument transaction regularly made by the Group to related parties (other than shares and share options), other than to the director or specified executive, or to an entity controlled or significantly influenced by the director or specified executive, where the loan or financial instrument transaction is lawfully made and occurs in the course of ordinary banking business either at arm's length or with the approval of a general meeting of the relevant entity and its ultimate chief entity (if any).

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

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

i) in the case of any material financial instrument transaction, ensure that; and

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

# NOTES TO THE FINANCIAL STATEMENTS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### LOAN TRANSACTIONS

Details regarding loans outstanding at the reporting date to directors and specified executives including personally related parties (subject to the ASIC Class Order 98/110 (as amended) disclosure limitation as described above), where the individuals aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

| | Balance 1 October 2004 | Balance 30 September 2005 | Interest paid and payable in the reporting period | Highest balance in the reporting period |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Directors** | | | | |
| **Non-executive Directors** | | | | |
| J P Morschel | 310,000 | 716,880 | 51,127 | 779,933 |
| J C Dahlsen[1] | 17,695,111 | 14,736,607 | 1,024,458 | 17,695,111 |
| D M Gonski | 18,342,000 | 18,342,000 | 1,097,742 | 18,342,000 |
| **Executive Directors** | | | | |
| J McFarlane[2] | 10,349,429 | 6,264,681 | 495,517 | 16,249,944 |
| **Specified executives** | | | | |
| R J Edgar | 181,814 | 918,284 | 17,001 | 1,130,316 |
| E Funke Kupper | 680,000 | 680,000 | 4,797[3] | 680,000 |
| B C Hartzer | 2,645,581 | 2,703,626 | 163,028[3] | 2,771,944 |
| G K Hodges | 1,172,688 | 1,019,242 | 61,658 | 2,869,921 |

1 J C Dahlsen ceased to be a director in February 2005
2 The loan balances as at 30 September 2005 largely relate to loans for the purchase of ANZ shares, including the exercise of options
3 Interest payments were reduced as a result of a linked offset account

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to each group of directors and specified executives including related parties (subject to the ASIC Class Order 98/110 (as amended) disclosure limitation as described above) are as follows:

| | Balance 1 October 2004 | Balance 30 September 2005 | Interest paid and payable in the reporting period | Number in group at 30 September |
|---|---|---|---|---|
| | $ | $ | $ | |
| **Directors** | | | | |
| 2005 | 46,696,540 | 40,060,168 | 2,668,844 | 4[3] |
| **Specified executives** | | | | |
| 2005 | 4,680,083 | 5,321,152 | 246,483 | 4[3] |

3 Number in the Group includes directors and specified executive with loan balances greater than zero

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

No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

### OTHER TRANSACTIONS OF DIRECTORS AND SPECIFIED EXECUTIVES

**Other transactions (other than shares and share options)**

Under the ASIC class order referred to above, disclosure of other transactions regularly made by the Group is limited to disclosure of such transactions with a director of the Company, specified executives of the Group and to an entity controlled or significantly influenced by the directors and specified executives, on the basis the transactions are:

- on arm's length terms and conditions no more favourable than those entered into by other employees or unrelated customers;
- information about them does not have the potential to affect adversely decisions about the allocations of scarce resources made by users of the financial report, or the discharge of accountability by the director or specified executive; and
- are deemed trivial or domestic in nature.

Transactions between the directors, specified executives and related entities and the Group during the financial year were in the nature of normal personal banking, debentures, investment and deposit transactions. These transactions occurred on an arm's length basis and on normal commercial terms and conditions no more favourable than those given to other employees or customers and were trivial and domestic in nature.

## NOTES TO THE FINANCIAL STATEMENTS

### 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### EQUITY INSTRUMENTS TRANSACTIONS

The Company equity instruments and transactions relating to the Directors of the Company and the Corporations Act 2001 and AASB 1046 specified executives of the Group and Company are detailed as follows:

### A. SHAREHOLDINGS OF NON-EXECUTIVE DIRECTORS (INCLUDING MOVEMENTS DURING THE YEAR)

| Name | Balance of shares as at 1 October 2004[1] | Shares acquired during the year in lieu of salary[2] | Shares resulting from any other change during the year[3] | Balance of shares held as at 30 Sept 2005[1,4] | Balance of shares held as at Financial Report sign-off date[1] |
|---|---|---|---|---|---|
| CB Goode | 502,464 | 20,781 | 12,392 | 535,637 | 559,451 |
| GJ Clark | 2,000 | – | – | 2,000 | 3,766 |
| JC Dahlsen (retired 3 February 2005) | 121,915 | – | (8,441) | 113,474 | 113,474 |
| RS Deane | 75,364 | – | – | 75,364 | 75,364 |
| JK Ellis | 84,476 | 1,703 | 5,017 | 91,196 | 92,658 |
| DM Gonski | 52,612 | 2,055 | 237 | 54,904 | 57,217 |
| MA Jackson | 93,297 | – | – | 93,297 | 93,297 |
| DE Meiklejohn | 4,185 | – | 2,141 | 6,326 | 6,326 |
| JP Morschel | 4,000 | 1,502 | – | 5,502 | 7,268 |
| BW Scott (retired 23 April 2005) | 72,475 | – | (6,494) | 65,981 | 65,981 |

1 Balance of shares held at 1 October 2004, 30 September 2005 and 2 November 2005 (Financial Report sign-off date), includes directly held shares, nominally held shares and shares held by personally related entities.
2 All shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to Section B3 of Note 50, for an overview of the Directors' Share Plan).
3 Other shares resulting from any other changes during the year include the net result of any shares purchased, sold or acquired under the Dividend Reinvestment Plan.
4 The following shares were nominally held as at 30 September 2005: CB Goode – 141,860; RS Deane – 73,000; JK Ellis – 23,900; DM Gonski – 52,159; MA Jackson – 10,632; DE Meiklejohn – 2,656; JP Morschel – 1,502.

### B. SHAREHOLDINGS OF CHIEF EXECUTIVE OFFICER (CEO) (INCLUDING MOVEMENTS DURING THE YEAR)

| Balance of shares as at 1 Oct 2004[1] | Shares acquired during the year in lieu of salary[2] | Performance shares granted during the year[3,4] | Value of performance shares granted during the year[5] $ | Shares acquired during the year through the exercise of options[6] | Shares resulting from any other change during the year[7] | Balance of shares held as at 30 Sep 2005[1,8] | Balance of shares held as at Financial Report sign-off date[1] |
|---|---|---|---|---|---|---|---|
| 1,690,507 | 89,995 | 175,000 | 2,628,500 | 500,000 | (635,787) | 1,819,715 | 1,820,056 |

1 Balance of shares held at 1 October 2004, 30 September 2005 and 2 November 2005 (Financial Report sign-off date) includes directly held shares, nominally held shares and shares held by personally related entities.
2 All shares acquired in lieu of salary were done so under the Directors' Share Plan (refer to Section B3 of Note 50) for an overview of the Directors' Share Plan).
3 The grant of performance shares on 31 December 2004 was approved by shareholders at the 2004 AGM, with the earliest vesting date being 31 December 2006. Refer to Section K3 for further details.
4 Nil performance shares forfeited or vested. The maximum amortisation balance (i.e. 1 October 2005 to vesting date) is $1,645,513 for subsequent financial years, however the value will be nil if the minimum performance hurdle is not achieved.
5 The fair value of performance shares granted during the year is based on the fair value of the shares as at 31 December 2004 ($15.02) multiplied by the number granted.
6 All options held/exercised by the CEO have been approved by shareholders (December 1999 and December 2001).
7 Other shares resulting from any other changes during the year includes the net result of any shares purchased, sold, or acquired under the Dividend Reinvestment Plan. It also includes those shares received on 28 October 2004 in regards to the 2004 incentive (for the period ending 30 September 2004).
8 1,270,176 shares were held nominally as at 30 September 2005.

### C. OPTIONS GRANTED TO CEO[1]

| Type of options | Grant date | First date exercisable | Date of expiry[4] | Exercise price[5] $ | Number granted[6,7] | Number vested during the year | Percentage that vested during the year % | Vested and exercisable as at 30 Sep 2005 | Vested and unexercisable as at 30 Sep 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Hurdled[2] | 31-Dec-01 | 31-Dec-04 | 31-Dec-05 | 16.48 | 500,000 | 500,000 | 100 | – | – |
| Hurdled A | 31-Dec-01 | 31-Dec-03 | 31-Dec-07 | 16.80 | 500,000 | – | – | 500,000 | – |
| Hurdled A | 31-Dec-02 | 31-Dec-04 | 31-Dec-07 | 16.69 | 1,000,000 | 1,000,000 | 100 | 500,000 | 500,000 |
| Hurdled A | 31-Dec-03 | 31-Dec-05 | 31-Dec-08 | 17.48 | 1,000,000 | – | – | – | – |
| Hurdled A[3] | 31-Dec-04 | 31-Dec-06 | 31-Dec-08 | 20.49 | 500,000 | – | – | – | – |
| Total | | | | | 3,500,000 | 1,500,000 | | 1,000,000 | 500,000 |

1 All options held/exercised by the CEO have been approved by shareholders (December 1999 and December 2001).
2 The options may be exercised only if the "ANZ Accumulation Index" over the period from the date on which the options are granted to the last trading day of any month occurring during the relevant exercise period equals or exceeds the "ASX 100 Accumulation Index" calculated over the same period. Refer to Section K1 for Hurdled A details.
3 The fair value per option at the 31 December 2004 grant date is $1.98. Refer to Section I for details of the valuation methodology and inputs.
4 Treatment of options on termination of employment is explained in Section D3 of Note 50.
5 The exercise price is equal to the weighted average share price during the 5 trading days immediately after the Company's Annual General Meeting. Note, the original exercise price of options issued prior to the Renounceable Rights issue in November 2003, have been reduced by 72 cents because of the dilution of share capital associated with the Renounceable Rights issue.
6 Nil options forfeited or expired during the period.
7 The maximum amortisation balance (i.e. 1 October 2005 to vesting date) is $885,321 for subsequent financial years, however the value will be nil if the minimum performance hurdles are not achieved.

### D. OPTION HOLDINGS OF CEO (INCLUDING MOVEMENTS DURING THE YEAR)[1]

| Balance as at 1 Oct 2004 | Granted during the year as remuneration | Value of options granted during the year[2] $ | Exercised during the year | Date of exercise of options | Number of ordinary shares issued on exercise of options | Value of options exercised during the year[3] $ | Share price on date of exercise of options $ | Amount paid per share $ | Balance as at 30 Sep 2005 | Total value of options granted and exercised during the year $ |
|---|---|---|---|---|---|---|---|---|---|---|
| 3,000,000 | 500,000 | 990,000 | 500,000 | 08-Aug-05 | 500,000 | 2,530,000 | 21.54 | 16.48 | 3,000,000 | 3,520,000 |

1 All options held/exercised by the CEO have been approved by shareholders (December 1999 and December 2001).
2 The value of options granted during the year is based on the fair value of the option ($1.98) multiplied by the number granted. Refer to section I. for details of the valuation methodology and inputs.
3 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted.

