# Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

## *Consolidated Financial Report Dividend Announcement and Appendix 4B*

## Half year 31 March 2002

# Media Release

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For Release: 26 April 2002

# ANZ interim earnings up 17.3%

Australia and New Zealand Banking Group Limited (ANZ) today announced a record operating profit after tax of $1,050 million for the half year ended March 2002 against $895 million for the same period last year. Earnings per share were up 18.8% to 66.3 cents.

- **Profit after Tax $1,050 million from $895 million - up 17.3%**
- **Earnings per ordinary share 66.3 cents from 55.8 cents - up 18.8%**
- **Interim dividend 39 cents fully franked from 33 cents - up 18.2%**
- **Return on equity 21.6% from 19.6%**

ANZ Chairman, Mr Charles Goode said: “This is a good result in a challenging environment. The consistency of our performance is the result of continued hard work in strategically repositioning ANZ and in building a high performance organisation”.

“We have achieved good earnings growth and a high return on equity that has remained above 20%. We ended the half well on track against our public financial targets and with a strong financial and capital position. Management and staff are to be congratulated,” Mr Goode said.

ANZ Chief Executive Officer, Mr John McFarlane said: “We have embraced a unique strategy that is creating a very different bank. We are successfully reshaping our business portfolio, improving performance, reducing risk, and creating a vibrant culture inside the Bank”.

“In contrast to the previous cycle, we are also demonstrating a capacity to perform well in more difficult economic circumstances and in an environment of major corporate collapses and higher global risk.

“We continue to face the challenge of achieving real balance between the interests of shareholders, staff, customers and the community. It is no longer about promises. It is about urgent and tangible action that demonstrates we put customers first, that we lead and inspire our people, and that we are worthy of the community’s trust, while meeting shareholders’ expectations.

“This is an enormous task. We know we have much still to do, but we have made substantive progress in each of these areas. We are now intent in doing what is necessary to finish the job. Only then can we stand up and be truly proud of our achievements,” Mr McFarlane said.

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# Chief Executive Officer's Review
# 2002 Interim Results

I am pleased to report our 7th successive increase in half-yearly profit, up 17% on the same period last year. We were also up 8% on a very strong prior half. Equally, earnings per share were up 19% and 8% respectively. We ended the half well on track against our public financial targets and with a strong financial and capital position.

| Measure | 2003 Target | March 2002 |
|---|---|---|
| EPS growth | 10% | 18.8% |
| Return on equity | 20% | 21.6% |
| Cost-income ratio | 45% | 46.5% |
| Credit rating | AA category | AA- |
| Inner tier 1 | 6.0% | 6.8% |

As at 31 March 2002 our capital position was above the target range, in order to absorb the capital contribution following the recently announced wealth management joint venture with ING. Both Moody's and Standard & Poor's affirmed our strong AA category rating.

Notably, and for the first time in recent cycles, ANZ has emerged largely unscathed from a period of significant global economic weakness and instability. Traditionally, ANZ's performance has been closely linked to the vagaries of the economic cycle as demonstrated in 1992, when our shareholders saw how vulnerable we used to be. Today ANZ is a different bank.

In recent years we have undertaken a wide range of initiatives to reduce risk, to improve performance, to reshape our portfolio of businesses and to create a high performance culture. While we still have some way to go, the collective impact of these initiatives is now increasingly evident in the quality and consistency of our financial results, and in our ability to withstand unexpected surprises such as the collapse of Enron, which was the cause of the increased specific provision in the half.

Consistent with our philosophy of holding prudent capital and reserves, we took the opportunity to increase our general provision for doubtful debts by $250 million. This enhances our capacity to deal with similar issues should they arise.

Earlier this year, we also settled the longstanding litigation with the National Housing Bank in India. This enabled us to recover $248 million of the provision we made when the Group sold Grindlays Bank to Standard Chartered Bank in 2000.

In the last year, we have seen the rapid and unexpected collapse of several large corporations that have caused