# NOTES TO THE FINANCIAL STATEMENTS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### E. DEFERRED SHARES GRANTED TO SPECIFIED EXECUTIVES

**LTI Deferred Shares**[1]

| Name | Grant date | Vesting date | Number granted[2,3] | Value of deferred shares granted during the year[4] $ | Number that vested during the year | Percentage that vested during the year % |
|---|---|---|---|---|---|---|
| Dr RJ Edgar | 24-Oct-01 | 24-Oct-04 | 2,700 | n/a | 2,700 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 3,200 | n/a | 3,200 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 7,600 | n/a | – | – |
| | 20-May-03 | 20-May-06 | 8,500 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 8,889 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 25,000 | n/a | – | – |
| | 11-May-04 | 11-May-07 | 8,452 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 6,519 | 134,941 | – | – |
| | 05-Nov-04 | 05-Nov-07 | 26,000 | 538,189 | – | – |
| Total | | | 96,860 | 673,130 | 5,900 | 6 |
| E Funke Kupper | 24-Oct-01 | 24-Oct-04 | 6,000 | n/a | 6,000 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 4,500 | n/a | 4,500 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 8,000 | n/a | – | – |
| | 20-May-03 | 20-May-06 | 6,800 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 6,838 | n/a | – | – |
| | 11-May-04 | 11-May-07 | 6,256 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 6,018 | 124,570 | – | – |
| Total | | | 44,412 | 124,570 | 10,500 | 24 |
| BC Hartzer | 24-Oct-01 | 24-Oct-04 | 2,800 | n/a | 2,800 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 4,600 | n/a | 4,600 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 6,600 | n/a | – | – |
| | 20-May-03 | 20-May-06 | 6,500 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 7,408 | n/a | – | – |
| | 11-May-04 | 11-May-07 | 7,135 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 9,127 | 188,925 | – | – |
| Total | | | 44,170 | 188,925 | 7,400 | 17 |
| GK Hodges | 24-Oct-01 | 24-Oct-04 | 1,000 | n/a | 1,000 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 1,400 | n/a | 1,400 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 3,800 | n/a | – | – |
| | 20-May-03 | 20-May-06 | 6,500 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 5,699 | n/a | – | – |
| | 11-May-04 | 11-May-07 | 6,586 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 7,522 | 155,702 | – | – |
| Total | | | 32,507 | 155,702 | 2,400 | 7 |
| PR Marriott | 24-Oct-01 | 24-Oct-04 | 5,700 | n/a | 5,700 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 5,500 | n/a | 5,500 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 9,300 | n/a | – | – |
| | 20-May-03 | 20-May-06 | 9,100 | n/a | – | – |
| | 05-Nov-03 | 05-Nov-06 | 9,573 | n/a | – | – |
| | 11-May-04 | 11-May-07 | 9,275 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 8,475 | 175,429 | – | – |
| Total | | | 56,923 | 175,429 | 11,200 | 20 |
| S Targett | 05-Nov-04 | 05-Nov-07 | 6,519 | 134,941 | – | – |

1 Deferred shares issued as LTI shares were granted under the ANZ Long-Term Incentive Program and relate to those deferred shares granted or vested during the year, and those yet to vest. The shares are restricted for 3 years and may be held in trust for up to ten years. Refer to Section K2 for more details
2 Nil shares forfeited during the year
3 The maximum amortisation balance (i.e. 1 October 2005 to vesting date) for each Specified Executive for subsequent financial years is as follows: Dr RJ Edgar $801,535; E Funke Kupper $220,014; BC Hartzer $275,486; GK Hodges $235,101; PR Marriott $311,436; S Targett $94,397
4 The value of deferred shares granted during the year is based on the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted, multiplied by the number granted

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

## E. DEFERRED SHARES GRANTED TO SPECIFIED EXECUTIVES (continued)

**STI Deferred Shares**[1]

| Name | Grant date | Vesting date | Number granted[2,3] | Number that vested during the year | Percentage that vested during the year % |
|---|---|---|---|---|---|
| Dr RJ Edgar | 24-Oct-01 | 24-Oct-04 | 3,891 | 3,891 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 4,302 | 4,302 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 6,423 | – | – |
| | 20-May-03 | 20-May-06 | 5,622 | – | – |
| | 05-Nov-03 | 05-Nov-06 | 6,781 | – | – |
| | 11-May-04 | 11-May-07 | 7,683 | – | – |
| Total | | | 34,702 | 8,193 | 24 |
| E Funke Kupper | 24-Oct-01 | 24-Oct-04 | 6,510 | 6,510 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 5,724 | 5,724 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 8,554 | – | – |
| | 20-May-03 | 20-May-06 | 4,148 | – | – |
| | 05-Nov-03 | 05-Nov-06 | 7,636 | – | – |
| | 11-May-04 | 11-May-07 | 7,052 | – | – |
| Total | | | 39,624 | 12,234 | 31 |
| BC Hartzer | 24-Oct-01 | 24-Oct-04 | 7,058 | 7,058 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 6,364 | 6,364 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 4,457 | – | – |
| | 20-May-03 | 20-May-06 | 1,992 | – | – |
| | 05-Nov-03 | 05-Nov-06 | 7,322 | – | – |
| | 11-May-04 | 11-May-07 | 7,244 | – | – |
| Total | | | 34,437 | 13,422 | 39 |
| GK Hodges | 24-Oct-01 | 24-Oct-04 | 3,128 | 3,128 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 3,324 | 3,324 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 4,761 | – | – |
| | 20-May-03 | 20-May-06 | 4,503 | – | – |
| | 05-Nov-03 | 05-Nov-06 | 5,129 | – | – |
| | 11-May-04 | 11-May-07 | 5,653 | – | – |
| Total | | | 26,498 | 6,452 | 24 |
| PR Marriott | 24-Oct-01 | 24-Oct-04 | 5,963 | 5,963 | 100 |
| | 24-Apr-02 | 24-Apr-05 | 5,475 | 5,475 | 100 |
| | 23-Oct-02 | 23-Oct-05 | 8,527 | – | – |
| | 20-May-03 | 20-May-06 | 5,403 | – | – |
| | 05-Nov-03 | 05-Nov-06 | 7,978 | – | – |
| | 11-May-04 | 11-May-07 | 9,604 | – | – |
| Total | | | 42,950 | 11,438 | 27 |

1 Deferred shares issued as STI shares were granted under a historical ANZ Short-Term Incentive Program and relate to those deferred shares vested during the year and those yet to vest (STI is now delivered generally as 100% cash, therefore no STI deferred shares were granted to Specified Executives during the year. Refer Section C4.1 of Note 50). The shares are restricted for 3 years and may be held in trust for up to ten years
2 Nil shares forfeited during the year
3 The maximum amortisation balance (i.e. 1 October 2005 to vesting date) for each Specified Executive for subsequent financial years is as follows: Dr RJ Edgar $141,285; E Funke Kupper $135,693; BC Hartzer $125,786; GK Hodges $106,248; PR Marriott $167,451

# NOTES TO THE FINANCIAL STATEMENTS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### E. DEFERRED SHARES GRANTED TO SPECIFIED EXECUTIVES (continued)

**Other Deferred Shares**[1]

| Name | Grant date | Vesting date | Number granted[2,3] | Value of deferred shares granted during the year[4] $ | Number that vested during the year | Percentage that vested during the year % |
|---|---|---|---|---|---|---|
| S Targett | 11-May-04 | 11-May-07 | 38,419 | n/a | – | – |
| | 05-Nov-04 | 05-Nov-07 | 35,105 | 726,659 | – | – |
| | 13-May-05 | 13-May-08 | 32,080 | 707,339 | – | – |
| Total | | | 105,604 | 1,433,998 | – | – |

1 Other deferred shares issued to S Targett relate to the issue of deferred shares (four tranches to the value of $700,000 each to be issued at 6 month intervals in May and November in 2004 and 2005, subject to Board approval and continuing employment) to compensate S Targett for the loss of access to equity as a result of his resignation from his previous employer
2 Nil shares forfeited during the year
3 The maximum amortisation balance (i.e. 1 October 2005 to vesting date) is $1,498,908 for subsequent financial years
4 The value of deferred shares granted during the year is based on the volume weighted average price of the Company's shares traded on the ASX on the day the shares were granted, multiplied by the number granted

### F. SHAREHOLDINGS OF SPECIFIED EXECUTIVES (INCLUDING MOVEMENTS DURING THE YEAR)

| Name | Balance of shares as at 1 Oct 2004[1] | Shares granted during the year as remuneration | Number of shares acquired during the year through exercise of options | Shares resulting from any other change during the year[2] | Balance of shares held as at 30 Sep 2005[1,3] |
|---|---|---|---|---|---|
| Sir J Anderson | 12,022 | – | 22,370 | – | 34,392 |
| Dr RJ Edgar | 384,214 | 32,519 | 75,000 | (70,000) | 421,733 |
| E Funke Kupper[4] | 185,008 | 6,018 | 134,000 | (135,134) | 189,892 |
| BC Hartzer | 79,046 | 9,127 | – | 465 | 88,638 |
| GK Hodges | 139,397 | 7,522 | 55,000 | (55,000) | 146,919 |
| PR Marriott | 677,867 | 8,475 | 80,000 | (124,709) | 641,633 |
| S Targett | 38,419 | 73,704 | – | 1,000 | 113,123 |

1 Balance of shares held at 1 October 2004 and 30 September 2005, include directly held shares, nominally held shares and shares held by personally related entities
2 Other shares resulting from any other changes during the year include the net result of any shares purchased, sold or acquired under the Dividend Reinvestment Plan
3 The following shares were held nominally as at 30 September 2005: Sir J Anderson – 55; Dr RJ Edgar – 213,510; E Funke Kupper – 189,242; BC Hartzer –78,607; GK Hodges – 104,012; PR Marriott – 177,930; S Targett – 112,123
4 Amounts shown do not include ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS).E Funke Kupper held 500 ANZ StEPS as at 1 October 2004; this holding remained unchanged up to and including 30 September 2005. No other Specified Executives held ANZ StEPS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### G. OPTIONS GRANTED TO SPECIFIED EXECUTIVES[1]

| Name | Type of options[2] | Grant date | First date exercisable | Date of expiry[3] | Exercise price[4] $ | Number granted[5,6] | Value per option at grant date for options granted during the year[7] | Number vested during the year | Percentage that vested during the year % | Vested and exercisable as at 30 Sep 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sir J Anderson | Zero-Priced | 05-Nov-04 | 05-Nov-04 | 04-Nov-06 | – | 11,699 | 20.70 | 11,699 | 100 | – |
| | Zero-Priced | 13-May-05 | 13-May-05 | 12-May-07 | – | 10,671 | 22.05 | 10,671 | 100 | – |
| Total | | | | | | 22,370 | | 22,370 | 100 | – |
| Dr RJ Edgar | Hurdled A | 24-Oct-01 | 25-Oct-04 | 24-Oct-08 | 16.33 | 34,000 | n/a | 34,000 | 100 | – |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 41,000 | n/a | 41,000 | 100 | – |
| | Index Linked | 23-Oct-02 | 23-Oct-05 | 22-Oct-09 | 17.34 | 125,000 | n/a | – | – | – |
| | Index Linked | 20-May-03 | 20-May-06 | 19-May-10 | 17.60 | 147,000 | n/a | – | – | – |
| | Hurdled A | 05-Nov-03 | 05-Nov-06 | 04-Nov-10 | 17.55 | 66,666 | n/a | – | – | – |
| | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 63,115 | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 52,000 | 2.50 | – | – | – |
| Total | | | | | | 528,781 | | 75,000 | 14 | – |
| E Funke Kupper | Hurdled A | 24-Oct-01 | 25-Oct-04 | 24-Oct-08 | 16.33 | 77,000 | n/a | 77,000 | 100 | – |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 57,000 | n/a | 57,000 | 100 | – |
| | Index Linked | 23-Oct-02 | 23-Oct-05 | 22-Oct-09 | 17.34 | 131,000 | n/a | – | – | – |
| | Index Linked | 20-May-03 | 20-May-06 | 19-May-10 | 17.60 | 119,000 | n/a | – | – | – |
| | Hurdled A | 05-Nov-03 | 05-Nov-06 | 04-Nov-10 | 17.55 | 51,282 | n/a | – | – | – |
| | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 46,722 | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 48,000 | 2.50 | – | – | – |
| Total | | | | | | 530,004 | | 134,000 | 25 | – |
| BC Hartzer | Hurdled A | 24-Apr-01 | 25-Apr-04 | 24-Apr-08 | 12.98 | 42,000 | n/a | – | – | 42,000 |
| | Hurdled A | 24-Oct-01 | 25-Oct-04 | 24-Oct-08 | 16.33 | 36,000 | n/a | 36,000 | 100 | 36,000 |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 59,000 | n/a | 59,000 | 100 | 59,000 |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 50,000 | n/a | 50,000 | 100 | 50,000 |
| | Index Linked | 23-Oct-02 | 23-Oct-05 | 22-Oct-09 | 17.34 | 109,000 | n/a | – | – | – |
| | Index Linked | 20-May-03 | 20-May-06 | 19-May-10 | 17.60 | 113,000 | n/a | – | – | – |
| | Hurdled A | 05-Nov-03 | 05-Nov-06 | 04-Nov-10 | 17.55 | 55,555 | n/a | – | – | – |
| | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 53,279 | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 72,800 | 2.50 | – | – | – |
| Total | | | | | | 590,634 | | 145,000 | 25 | 187,000 |

### H. OPTION HOLDINGS OF SPECIFIED EXECUTIVES (INCLUDING MOVEMENTS DURING THE YEAR)

| Name | Type of options | Balance as at 1 Oct 2004 | Granted during the year as remuneration | Resulting from any other change during year | Value of options granted during the year[1] $ | Exercised during the year |
|---|---|---|---|---|---|---|
| Sir J Anderson | Zero-priced[1] | – | 22,370 | – | 477,452 | 11,699 |
| | | | | | | 10,671 |
| Dr RJ Edgar | Hurdled | 204,781 | 52,000 | – | 130,000 | 34,000 |
| | | | | | | 41,000 |
| | Index-Linked | 272,000 | – | – | – | – |
| E Funke Kupper | Hurdled | 232,004 | 48,000 | – | 120,000 | 77,000 |
| | | | | | | 57,000 |
| | Index-Linked | 250,000 | – | – | – | – |
| BC Hartzer | Hurdled | 295,834 | 72,800 | – | 182,000 | – |
| | Index-Linked | 222,000 | – | – | – | – |
| GK Hodges | Hurdled | 214,316 | 60,000 | – | 150,000 | 26,000 |
| | | | | | | 16,000 |
| | | | | | | 13,000 |
| | Index-Linked | 176,000 | – | – | – | – |
| PR Marriott | Hurdled | 559,057 | 67,600 | – | 169,000 | 80,000 |
| | Index-Linked | 311,000 | – | – | – | – |
| | Other[4] | 11,000 | – | 442 | – | – |
| S Targett | Hurdled | 307,377 | 52,000 | – | 130,000 | – |

1 The value of options granted during the year is based on the fair value of the option multiplied by the number granted. Refer to section I for details of the valuation methodology and inputs
2 The value per option used in this calculation is based on the difference between the volume weighted average price of the Company's shares traded on the ASX on the day the options were exercised, and the exercise price. This is then multiplied by the number granted

# NOTES TO THE FINANCIAL STATEMENTS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

| Name | Type of options[2] | Grant date | First date exercisable | Date of expiry[3] | Exercise price[4] $ | Number granted[5,6] | Value per option at grant date for options granted during the year[7] | Number vested during the year | Percentage that vested during the year % | Vested and exercisable as at 30 Sep 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| GK Hodges | Hurdled A | 21-Nov-00 | 22-Nov-03 | 21-Nov-07 | 13.62 | 26,000 | n/a | – | – | – |
| | Hurdled A | 24-Apr-01 | 25-Apr-04 | 24-Apr-08 | 12.98 | 16,000 | n/a | – | – | – |
| | Hurdled A | 24-Oct-01 | 25-Oct-04 | 24-Oct-08 | 16.33 | 13,000 | n/a | 13,000 | 100 | – |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 17,400 | n/a | 17,400 | 100 | 17,400 |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 50,000 | n/a | 50,000 | 100 | 50,000 |
| | Index Linked | 23-Oct-02 | 23-Oct-05 | 22-Oct-09 | 17.34 | 63,000 | n/a | – | – | – |
| | Index Linked | 20-May-03 | 20-May-06 | 19-May-10 | 17.60 | 113,000 | n/a | – | – | – |
| | Hurdled A | 05-Nov-03 | 05-Nov-06 | 04-Nov-10 | 17.55 | 42,735 | n/a | – | – | – |
| | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 49,181 | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 60,000 | 2.50 | – | – | – |
| Total | | | | | | 450,316 | | 80,400 | 18 | 67,400 |
| PR Marriott | Hurdled A | 23-Feb-00 | 23-Feb-03 | 22-Feb-07 | 9.39 | 25,000 | n/a | – | – | 25,000 |
| | Hurdled A | 21-Nov-00 | 22-Nov-03 | 21-Nov-07 | 13.62 | 170,000 | n/a | – | – | 170,000 |
| | Hurdled A | 24-Apr-01 | 25-Apr-04 | 24-Apr-08 | 12.98 | 80,000 | n/a | – | – | – |
| | Hurdled A | 24-Oct-01 | 25-Oct-04 | 24-Oct-08 | 16.33 | 73,000 | n/a | 73,000 | 100 | 73,000 |
| | Hurdled A | 24-Apr-02 | 24-Apr-05 | 24-Apr-09 | 18.03 | 70,000 | n/a | 70,000 | 100 | 70,000 |
| | Index Linked | 23-Oct-02 | 23-Oct-05 | 22-Oct-09 | 17.34 | 153,000 | n/a | – | – | – |
| | Index Linked | 20-May-03 | 20-May-06 | 19-May-10 | 17.60 | 158,000 | n/a | – | – | – |
| | Hurdled A | 05-Nov-03 | 05-Nov-06 | 04-Nov-10 | 17.55 | 71,794 | n/a | – | – | – |
| | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 69,263 | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 67,600 | 2.50 | – | – | – |
| Total | | | | | | 937,657 | | 143,000 | 15 | 338,000 |
| S Targett | Hurdled A | 11-May-04 | 11-May-07 | 10-May-11 | 18.22 | 307,377[8] | n/a | – | – | – |
| | Hurdled B | 05-Nov-04 | 05-Nov-07 | 04-Nov-11 | 20.68 | 52,000 | 2.50 | – | – | – |
| Total | | | | | | 359,377 | | – | – | – |

1 Options granted to Specified Executives pertains to these options granted, vested or exercised during the year, options yet to vest and any unexercised options
2 Refer to Section K1 for more details pertaining to hurdled A, hurdled B and index linked options. Refer to Section E2 of Note 50, for further information on zero priced options granted to Sir J Anderson
3 Treatment of options on termination of employment is explained in Section E of Note 50
4 The exercise price is equal to the weighted average share price over the 5 trading days up to and including the grant date. Note, the original exercise price of options issued prior to the Renounceable Rights issue in November 2003, have been reduced by 72 cents because of the dilution of share capital associated with the Renounceable Rights issue. Given index-linked options have a dynamic exercise price, the original exercise price is shown in G (refer to Section K1 for more details)
5 No additional options were granted in the period up to and including 2 November 2005, and nil options forfeited or expired
6 The maximum amortisation balance (i.e. 1 October 2005 to vesting date) for each Specified Executive for subsequent financial years is as follows: Dr RJ Edgar $266,582; E Funke Kupper $218,793; BC Hartzer $272,560; GK Hodges $232,767; PR Marriott $309,425; S Targett $493,628. The value will be nil however, if the minimum performance hurdles are not achieved
7 Refer to section I for details of the valuation methodology and inputs
8 S Targett was granted Hurdled Options to compensate for the loss of equity from S Targett's previous employer

| Date of exercise of options | Number of ordinary shares issued on exercise of options | Value of options exercised during the year[2] $ | Share price on date of exercise of options $ | Amount paid per share $ | Balance as at 30 Sep 2004 | Total value of options granted and exercised during the year[3] $ |
|---|---|---|---|---|---|---|
| 10-Nov-04 | 11,699 | 233,515 | 19.96 | – | – | 940,500 |
| 17-May-05 | 10,671 | 229,533 | 21.51 | – | | |
| 20-May-05 | 34,000 | 187,982 | 21.86 | 16.33 | 181,781 | 474,966 |
| 20-May-05 | 41,000 | 156,984 | 21.86 | 18.03 | | |
| – | – | – | – | – | 272,000 | – |
| 27-Oct-04 | 77,000 | 264,403 | 19.76 | 16.33 | 146,004 | 599,069 |
| 06-May-05 | 57,000 | 214,666 | 21.80 | 18.03 | | |
| – | – | – | – | – | 250,000 | – |
| – | – | – | – | – | 368,634 | 182,000 |
| – | – | – | – | – | 222,000 | – |
| 20-May-05 | 26,000 | 214,211 | 21.86 | 13.62 | 219,316 | 578,148 |
| 20-May-05 | 16,000 | 142,062 | 21.86 | 12.98 | | |
| 20-May-05 | 13,000 | 71,875 | 21.86 | 16.33 | | |
| – | – | – | – | – | 176,000 | – |
| 11-May-05 | 80,000 | 693,116 | 21.64 | 12.98 | 546,657 | 862,116 |
| – | – | | – | – | 311,000 | – |
| – | – | – | – | – | 11,442 | – |
| – | – | – | – | – | 359,377 | 130,000 |

3 Nil options lapsed during the year
4 Other refers to share options granted to a personally related entity. 11,000 of these options were vested and exercisable as at 30 September 2005

# NOTES TO THE FINANCIAL STATEMENTS

## 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

### I. OPTION VALUATIONS

| Option type | Grant date | Option value[1] $ | Exercise price (5 day VWAP) $ | Share price at grant $ | ANZ expected volatility[2] % | Option term (years) | Vesting period (years) | Expected life (years) | Expected dividend yield[3] % | Risk free interest rate[4] % |
|---|---|---|---|---|---|---|---|---|---|---|
| Hurdled | 05-Nov-04 | 2.50 | 20.68 | 20.70 | 18.50 | 7 | 3 | 3 | 5.30 | 5.24 |
| Hurdled (CEO) | 31-Dec-04 | 1.98 | 20.49 | 20.56 | 16.50 | 4 | 2 | 2 | 5.50 | 5.10 |
| Zero-priced | 05-Nov-04 | 20.70 | – | n/a | n/a | 2 | – | n/a | n/a | n/a |
| Zero-priced | 13-May-05 | 22.05 | – | n/a | n/a | 2 | – | n/a | n/a | n/a |

1 The Binomial Option Pricing Model ("the model") is used to assess the value of ANZ's options (other than zero priced options, for which the value is the volume weighted average price of the Company's shares traded on the ASX on the day the options were granted). The model utilises probability theory to determine the value of an ANZ option based on likely share prices at the expiry date of the option. In accordance with AASB 1046 and 1046A, the model reflects both the performance hurdles that currently apply to the Hurdled Options and the non-transferability of the options. Under the terms of the Options, the hurdle conditions (outlined in section K) must be met before the options may be exercised during the exercise period

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

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

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

### J. PERFORMANCE SHARE VALUATION

| Share type | Grant date | Share value[1] $ | Share price at grant $ | ANZ expected volatility[2] % | Term of shares (years) | Vesting period (years) | Expected life (years) | Expected dividend yield[3] % | Risk free interest rate[4] % |
|---|---|---|---|---|---|---|---|---|---|
| CEO Performance Shares | 31-Dec-04 | 15.02 | 20.56 | 16.50 | 5 | 2 | 2 | 5.40 | 5.00 |

1 The Binomial Pricing Model ("the model") is used to assess the value of the Performance Shares. In accordance with AASB 1046 and 1046A, the model utilises probability theory to determine the value of the performance shares which also reflects the performance hurdle. Under the terms of the performance shares, the hurdle conditions (outlined in Section K) must be met before the shares can vest

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

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

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

### K. LEGACY LONG TERM INCENTIVE (LTI) PROGRAMS

**K1 Options (Granted prior to October 2005)**

Each option has the following features:

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

**Hurdled Options (Hurdled B) (Granted November 2004)**

In November 2004 hurdled options were granted with a relative Total Shareholder Return (TSR) performance hurdle attached.

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

**Comparator Group**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 51: DIRECTORS AND SPECIFIED EXECUTIVES - RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

1. Half the options may only be exercised once ANZ's TSR exceeds the percentage change in the S&P/ASX 200 Banks (Industry Group) Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced); and
2. The other half of hurdled options may only be exercised once the ANZ TSR exceeds the percentage change in the S&P/ASX 100 Accumulation Index, measured over the same period (since issue) and calculated as at the last trading day of any month (once the exercise period has commenced).

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

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

**K2 Deferred Shares (Granted from February 2000)**

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

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

Deferred Shares no longer form part of ANZ's Senior Executive LTI program, however there may be circumstances (such as retention) where this type of equity (including Deferred Share Rights) will be issued.

**K3 Performance Shares (Granted December 2004 to CEO)**

In December 2004 Performance Shares were granted to the CEO of ANZ with a relative TSR performance hurdle attached. The proportion of shares that vest will depend upon the TSR achieved by ANZ relative to the companies in the comparator group shown below. Performance equal to the median TSR of the comparator group will result in half the Performance Shares becoming exercisable. Performance above median will result in further Performance Shares becoming exercisable, increasing on a straight-line basis until all of the Performance Shares become exercisable where ANZ's TSR is at or above the 75th percentile in the comparator group. No dividends will be payable on the shares until they vest, with the earliest possible vesting date being 31 December 2006.

**Comparator Group**

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

## 52: DIRECTORS OF CONTROLLED ENTITIES OF THE COMPANY - RELATED PARTY TRANSACTIONS[1]

### LOAN TRANSACTIONS

Loans to executive directors of controlled entities are made pursuant to the Executive Directors' Loan Scheme authorised by shareholders on 18 January 1982. These loans were in the nature of normal personal loans and were made on the same terms and conditions applicable to other eligible employees within the Group in accordance with established policy.

### OTHER TRANSACTIONS OF DIRECTORS AND PERSONALLY RELATED ENTITIES

**i) Financial instrument transactions**

ASIC class order 98/110 dated 10 July 1998 (as amended).

Disclosure of financial instrument transactions regularly made by a bank is limited to disclosure of such transactions with a director of the controlled entity concerned or an entity controlled or significantly influenced by the director of the controlled entity.

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

**ii) Transactions other than financial instrument transactions of banks**

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

All other transactions with directors' personally related entities occur within a normal customer or supplier relationship and are on arm's length terms and conditions.

1 Relates to all other related party disclosures not concerning directors of Australia and New Zealand Banking Group Limited as disclosed in note 51

## 53: TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURE ENTITIES - RELATED PARTY DISCLOSURES

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

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | The Company 2005 $'000 | The Company 2004 $'000 |
|---|---|---|---|---|
| **Aggregate** | | | | |
| Amounts receivable from associates and joint venture entities | 340,916 | 101,835 | 305,493 | 27,553 |
| Interest revenue | 15,920 | 4,078 | 14,464 | 2,422 |
| Dividend revenue | 107,298 | 38,353 | 6,647 | 365 |
| Commissions received from ING Australia joint venture | 122,153 | 87,026 | 114,509 | 80,127 |
| Costs recovered from ING Australia joint venture | 9,430 | 9,776 | 9,430 | 9,761 |

# NOTES TO THE FINANCIAL STATEMENTS

## 54: EXCHANGE RATES

The exchange rates used in the translation of the results and the assets and liabilities of major overseas branches and controlled entities are:

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Closing | Average | Closing | Average | Closing | Average |
| Euro | 0.6325 | 0.6024 | 0.5814 | 0.5968 | 0.5847 | 0.5649 |
| Great British pound | 0.4325 | 0.4142 | 0.3983 | 0.4054 | 0.4070 | 0.3822 |
| New Zealand dollar | 1.0998 | 1.0847 | 1.0700 | 1.1254 | 1.1431 | 1.1139 |
| United States dollar | 0.7623 | 0.7657 | 0.7165 | 0.7263 | 0.6795 | 0.6124 |

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

**Management of the Group's transition to AIFRS**

For reporting periods commencing 1 October 2005, the Group is required to prepare financial statements using Australian Equivalents to International Financial Reporting Standards (AIFRS), issued by the Australian Accounting Standards Board.

On 1 October 2005, the Group commenced application of AIFRS, covering all financial systems and records. The Group will report for the first time in compliance with AIFRS when the results for the half year ending 31 March 2006 are released.

The Group is required to prepare an opening balance sheet in accordance with AIFRS as at 1 October 2004. Most accounting policy adjustments to retrospectively apply AIFRS will be made against retained earnings in this opening balance sheet. However, transitional adjustments relating to those standards for which comparatives are not required will only be made on 1 October 2005. The standards are AASB 132: 'Financial Instruments: Disclosure and Presentation', AASB 139: 'Financial Instruments: Recognition and Measurement', and AASB 4: 'Insurance Contracts'.

**Impact of transition to AIFRS**

The key impacts identified below are based on accounting policy decisions current at the date of this financial report. Further developments in AIFRS attributable to:

- new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board;
- additional guidance on the application of AIFRS to the financial industry; or
- changes to the Group's operations

if any, may result in changes to accounting policy decisions made to date and, consequently, the likely impacts outlined below. Any such changes will be reflected within the Group's first AIFRS compliant statement for the half year ending 31 March 2006, or a later financial report as appropriate.

The key impacts identified below are separated between those applicable for the comparative financial year (ie from 1 October 2004), and those applicable from 1 October 2005.

All amounts are stated on an after tax basis, unless otherwise stated.

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

**Issues with effective impact from 1 October 2004**

### i) Goodwill

| | |
|---|---|
| No initial impact on retained earnings<br><br>Potential volatility in future earnings | The adoption of AIFRS does not impact the carrying amount of goodwill on transition as the Group has elected not to restate past business combinations. Under AIFRS, the past practice of systematically amortising goodwill over the expected period of benefit ceases and is replaced by impairment testing annually or more frequently if events or circumstances indicate that goodwill might be impaired. As a result, the Group amortisation expense for the AIFRS comparative financial year ended 30 September 2005 will decrease by $224 million (including notional INGA goodwill of $43 million). |

### ii) Defined benefits superannuation plan

| | |
|---|---|
| Initial reduction in retained earnings<br><br>Actuarial movements through retained earnings | On adoption of AASB 119: 'Employee Benefits', surpluses (assets) and/or deficits (liabilities) that arise within defined benefit superannuation schemes will be recognised in the statement of financial position.<br><br>Under AGAAP, the Group accounts for the defined benefit superannuation schemes on a cash basis and does not currently recognise an asset or liability for the net position of the defined benefit superannuation schemes.<br><br>The Group has elected to apply the option available under AASB 119 to recognise actuarial gains and losses in the statement of financial position (i.e. the 'direct to retained earnings' approach). The non-cash expense reflecting the notional cost of the benefits accruing to members of the defined benefit schemes in respect of service provided over the reporting period is charged to the statement of financial performance. All transitional adjustments and ongoing movements reported for each scheme will be actuarially determined in accordance with AASB 119.<br><br>At 1 October 2004, the Group will recognise a net liability position of $142 million (Company: $143 million) after recognising a net deferred tax asset of $56 million (Company: $57 million) which will be applied against retained earnings.<br><br>For the AIFRS comparative year ended 30 September 2005, a $35 million adjustment will be made to retained earnings to recognise a decrease in the Group's pension liability, representing largely a net actuarial gain (Company: $32 million). The impact on the statement of financial performance of moving from a contributions basis to a service cost basis is not expected to be material for either the Group and Company. |

### iii) Share based payments

| | |
|---|---|
| Initial reduction in shareholders' equity<br><br>Higher ongoing expenses | The Group currently recognises immediately an expense equal to the full fair value of all deferred shares issued as part of the short term and long term incentive arrangements. The deferred shares vest over one to three years and may be forfeited under certain conditions. The Group does not currently recognise an expense for options issued to staff or for shares issued under the $1,000 employee share plan.<br><br>On adoption of AASB 2: 'Share-based Payment', the Group will recognise an expense for all share based remuneration, including deferred shares and options, and will recognise this expense over the relevant vesting period.<br><br>The Group has elected to retrospectively apply AASB 2 to share based payments granted prior to 7 November 2002.<br><br>On 1 October 2004, this change in accounting policy will result in:<br>▪ the establishment of a share options reserve of $43 million (Company: $43 million) to reflect the fair value of options granted to employees;<br>▪ a reduction in paid up capital of $49 million (Company: $49 million), in order to reflect the fair value of vested shares;<br>▪ recognition of a deferred tax liability of $18 million (Company: $16 million); and<br>▪ a net decrease to retained earnings of $12 million (Company: $13 million). |

## NOTES TO THE FINANCIAL STATEMENTS

### 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

**Issues with effective impact from 1 October 2004 (continued)**

**iii) Share based payments (continued)**

For the AIFRS comparative year ended 30 September 2005, the impact of the change is expected to be:

- an increase in the share options reserve of $23 million (Company: $23 million);
- an increase in paid up capital of $41 million (Company: $41 million); and
- a decrease in profit after tax of $64 million (Company: $57 million).

**iv) Fee Revenue – financial service fees recognised over the period of service**

Initial reduction in retained earnings

Under AASB 118: 'Revenue', certain service type fees (such as administration fees) will be deferred and amortised over the period of service. On 1 October 2004, $3 million (Company: $2 million) of fees that have previously been recognised in the statement of financial performance will be recognised as a liability in the statement of financial position, with a corresponding reduction to retained earnings. For the AIFRS comparative year ended 30 September 2005, the impact of this change on the statement of financial performance for the Group and the Company are expected to be immaterial.

**v) Securitisation**

Additional assets/liabilities recognised

AIFRS has introduced new requirements for the recognition of financial assets, including those transferred to a special purpose entity for securitisation. The accounting treatment of existing securitisations has been reassessed. Consequently, some vehicles, which were previously not consolidated, are being consolidated by the Group. This will result in an increase in assets and liabilities recorded within the statement of financial position of $4,900 million as at 1 October 2004 for the Group.

Vehicles set up for assisting customers securitise their own assets will continue to not be consolidated under AIFRS.

For the comparative AIFRS year ended 30 September 2005, the Group will recognise a decrease of $400 million in both assets and liabilities, reflecting the net impact of repayment and securitisation of new assets during the year.

Within the Group statement of financial performance, income and expenses will be increased to recognise the income and expense items recorded within these vehicles. The overall impact on net profit is expected to be immaterial.

**vi) Foreign currency translation reserve**

Initial increase in retained earnings – no change to shareholders' equity

The Group has elected to apply the option under AASB 121: 'The Effects of Changes in Foreign Exchange Rates', to reset amounts recorded within the Foreign currency translation reserve to zero. On 1 October 2004, adopting this election will result in an increase in retained earnings of $218 million and $233 million for the Group and the Company respectively.

**vii) Asset revaluation reserve – balance relating to land and buildings**

Initial increase in retained earnings – no change to shareholders' equity

The Group has elected to apply the option under AASB 1: 'First time Adoption of Australian Equivalents to International Financial Reporting Standards', to recognise the value of Land and Buildings at deemed cost. As a result, the Group and the Company Asset revaluation reserve of $31 million relating to Land and Buildings will be reset to zero as at 1 October 2004 and adjusted against retained earnings.

**viii) Taxation**

Change in methodology

Immaterial impacts

Under AASB 112: 'Income taxes', a balance sheet method of tax effect accounting will be adopted, replacing the 'statement of financial performance' approach currently used by the Group.

Income tax expense comprises current and deferred taxes, with income tax expense recognised in the statement of financial performance, or recognised in equity to the extent that it relates to items recognised directly in equity.

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

**Issues with effective impact from 1 October 2004 (continued)**

**viii) Taxation (continued)**

Deferred tax is calculated using the balance sheet method by determining temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities as used for taxation purposes.

At 1 October 2004, an additional net deferred tax asset of $14 million (Company: $11 million) will be recognised with a corresponding increase to retained earnings.

**ix) Intangible assets – software**

No impact on earnings

Reclassification only

Capitalised software assets will be reclassified from Premises and Equipment to a separately identifiable intangible asset on transition to AIFRS. For the Group, this will result in a reclassification of $430 million (Company: $375 million) as at 1 October 2004. There will be no impact on the statement of financial performance.

**x) Business Combinations**

No impact

At 1 October 2004, the Group has elected under AASB 1: 'First time Adoption of Australian Equivalents for International Financial Reporting Standards', to not restate the classification and accounting treatment of business combinations that occurred prior to 1 October 2004.

**Issues with effective impact from 1 October 2005**

**xi) Credit loss provisioning**

Initial increase on retained earnings

Volatility in future earnings

AASB 139: 'Financial Instruments: Recognition and Measurement' adopts an incurred loss approach for credit loss provisioning and provides guidance on the measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimated losses on these impaired exposures are then discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the statement of financial performance as interest income.

The current General Provision in the statement of financial position will be replaced on adoption of AIFRS by a Collective Provision.

Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not identified yet. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The Collective Provision under AIFRS shares the same underlying measurement objectives as the current General Provision. However, as a result of the application of a new estimation methodology, certain judgemental risk measures have changed.

The Group believes that the resulting Collective Provision, while lower than the current General Provision, comfortably falls within the probable range of losses that have been incurred but not identified in our portfolio.

On adoption of AIFRS, the current Economic Loss Provisioning (ELP) charge to profit will be replaced by a charge for individual provisions on impaired exposures together with a charge for movements in the Collective Provision.

As a result of these changes:

- at 1 October 2005, there will be a reduction of $6 million to retained earnings for the Group (Company: $3 million) relating to individual provisions on impaired exposures as a result of discounting estimated future cash flows;
- at 1 October 2005, the Collective Provision for the Group will be $307 million less than the AGAAP General Provision (Company: $151 million). After tax, this will result in an increase to retained earnings of $197 million at 1 October 2005 (Company: $102 million). Due to current uncertainty around AIFRS accounting interpretations and the development of Australian industry practice in this area, this Collective Provision on impaired exposures may be subject to further refinement;
- individual provisions and movements in the Collective Provision will be charged direct to the statement of financial performance, driving increased earnings volatility; and
- movements in the Collective Provision will be driven by changes in portfolio size, portfolio mix, credit risk and economic cycles.

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

**Issues with effective impact from 1 October 2005 (continued)**

**xii) Fee Revenue – financial service fees recognised as an adjustment to yield**

Initial reduction in retained earnings

Under AASB 139: 'Financial Instruments: Recognition and Measurement', fee income (such as loan approval fees) integral to the yield of an originated financial instrument (such as loans and advances measured at amortised cost), net of any direct incremental costs, will be capitalised and deferred over the expected life of the financial instrument.

On 1 October 2005, certain fees that have previously been recognised in the statement of financial performance, will be deferred and recognised against net loans and advances in the statement of financial position with a corresponding reduction to retained earnings. The impact will be $266 million and $195 million for the Group and the Company respectively. The annual impact on net profit from this change is not expected to be material. However, there will be an increase in interest income (offset by a reduction in fee income) and a reclassification to interest earning assets of customer's liabilities for acceptances of $13,449 million.

**xiii) Derivative financial instruments including hedging**

Initial reduction in retained earnings

Volatility in future earnings

New assets and liabilities recognised

Under AIFRS, all derivative financial instruments, including those used as hedging instruments, will be measured at fair value and recognised in the statement of financial position. This will require an adjustment to reflect the market value of counterparty risk in the fair value of derivatives. This will result in a decrease in retained earnings of $24 million and $22 million at 1 October 2005 for the Group and Company respectively. (Under AGAAP, counterparty risk is notionally allowed for as part of the General Provision.)

At 1 October 2005, recognition of the fair value of derivatives relating to securitisation vehicles and structured finance transactions will reduce retained earnings by $64 million for the Group (Company: $50 million). The Group continues to evaluate hedging relationships and effectiveness for certain structured finance transactions, which may introduce volatility within the statement of financial performance. Accordingly, the likely AIFRS impact cannot be reliably estimated at present.

AIFRS permits hedge accounting (if certain criteria are met) for fair value hedges, cash flow hedges and hedges of investments in foreign operations. Fair value and cash flow hedge accounting can only be considered where prospective and retrospective effectiveness tests are met and the hedge relationship has been adequately documented. Ineffectiveness precludes the use of hedge accounting. The Group uses cash flow and fair value hedging in respect of its interest rate risk exposures.

As at 1 October 2005, the Group has designated certain fair value and cash flow hedges and financial liabilities as fair value through profit and loss, resulting in an increase in net assets of $97 million (Company: decrease in net assets of $53 million), represented by a decrease in retained earnings of $65 million (Company: $64 million), and an increase in reserves of $162 million (Company: $11 million). Any volatility through the statement of financial performance due to hedge ineffectiveness is not expected to be material.

**xiv) Financial instruments classification and measurement**

Certain assets reclassified and measured at fair value

Initial decrease in retained earnings

Under AIFRS, certain financial assets of the Group currently carried at amortised cost will be either:

- reclassified as available for sale, resulting in measurement at fair value with movements being taken to an 'Available for Sale' equity reserve; or
- reclassified as financial assets held at fair value through the profit and loss, with movements in fair value being taken to the statement of financial performance.

On 1 October 2005, the reclassification of financial assets as either available for sale financial assets or financial assets designated at fair value, will not result in a material adjustment for the Group and the Company.

Under AIFRS, most financial liabilities will continue to be recognised at amortised cost and, as a result, there will be no material adjustment to the statements of financial position and performance.

Financial instruments will be measured under AIFRS at 'bid' or 'offer' prices rather than the current use of 'mid' prices. On 1 October 2005, this change in measurement will result in a decrease to retained earnings of $5 million for the Group and $4 million for the Company.

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

**Issues with effective impact from 1 October 2005 (continued)**

**xv) Classification of hybrid financial instruments**

Reclassification of ANZ StEPS from equity to debt

Under AASB 132: 'Financial Instruments: Disclosure and Presentation', ANZ StEPS, a hybrid Tier 1 instrument currently treated as equity, will be reclassified as debt. Prepaid issue costs, currently offset against the preference share capital balance, will be capitalised and amortised to interest over a 5 year period from the date of issue.

At 1 October 2005, an amount of $987 million will be transferred from Preference Share Capital to Loan Capital, and capitalised prepaid issue costs of $5 million will have been amortised. Ongoing distributions to the holders of ANZ StEPS will be treated as an interest expense in the statement of financial performance rather than as dividends.

**xvi) Accounting for INGA**

Initial reduction in retained earnings

Under AASB 131: 'Interests in Joint Ventures', and in line with current policy, the Group is required to equity account for its interest in INGA. The adoption of AIFRS by INGA will result in the following significant measurement and recognition differences to AGAAP:

- increased policy liabilities resulting from a change in the discount rates applied in the actuarial calculation of policy liabilities and the separate presentation and change in basis of deferred acquisition costs (largely commissions) previously included within net policy liabilities;
- write-off of the excess of the market value over net assets (EMVONA) for INGA's life insurance controlled entities, which under AIFRS will no longer be recognised, together with a reassessment of other non-allowable intangibles; and
- initial entry fee income previously taken upfront will be deferred and amortised to income over time.

The Group's 49% share of INGA's net AIFRS adjustment is $181 million, thus reducing the Group's retained earnings and the carrying value of its interest in INGA as at 1 October 2005.

Following the adoption of AIFRS, the Group's investment in INGA will also be impacted by INGA's adoption of classifying and measuring its shareholder investments as "available for sale" assets. This change in measurement is likely to result in a reduction in investment return volatility experienced by INGA, as only realised gains and losses will be reported in its net profit.

**xvii) Accounting for ING New Zealand**

Immaterial impacts

On 30 September 2005, ANZ announced its funds management and life insurance joint venture with ING had been extended through the creation of a New Zealand joint venture. The adoption of AIFRS by ING New Zealand is not expected to have a material impact on the Group's financial statements.

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

### Summary of Financial Impacts

A summary of the material after-tax financial impacts of conversion to AIFRS is set out in the following tables:

Table 1 represents the impact of the transition to AIFRS on Shareholders' Equity as at 1 October 2004, for those standards with an effective date of 1 October 2004.

Table 2 sets out the additional impacts on Shareholders' Equity as at 1 October 2005 including those standards with an effective date of 1 October 2005.

Table 3 sets out the expected comparative adjustment to the result for the year ended 30 September 2005.

References are provided within the tables to the detailed narrative disclosure in the section above.

### Table 1: Shareholders' Equity Reconciliation as at 1 October 2004

| | Reference | Group $m | The Company $m |
|---|---|---|---|
| **Shareholders' Equity Reconciliation** | | | |
| **Total Shareholders' Equity under AGAAP as at 1 October 2004** | | 17,925 | 16,647 |
| **AIFRS 1 October 2004 After Tax Adjustments to Shareholders' Equity** | | | |
| **Retained Earnings Impacts:** | | | |
| Initial recognition of defined benefit superannuation plans net obligation | ii) | (142) | (143) |
| Net adjustment for share based payments | iii) | (12) | (13) |
| Transfer from Foreign Currency Translation Reserve | vi) | 218 | 233 |
| Transfer from Asset Revaluation Reserve | vii) | 31 | 31 |
| Initial recognition of balance sheet tax effect accounting | viii) | 14 | 11 |
| Other | | (5) | (4) |
| **Foreign Currency Translation Reserve** | | | |
| Transfer to Retained Earnings | vi) | (218) | (233) |
| **Asset Revaluation Reserve** | | | |
| Transfer to Retained Earnings | vii) | (31) | (31) |
| **Other Reserves and Share Capital Impacts** | | | |
| Initial recognition of Share Options Reserve | iii) | 43 | 43 |
| Decrease in paid up capital in respect of share based payments | iii) | (49) | (49) |
| Other | | 2 | 2 |
| **AIFRS restated Shareholders' Equity as at 1 October 2004** | | 17,776 | 16,494 |

## 55: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (CONTINUED)

### Table 2: Shareholders' Equity Reconciliation as at 1 October 2005

| | Reference | Group $m | The Company $m |
|---|---|---|---|
| **AIFRS restated Shareholders' Equity as at 1 October 2004** | Table 1 | 17,776 | 16,494 |
| Other current AGAAP shareholders' equity movements for the year ended 30 September 2005[1] | | (1,455) | (1,150) |
| AIFRS net profit after tax for the year ended 30 September 2005 | Table 3 | 3,182 | 2,178 |
| **AIFRS 1 October 2005 after tax adjustments to shareholders' equity** | | | |
| **Retained Earnings Impacts:** | | | |
| Actuarial movements within defined benefit superannuation plans | ii) | 35 | 32 |
| Adjustment to credit loss provision | xi) | 191 | 99 |
| Deferral of financial services fees recognised as an adjustment to yield | xii) | (266) | (195) |
| Adjustment to reflect counterparty risk in the fair value of derivatives | xiii) | (24) | (22) |
| Recognition of fair value of derivatives[2] | xiii) | (129) | (114) |
| 49% share of INGA joint venture opening AIFRS adjustments | xvi) | (181) | – |
| Other | | (12) | (11) |
| **Other Reserves and Share Capital impacts:** | | | |
| Movements in share options reserve | iii) | 23 | 23 |
| Movement in paid up capital in respect of share based payments | iii) | 41 | 41 |
| Hedge accounting adjustment to establish cash flow hedging reserve | xiii) | 162 | 11 |
| Reclassification of ANZ StEPS hybrid financial instrument from preference share capital to liabilities | xv) | (987) | (987) |
| Other | | 2 | 2 |
| **AIFRS Restated Shareholder's Equity as at 1 October 2005** | | 18,358 | 16,401 |

[1] Represents movements in Shareholders' Equity other than profit for the year:

| | Group | The Company |
|---|---|---|
| Change in Share Capital | 940 | 940 |
| Change in Reserves | (443) | (213) |
| Change in Outside Equity Interests | 9 | – |
| Dividends paid | (1,961) | (1,877) |
| Net adjustment | (1,455) | (1,150) |

[2] Represents the fair value of derivatives
- that no longer meet hedge accounting criteria of $65 million for the Group and $64 million for the Company; and
- relating to securitisation and structured finance transactions of $64 million for the Group and $50 million for the Company including the impact of designating certain financial liabilities as fair value through profit and loss

### Table 3: Restatement of AGAAP after tax profit and loss for the year ended 30 September 2005 to an AIFRS comparative basis

| | Reference | Group $m | The Company $m |
|---|---|---|---|
| **AGAAP Net Profit After Tax for the year ended 30 September 2005** | | 3,018 | 2,227 |
| Writeback of goodwill amortisation | i) | 224 | – |
| Recognition of share based payments expense | iii) | (64) | (57) |
| Other[1] | | 4 | 8 |
| Total AIFRS after tax adjustments to Net Profit After Tax for the year ended 30 September 2005 | | 164 | (49) |
| **AIFRS Net Profit after tax for the year ended 30 September 2005: comparative basis** | | 3,182 | 2,178 |

[1] Comprises after tax profit impact for
- financial services fees recognised over the period of service
- income and expense items recorded within securitisation vehicles, and
- recognition of non-cash pensions expense for defined benefit superannuation plans, net of AGAAP contributions expense

## 56: EVENTS SINCE THE END OF THE FINANCIAL YEAR

There were no significant events from 30 September 2005 to the date of this report.

## DIRECTORS' DECLARATION

The directors of Australia and New Zealand Banking Group Limited declare that:

a) in the directors' opinion the financial statements and notes of the Company and the consolidated entity have been prepared in accordance with the Corporations Act 2001, including that they:

   i) comply with applicable Australian Accounting Standards, and other mandatory professional reporting requirements; and

   ii) give a true and fair view of the financial position of the Company and of the consolidated entity as at 30 September 2005 and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and

b) that the directors have received the declaration under section 295A of the Corporations Act 2001; and

c) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Company and certain of its wholly owned controlled entities (listed in note 47) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission.

The nature of the Deed of Cross Guarantee is to guarantee each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee.

At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.

**Charles Goode**
Director

**John McFarlane**
Chief Executive Officer

2 November 2005

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

## SCOPE

We have audited the financial report of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2005, consisting of the statements of financial performance, statements of financial position, statement of changes in shareholders' equity, statements of cash flows, accompanying notes 1 to 56 and the directors' declaration, set out on pages 2 to 108. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report.

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

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

## AUDIT OPINION

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

a) the *Corporations Act 2001*, including:

   i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 September 2005 and of their performance for the year ended on that date; and

   ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

**KPMG**

**Mitch Craig**
Partner

Melbourne, Australia
2 November 2005

## CRITICAL ACCOUNTING POLICIES

The Group prepares its consolidated financial statements in accordance with Australian Accounting Standards and other authoritative accounting pronouncements. However, notwithstanding the existence of relevant accounting standards, there are a number of critical accounting treatments, which include complex or subjective decisions or assessments. All material changes to accounting policy are approved by the Audit Committee of the Board.

## HISTORICAL CHANGES

There have been no material changes to the Group's critical accounting policies or their related methodologies over the last 3 years.

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

### a) Economic Loss Provisioning

**Description and Significance**

The Group recognises an expense for credit losses 'provision for doubtful debts' based on the average one year loss expected to be incurred if the same loan portfolio was held over an economic cycle. The provision for doubtful debts is booked to the General Provision which is maintained to cover the losses inherent in the Group's existing loan portfolio. The method used by the Group for determining the expense charge is referred to as 'Economic Loss Provisioning' (ELP). The Group uses ELP models to calculate the expected loss by considering:

- the size, composition and risk profile of the current loan portfolio; and
- the history of credit losses for each loan portfolio.

**Ongoing reviews**

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

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

As a result of the reassessments, ELP charge levels may be periodically increased or decreased with a direct impact on profitability.

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

**Quantification of Sensitivity**

The average charge to profit for ELP was 0.25% of average net lending assets or $580 million (Sep 2004: 0.31% or $632 million; Sep 2003: 0.39% or $614 million).

As at September 2005, the balance of the General Provision of $2,167 million (Sep 2004: $1,992 million) represents 0.99% (Sep 2004: 1.01%) of risk weighted assets).

### b) Specific Provisioning

**Description and Significance**

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

When a specific debt loss is identified as being probable, its value is transferred from the general provision to the specific provision. Specific provisioning is applied when the full recovery of one of the Group's exposures is identified as being doubtful resulting in the creation of a specific provision equal to the full amount of the expected loss plus any enforcement/recovery expenses.

Recoveries resulting from proceeds received from accounts which were written off in prior years are transferred back to the General Provision.

**Quantification of Sensitivity**

The recognition of losses has an impact on the size of the General Provision rather than directly impacting profit. However, to the extent that the General Provision is drawn down beyond a prudent amount it will be restored through a transfer from the current year's earnings. The amount of net transfer from the General Provision to the Specific Provision, net of recoveries, during the year was $357 million (Sept 2004: $443 million; Sep 2003: $527 million).

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

**Description and Significance**

The Group recognises assets and liabilities that represent:

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

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

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

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

## CRITICAL ACCOUNTING POLICIES (CONTINUED)

**Quantification of Sensitivity**

Deferred acquisition costs – At 30 September, the Group's assets included $524 million (Sep 2004: $465 million) in relation to costs incurred in acquiring interest earning assets. During the year, amortisation of $258 million (Sep 2004: $218 million) was recognised as an adjustment to the yield earned on interest earning assets.

Software assets – At 30 September, the Group's fixed assets included $381 million (Sep 2004: $430 million) in relation to costs incurred in acquiring and developing software. During the year, depreciation expense of $121 million (Sep 2004: $129 million) was recognised. Following prior periods of above average project activity which replaced significant parts of the Group's core infrastructure, the software depreciation expense is expected to stabilise going forward. Consistent with US accounting rules on software capitalisation, only costs incurred during configuration, coding and installation stages are capitalised. Administrative, preliminary project and post implementation costs including determining performance requirements, vendor selection and training costs are expensed as incurred.

Deferred income – At 30 September, the Group's liabilities included $79 million (Sep 2004: $156 million) in relation to income received in advance. This income is largely comprised of two components: (1) fees received for services not yet completed; and (2) profit made on interest rate swaps from a shortening of the investment term of capital. Under Australian Accounting Standards, this profit is deferred and recognised when the hedged transaction occurs, or immediately if the hedged transaction is no longer expected to occur.

The balances of deferred assets and liabilities at 30 September were:

| | Deferred Acquisition Costs | | Software Assets | | Deferred Income | |
|---|---|---|---|---|---|---|
| | 2005 $m | 2004 $m | 2005 $m | 2004 $m | 2005 $m | 2004 $m |
| Personal | 153 | 145 | 241 | 296 | 27 | 36 |
| Esanda | 284 | 250 | 5 | 8 | – | – |
| New Zealand Business | 61 | 38 | 15 | 30 | 15 | 41 |
| Institutional | 6 | 10 | 47 | 43 | 19 | 11 |
| Other[1] | 20 | 22 | 73 | 53 | 18 | 68 |
| Total | 524 | 465 | 381 | 430 | 79 | 156 |

Deferred acquisition costs analysis

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | Brokerage amortised $m | Brokerage capitalised[2] $m | Balance[3] $m | Brokerage amortised $m | Brokerage capitalised[2] $m | Balance[3] $m |
| Personal | 63 | 71 | 153 | 64 | 66 | 145 |
| Esanda | 165 | 199 | 284 | 147 | 170 | 250 |
| New Zealand Business | 20 | 43 | 61 | 7 | 30 | 38 |
| Institutional | 4 | – | 6 | – | – | 10 |
| Other[1] | 6 | 4 | 20 | – | 24 | 22 |
| Total | 258 | 317 | 524 | 218 | 290 | 465 |

1 Includes Group Centre, Corporate Australia and Asia Pacific
2 Costs capitalised during the year exclude trailer commissions paid, relating to the acquisition of mortgage assets of $83 million (2004: $87 million)
3 Includes capitalised debt raising expenses

### d) Derivatives and Hedging

**Description and Significance**

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

- swaps;
- foreign exchange contacts
- forward rate agreements;
- futures;
- options; and
- combinations of the above instruments.

The Group classifies derivatives into two types according to the purpose they are entered into: trading or hedging.

Income and loss relating to trading derivatives is reported in the statement of financial performance as trading income. The fair value of trading derivatives is recorded on a gross basis as other assets or other liabilities as appropriate unless there is a legal right of set off. The fair value of a derivative financial instrument is the net present value of future expected cash flows arising from that instrument.

In order to be classified as a hedging derivative the hedging relationship must be expected to be effective. Hedging derivatives are accounted for in the same manner as the underlying asset or liability they are hedging. For example, if the hedged instrument is accounted for using the accrual method, the hedging instrument will also be accounted for using the accrual method.

Accounting treatment – Derivative instruments entered into for the purpose of hedging are accounted for on the same basis as the underlying exposures or risks.

## CRITICAL ACCOUNTING POLICIES (CONTINUED)

### d) Derivatives and Hedging

**Description and Significance (continued)**

Derivative instruments entered into to hedge exposures that are not recorded at fair value, do not have their fair values recorded in the Group's Statement of Financial Position.

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

- revenues from and capital invested into foreign operations;
- structured lending transactions;
- lending assets; and
- funding liabilities.

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

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

Fair value determination – Derivatives entered into as part of the Group's trading operations are carried at their fair values with any change in fair value being immediately recognised as part of trading income. Where liquid markets exist, fair value is based on quoted market prices. For certain complex or illiquid derivative instruments, it may be necessary to use projections, estimates and models to determine fair value.

### e) Special purpose and off balance sheet vehicles

The Group may invest in or establish special purpose entities (SPEs), to enable it to undertake specific types of transactions.

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

The table below summarises the main types of SPEs that are not consolidated into the Group, the reason for their establishment, and the key risks associated with them.

| Type of Special Purpose Entity (SPE) | Reason for establishment | Key Risks | SPE Assets 2005 $m | SPE Assets 2004 $m |
|---|---|---|---|---|
| Securitisation vehicles | Assets are transferred to an SPE which funds the purchase by issuing securities.<br><br>Enables ANZ or customers to increase diversity of funding sources.<br><br>The amount disclosed here is the total assets of SPEs managed or arranged by ANZ. It includes SPEs that purchase assets from sellers other than ANZ. | ANZ may manage securitisation vehicles, service assets in a vehicle or provide liquidity or other support and retains the risks associated with the provision of these services. Credit and market risks associated with the underlying assets are not retained or assumed by ANZ except to the limited extent that ANZ provides arm's length services and facilities. | 15,181 | 13,013 |
| Structured finance entities | These entities are set up to assist with the structuring of client financing. | ANZ may retain liquidity risk, if it provides liquidity support to the vehicle. ANZ may also manage these vehicles. | 1,243 | 1,993 |
| Managed funds | These funds invest in specified investments on behalf of clients. | INGA, INGNZ and certain subsidiaries of ANZ National Bank Limited, as managers of the funds, expose ANZ to operational and reputational risk. | 44,779 | 39,544 |

### f) Valuation of investment in ING Australia Limited (INGA)

**Description and significance**

The Group adopts the equity method of accounting for its 49% interest in INGA. As at 30 September 2005, the Group's carrying value was $1,479 million (September 2004: $1,697 million).

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

Any excess of carrying value above recoverable amount is written off to the statement of financial performance.

**Quantification of sensitivity**

During the year the Group engaged Ernst & Young ABC Limited (EY ABC) to provide an independent valuation of INGA for 31 March 2005 assessment purposes. The valuation was a stand alone market based assessment of economic value, and excluded the Group's specific synergies and hedging arrangements. The independent valuation was based on a discounted cashflow approach, with allowance for the cost of capital. EY ABC presented an independent valuation range of $3,458 million to $3,727 million, reflecting a range of sales and cost base assumptions. Based on this review, ANZ believed that no change was required to the carrying value of the investment as at 31 March 2005.

A review for 30 September 2005 reporting purposes revealed there were no indicators of impairment and a further independent review was not required.

## CRITICAL ACCOUNTING POLICIES (CONTINUED)

**g) Valuation of goodwill in ANZ National Bank Ltd**

Goodwill arising from the acquisition of National Bank of New Zealand (NBNZ) is systematically amortised over the period of time during which the benefits of the acquisition are expected to arise, such period of benefit not exceeding 20 years.

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

The Group obtained an independent valuation of ANZ National Bank Limited as at 31 March 2005. This valuation, based on a capitalisation of earnings methodology, calculated the value of ANZ National Bank Limited at a New Zealand geographic and New Zealand business unit reporting level. Based on the results of this valuation, no write-down in the carrying value of goodwill was required.

At 30 September 2005, a management review was conducted to determine whether there were any indicators of impairment in the carrying value of NBNZ goodwill. The assessment did not indicate the existence of impairment indicators and accordingly no write-down was required.

## RISK MANAGEMENT

ANZ recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables ANZ business units to meet their performance objectives.

ANZ approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The Risk function is independent of the business with clear delegations from the Board and operates within a comprehensive framework comprising:

- The Board, providing leadership, setting risk appetite/strategy and monitoring progress.
- A strong framework for development and maintenance of Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals.
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy across the Group.
- Business Unit level accountability, as the "first line of defence", and for the management of risks in alignment with the Group's strategy.
- Independent oversight to ensure Business Unit compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The various risks inherent in the operations of the Group may be broadly grouped together under the following major categories:

### Credit Risk

The Group has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

This framework is top down, being defined firstly by the Group's Vision and Values and secondly, by Credit Principles and Policies. The effectiveness of the credit risk management framework is validated through compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the Group's business units. All major Business Unit credit decisions require approval by both business writers and independent risk personnel.

### Market Risk

ANZ has a detailed market risk management and control framework, to support trading activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading books. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the relative likelihood of those outcomes.

Market risk also includes the risk that the Group will incur increased interest expense arising from funding requirements during periods of poor market liquidity (balance sheet or non-traded market risk). ANZ has a separate risk management and control framework for such risks, which is built around a Board-approved policy and limit framework.

Within overall strategies and policies, control of market risk exposures at Group level is the responsibility of Market Risk, who work closely with the Markets, and Treasury business units.

### Operational Risk

Risk Management is responsible for establishing the Group's operational risk framework and associated Group-level policies. Business Units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

A Risk Drivers and Controls (or "Scorecards") Approach to operational risk measurement is used to measure the operational risk profile of individual business units, and to allocate operational risk economic capital. This approach gives business managers a strong and clear incentive to reduce operational risk.

### Compliance

ANZ conducts its business in accordance with all relevant compliance requirements in each point of representation.

In order to assist the Group identify, manage, monitor and measure its compliance obligations, the Group has a comprehensive regulatory compliance framework in place, which is consistent with the Australian Standard on Compliance Programs (AS 3806) and which addresses both external (regulatory) and internal compliance.

In addition, Group Compliance, a discrete function within Risk Management, is responsible for working in conjunction with Business Unit Compliance teams and other risk management areas to provide a compliance infrastructure and framework to facilitate planning, reporting and management of new and changing business obligations and processes.

### Assocations with Related Entities

ANZ has a policy and compliance plan to provide a framework for managing the risks resulting from associations between the Company, as an Authorised Deposit-taking Institution (ADI), and its "related entities". Under this policy, all dealings between the Company and its related entities are conducted on an arm's-length basis, unless approved by the ANZ Board.

# FINANCIAL INFORMATION

## 1: CROSS BORDER OUTSTANDINGS

Cross border outstandings of the Group to countries which individually represented in excess of 0.75% of the Group's total assets are shown below.

There were no cross border outstandings to any other country exceeding 0.75% of total assets.

Cross border foreign outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk and comprise loans (including accrued interest), placements with banks, acceptances and other monetary assets denominated in currencies other than the borrower's local currency.

For certain countries, local currency obligations are also included. Cross border foreign outstandings are before specific and general provisions.

| | Governments and other official institutions $m | Banks and other financial institutions $m | Other commercial and industrial $m | Total $m | % of Group assets |
|---|---|---|---|---|---|
| **At 30 September 2005** | | | | | |
| USA | 158 | 3,671 | 878 | 4,707 | 1.6 |
| United Kingdom | 94 | 2,192 | 2,320 | 4,606 | 1.6 |
| China | 4 | 2,393 | 159 | 2,556 | 0.9 |
| **At 30 September 2004** | | | | | |
| United Kingdom | 217 | 2,400 | 2,652 | 5,269 | 2.0 |
| USA | 177 | 3,157 | 1,184 | 4,518 | 1.7 |

## 2: CERTIFICATES OF DEPOSIT AND TERM DEPOSIT MATURITIES

The following table shows the maturity profile of the Group's certificates of deposit and term deposits in excess of $100,000 issued at 30 September 2005.

| | Less than 3 months $m | Between 3 months and 6 months $m | Between 6 months and 12 months $m | After 1 year $m | Total $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Certificates of deposit | 9,129 | 1,453 | 200 | 6,730 | 17,512 |
| Term deposits | 17,127 | 2,090 | 1,350 | 210 | 20,777 |
| | 26,256 | 3,543 | 1,550 | 6,940 | 38,289 |
| **Overseas** | | | | | |
| Certificates of deposit | 3,733 | 721 | 487 | 142 | 5,083 |
| Term deposits | 18,017 | 2,887 | 2,044 | 1,004 | 23,952 |
| | 21,750 | 3,608 | 2,531 | 1,146 | 29,035 |
| **Total** | 48,006 | 7,151 | 4,081 | 8,086 | 67,324 |

## FINANCIAL INFORMATION (CONTINUED)

### 3: VOLUME AND RATE ANALYSIS

The following table allocates changes in interest income and interest expense between changes in volume and changes in rate for the past two years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by the change of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

| | 2005 over 2004 Change due to | | | 2004 over 2003 Change due to | | |
|---|---|---|---|---|---|---|
| | Volume $m | Rate $m | Total $m | Volume $m | Rate $m | Total $m |
| **Interest earning assets** | | | | | | |
| **Due from other financial institutions** | | | | | | |
| Australia | 12 | 1 | 13 | 7 | 1 | 8 |
| New Zealand | (2) | 13 | 11 | 84 | 8 | 92 |
| Overseas markets | 7 | 40 | 47 | 6 | (11) | (5) |
| **Investments in public securities** | | | | | | |
| Australia | 53 | 2 | 55 | 42 | 46 | 88 |
| New Zealand | (45) | 28 | (17) | 68 | 9 | 77 |
| Overseas markets | (17) | 10 | (7) | 43 | (26) | 17 |
| **Loans, advances and bills discounted** | | | | | | |
| Australia | 1,492 | 158 | 1,650 | 1,320 | 310 | 1,630 |
| New Zealand | 1,041 | 390 | 1,431 | 2,146 | (82) | 2,064 |
| Overseas markets | (34) | 74 | 40 | (102) | 20 | (82) |
| **Other assets** | | | | | | |
| Australia | 40 | (66) | (26) | (6) | 28 | 22 |
| New Zealand | 20 | 23 | 43 | 25 | (13) | 12 |
| Overseas markets | 81 | (17) | 64 | (75) | 62 | (13) |
| **Intragroup assets** | | | | | | |
| Overseas markets | (28) | 133 | 105 | 17 | 8 | 25 |
| Change in interest income | 2,620 | 789 | 3,409 | 3,575 | 360 | 3,935 |
| Intragroup elimination | 28 | (133) | (105) | (17) | (8) | (25) |
| | 2,648 | 656 | 3,304 | 3,558 | 352 | 3,910 |
| **Interest bearing liabilities** | | | | | | |
| **Time deposits** | | | | | | |
| Australia | 458 | 79 | 537 | 282 | 142 | 424 |
| New Zealand | 277 | 182 | 459 | 557 | 11 | 568 |
| Overseas markets | (43) | 130 | 87 | (45) | 5 | (40) |
| **Savings deposits** | | | | | | |
| Australia | 25 | 36 | 61 | 26 | 47 | 73 |
| New Zealand | 26 | 53 | 79 | 97 | 36 | 133 |
| Overseas markets | – | – | – | – | – | – |
| **Other demand deposits** | | | | | | |
| Australia | 175 | 75 | 250 | 115 | 104 | 219 |
| New Zealand | 71 | 85 | 156 | 174 | (16) | 158 |
| Overseas markets | 2 | 2 | 4 | – | – | – |
| **Due to other financial institutions** | | | | | | |
| Australia | – | 1 | 1 | 28 | 8 | 36 |
| New Zealand | 4 | 13 | 17 | 44 | 9 | 53 |
| Overseas markets | 22 | 67 | 89 | (53) | 19 | (34) |
| **Commercial paper** | | | | | | |
| Australia | (26) | 12 | (14) | 31 | 30 | 61 |
| New Zealand | 58 | 80 | 138 | 383 | – | 383 |
| Overseas markets | (7) | 93 | 86 | 20 | (4) | 16 |
| **Borrowing corporations' debt** | | | | | | |
| Australia | 13 | 19 | 32 | 24 | 10 | 34 |
| New Zealand | 2 | 13 | 15 | 6 | (4) | 2 |
| **Loan capital, bonds and notes** | | | | | | |
| Australia | 482 | 87 | 569 | 522 | 42 | 564 |
| New Zealand | 190 | 24 | 214 | 90 | (6) | 84 |
| Overseas markets | – | 1 | 1 | (1) | – | (1) |
| **Other liabilities** | | | | | | |
| Australia | 43 | (138) | (95) | 186 | 60 | 246 |
| New Zealand | 106 | (26) | 80 | (78) | 64 | (14) |
| Overseas markets | 2 | (2) | – | 18 | (24) | (6) |
| **Intragroup liabilities** | | | | | | |
| Australia | 7 | (1) | 6 | (30) | (123) | (153) |
| New Zealand | 42 | 57 | 99 | 141 | 37 | 178 |
| Change in interest expense | 1,929 | 942 | 2,871 | 2,537 | 447 | 2,984 |
| Intragroup elimination | 28 | (133) | (105) | (17) | (8) | (25) |
| | 1,957 | 809 | 2,766 | 2,520 | 439 | 2,959 |
| Change in net interest income | 691 | (153) | 538 | 1,038 | (87) | 951 |

## 4: CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Off balance sheet transactions of the Group are substantially with other banks.

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Loans and advances[1] $m | Specific provision $m | Loans and advances[1] $m | Specific provision $m | Loans and advances[1] $m | Specific provision $m |
| **Australia** | | | | | | |
| Agriculture, forestry, fishing and mining | 5,303 | 22 | 4,592 | 26 | 3,829 | 71 |
| Business service | 3,912 | 13 | 3,346 | 4 | 2,632 | 4 |
| Entertainment, leisure and tourism | 3,638 | 3 | 3,660 | 7 | 2,632 | 23 |
| Financial, investment and insurance | 4,640 | 4 | 3,548 | 5 | 4,966 | 5 |
| Government and official institutions | 61 | – | 126 | – | 51 | – |
| Lease finance | 2,855 | 2 | 2,667 | 1 | 2,613 | 2 |
| Manufacturing | 5,736 | 35 | 4,734 | 26 | 5,366 | 5 |
| Personal[2] | 23,253 | 26 | 19,491 | 24 | 15,648 | 23 |
| Real estate – construction | 3,082 | 3 | 2,368 | 3 | 1,767 | 4 |
| Real estate – mortgage[3] | 93,275 | 9 | 81,770 | 8 | 69,660 | 11 |
| Retail and wholesale trade | 8,551 | 18 | 7,626 | 21 | 6,821 | 54 |
| Other | 7,445 | 29 | 6,552 | 84 | 5,335 | 65 |
| | 161,751 | 164 | 140,480 | 209 | 121,320 | 267 |
| **Overseas** | | | | | | |
| Agriculture, forestry, fishing and mining | 11,277 | 1 | 10,551 | 43 | 2,756 | 12 |
| Business service | 703 | 2 | 931 | 4 | 323 | 1 |
| Entertainment, leisure and tourism | 1,036 | 7 | 968 | 3 | 534 | 5 |
| Financial, investment and insurance | 2,376 | 14 | 3,288 | 9 | 1,516 | 5 |
| Government and official institutions | 423 | – | 461 | – | 274 | – |
| Lease finance | 856 | – | 604 | 3 | 609 | – |
| Manufacturing | 4,497 | 28 | 4,682 | 21 | 3,654 | 17 |
| Personal[2] | 3,022 | 17 | 2,497 | 4 | 1,771 | 19 |
| Real estate – construction | 804 | 1 | 721 | 9 | 472 | 1 |
| Real estate – mortgage[3] | 39,634 | 8 | 35,400 | 6 | 12,759 | 4 |
| Retail and wholesale trade | 2,533 | 14 | 2,233 | 9 | 1,741 | 9 |
| Other | 6,054 | 17 | 5,998 | 64 | 5,058 | 144 |
| | 73,215 | 109 | 68,334 | 175 | 31,467 | 217 |
| **Total portfolio** | 234,966 | 273 | 208,814 | 384 | 152,787 | 484 |

1 Loans and advances exclude acceptances
2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances
3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

## FINANCIAL INFORMATION (CONTINUED)

### 4: CONCENTRATIONS OF CREDIT RISK (CONTINUED)

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Loans and advances[1] $m | Specific provision $m | Loans and advances[1] $m | Specific provision $m |
| **Australia** | | | | |
| Agriculture, forestry, fishing and mining | 3,436 | 16 | 3,500 | 104 |
| Business service | 2,120 | 5 | 2,044 | 7 |
| Entertainment, leisure and tourism | 2,465 | 28 | 2,293 | 27 |
| Financial, investment and insurance | 4,603 | 13 | 4,311 | 3 |
| Government and official institutions | 67 | – | 122 | – |
| Lease finance | 2,503 | 2 | 2,524 | 5 |
| Manufacturing | 4,303 | 7 | 4,034 | 11 |
| Personal[2] | 14,893 | 27 | 13,435 | 36 |
| Real estate – construction | 1,152 | 5 | 1,198 | 11 |
| Real estate – mortgage[3] | 57,049 | 32 | 49,127 | 13 |
| Retail and wholesale trade | 5,957 | 15 | 6,017 | 16 |
| Other | 3,990 | 61 | 3,850 | 70 |
| | 102,538 | 211 | 92,455 | 303 |
| **Overseas** | | | | |
| Agriculture, forestry, fishing and mining | 2,526 | 3 | 2,686 | 8 |
| Business service | 435 | 1 | 214 | 1 |
| Entertainment, leisure and tourism | 586 | 4 | 361 | 1 |
| Financial, investment and insurance | 1,561 | 21 | 2,276 | 26 |
| Government and official institutions | 212 | – | 372 | 27 |
| Lease finance | 844 | 1 | 936 | 4 |
| Manufacturing | 4,701 | 34 | 5,153 | 30 |
| Personal[2] | 1,848 | 7 | 1,804 | 18 |
| Real estate – construction | 551 | 1 | 921 | 9 |
| Real estate – mortgage[3] | 11,956 | 5 | 11,638 | 12 |
| Retail and wholesale trade | 1,648 | 15 | 2,021 | 18 |
| Other | 5,943 | 282 | 5,853 | 43 |
| | 32,811 | 374 | 34,235 | 197 |
| **Total portfolio** | 135,349 | 585 | 126,690 | 500 |

1 Loans and advances exclude acceptances
2 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances
3 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

# FINANCIAL INFORMATION (CONTINUED)

## 5: DOUBTFUL DEBTS – INDUSTRY ANALYSIS

| | 2005 $m | 2004 $m | 2003 $m | 2002 $m | 2001 $m |
|---|---|---|---|---|---|
| Balance at start of year | 2,376 | 2,018 | 2,081 | 1,886 | 2,082 |
| Adjustment for exchange rate fluctuations | (46) | 51 | (98) | (28) | 32 |
| Acquisition (disposal) of provisions | (13) | 273 | – | – | – |
| Bad debts written off (refer (i) below) | (571) | (680) | (640) | (697) | (834) |
| Charge to statement of financial performance | 580 | 632 | 614 | 860 | 531 |
| Recoveries (refer (ii) below) | 114 | 82 | 61 | 60 | 75 |
| Total provisions for doubtful debts | 2,440 | 2,376 | 2,018 | 2,081 | 1,886 |
| **i) Total write-offs by industry** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry, fishing and mining | (20) | (86) | (4) | (72) | (14) |
| Business service | (20) | (4) | (11) | (8) | (6) |
| Entertainment, leisure and tourism | – | (5) | (3) | (4) | (5) |
| Financial, investment and insurance | (1) | – | (9) | (8) | (7) |
| Lease finance | (14) | (2) | (22) | (7) | (11) |
| Manufacturing | (16) | (15) | (10) | (17) | (22) |
| Personal[1] | (209) | (203) | (177) | (237) | (292) |
| Real estate – construction | (2) | (2) | (10) | (12) | (13) |
| Real estate – mortgage[2] | (4) | (8) | (11) | (19) | (13) |
| Retail and wholesale trade | (29) | (38) | (42) | (47) | (97) |
| Other | (45) | (105) | (15) | (37) | (28) |
| **Overseas** | | | | | |
| Other | (211) | (212) | (326) | (229) | (326) |
| **Total write-offs** | (571) | (680) | (640) | (697) | (834) |
| **ii) Total recoveries by industry** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry, fishing and mining | – | – | 2 | 3 | 5 |
| Business service | – | 1 | 1 | 1 | 1 |
| Entertainment, leisure and tourism | – | – | 1 | 2 | 1 |
| Financial, investment and insurance | – | 1 | 1 | – | 2 |
| Lease finance | 1 | 2 | 2 | 2 | 1 |
| Manufacturing | – | – | 6 | 3 | 2 |
| Personal[1] | 50 | 46 | 24 | 27 | 30 |
| Real estate – construction | 1 | 3 | 3 | 2 | 1 |
| Real estate – mortgage[2] | – | 1 | 1 | 4 | 3 |
| Retail and wholesale trade | 1 | 2 | 3 | 3 | 2 |
| Other | 3 | 2 | – | 1 | 1 |
| **Overseas** | | | | | |
| Other | 58 | 24 | 17 | 12 | 26 |
| **Total recoveries** | 114 | 82 | 61 | 60 | 75 |
| Net write-offs | (457) | (598) | (579) | (637) | (759) |
| Ratio of net write-offs to average loans and acceptances | 0.2% | 0.3% | 0.4% | 0.4% | 0.5% |

1 Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances
2 Real estate mortgage includes residential and commercial property exposure. Loans within this category are for the purchase of such properties and must be secured by property

## FINANCIAL INFORMATION (CONTINUED)

### 6: SHORT TERM BORROWINGS

The Group's short-term borrowings comprise commercial paper, as well as unsecured notes issued by subsidiary borrowing corporations with an original term to maturity of less than one year. The Group has commercial paper programs in the United States, where it issues paper through ANZ (Delaware) Inc., and in Europe and Asia, where the Group issues paper direct.

| | 2005 $m | 2004 $m | 2003 $m |
|---|---|---|---|
| **Balance at end of year** | | | |
| Commercial paper – ANZ (Delaware) Inc. | 6,373 | 7,068 | 6,981 |
| Commercial paper – other | 14,634 | 11,712 | 5,458 |
| Unsecured notes | – | – | – |
| **Weighted average interest rate at end of year** | | | |
| Commercial paper – ANZ (Delaware) Inc. | 3.66% | 1.68% | 1.07% |
| Commercial paper – other | 6.40% | 5.41% | 4.76% |
| Unsecured notes | – | – | – |
| **Maximum amount outstanding at any month end during year** | | | |
| Commercial paper – ANZ (Delaware) Inc. | 6,822 | 7,068 | 6,988 |
| Commercial paper – other | 14,925 | 18,387 | 7,407 |
| Unsecured notes | – | – | 7 |
| **Average amount outstanding during year** | | | |
| Commercial paper – ANZ (Delaware) Inc. | 5,915 | 6,485 | 4,740 |
| Commercial paper – other | 13,072 | 12,588 | 5,216 |
| Unsecured notes | – | – | 7 |
| **Weighted average interest rate during year** | | | |
| Commercial paper – ANZ (Delaware) Inc. | 2.71% | 1.14% | 1.22% |
| Commercial paper – other | 6.26% | 5.53% | 4.83% |
| Unsecured notes | – | – | 5.85% |

## GLOSSARY

**Asia Pacific** provides primarily retail and corporate banking services in the Pacific Region and Asia, including ANZ's share of PT Panin Bank in Indonesia; this division excludes Institutional businesses in the Asia Pacific region that are included in the Institutional result.

**Corporate** consists of Corporate Banking, Business Banking and Small Business Banking in Australia.

- Small Business Banking - provides business banking services to metropolitan-based small businesses, with business banking funds under management of up to $50,000.
- Business Banking - provides a full range of banking services to metropolitan-based small to medium businesses, with turnover up to $10 million and business banking funds under management of more than $50,000.
- Corporate Banking - manages customer relationships and develops financial solutions for medium-sized businesses, with a turnover of $10 million to $150 million.

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

**Equity standardisation.** Economic Value Added (EVA™) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

**Esanda and UDC** comprises Esanda Finance Corporation Limited and UDC Finance Corporation Limited. They provide vehicle and equipment finance, rental services and fixed and at call investments. Operating in Australia as Esanda and Esanda FleetPartners, and in New Zealand as UDC and Esanda FleetPartners.

**Group Centre** provides support to the other segments in the areas of People Capital, Risk Management, Finance, Operations, Technology, Strategy and Treasury.

**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.

**ING Australia (INGA),** the joint venture between the Group and ING Group.

**Institutional** is a segment encompassing businesses that provide a full range of financial services to the Group's largest corporate and institutional customers.

- Client Relationship Group - manages customer relationships and develops financial services solutions and strategies for large businesses with a turnover greater than $150 million in Australia and New Zealand and, through corporate clients where the Group has an existing customer relationship, in the United Kingdom, United States and Asia.
- Trade and Transaction Services - provides cash management, trade finance, international payments, clearing and custodian services principally to corporate and institutional customers.
- Markets - provides origination, underwriting, structuring, risk management, advice and sale of credit and derivative products, foreign exchange and commodity trading and sales-related services, globally.
- Corporate and Structured Financing - provides complex financing and advisory services, structured financial products, leasing, private equity, project and leveraged finance and infrastructure investment to ANZ's corporate, institutional, and small business customers.

**Net advances** include gross loans and advances and acceptances less income yet to mature and 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,** which are 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 on impaired assets) less recoveries.

**New Zealand Business** comprises

- ANZ Retail - operating under the ANZ brand in New Zealand, provides a full range of banking service to personal and business banking customers.
- NBNZ Retail - operating under the National Bank brand in New Zealand, provides a full range of banking services to personal customers from youth through to private banking, and business banking customers with turnover up to NZD5 million.
- Corporate Banking - incorporates the ANZ and NBNZ brands in New Zealand, and provides financial solutions through a relationship management model for medium-sized businesses with a turnover up to NZD100 million.
- Rural Banking - provides a full range of banking services to rural and agribusiness customers in New Zealand.
- NBNZ - refers to the operations of the National Bank of New Zealand Limited purchased on 1 December 2003. These operations were amalgamated with ANZ Banking Group (New Zealand) Limited on 26 June 2004 to form ANZ National Bank Limited. NBNZ was reported as a separate business unit until 30 September 2004.

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

**Operations, Technology and Shared Services** comprises the Group's core support units responsible for operating the Group's global technology platforms, development and maintenance of business applications, information security, the Group's payments back-office processing, and the provision of other essential shared services to the Group, including property, human resources operations, procurement and outsourcing.

**Overseas** includes the results of all operations outside Australia, except if New Zealand is separately shown.

**Overseas markets** includes all operations outside of Australia and New Zealand. The Group's geographic segments are Australia, New Zealand and Overseas markets.

**Personal** comprises the following business in Australia:

- Banking Products - manufactures deposit, transaction account and margin lending products.
- Consumer Finance - provides consumer and commercial credit cards, ePayment products, personal loans, and merchant payment and ATM facilities.
- Mortgages - provides mortgage finance secured by residential real estate in Australia.
- Regional Commercial and Agribusiness Products - provides a full range of banking services to personal customers across Australia, and to small business and agricultural customers in rural Australia.
- Wealth Management - comprises the equity accounted earnings from INGA's core business operations (excludes investment earnings) and the Financial Planning distribution business.
- Other - includes the branch network, whose costs are full recovered from product business units, Private Banking and marketing and support costs.

**Service transfer pricing** is used to allocate services that are provided by central areas to each of its business units. The objective of service transfer pricing is to remove cross-subsidies between business units, and ensure each business accounts for the cost of the services it uses.

Service transfer pricing charges are reported in the profit and loss statement of each business unit as:

- Net inter business unit fees - includes intra-group receipts or payments for sales commissions and branch service fees. A product business will pay a distribution channel for product sales. Both the payment and receipt are shown as net inter business unit fees.
- Net inter business unit expenses - consists of the charges made to business units for the provision of support services. Both payments by business units and receipts by service providers are shown as net inter business unit expenses.

**Total advances** include gross loans and advances and acceptances less income yet to mature (for both as at and average volumes).

**Treasury** is the banker to all ANZ businesses charged with providing cashflow support, ensuring liquidity, managing interest rate risk and providing capital to the businesses.

**Unproductive facilities** comprise certain facilities (such as standby letters of credit, bill endorsements, documentary letters of credit and guarantees to third parties, undrawn facilities to which the Group is irrevocably committed and market related exposures) where the customer status is defined as non-accrual.

## ALPHABETICAL INDEX

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Australia and New Zealand Banking Group Limited
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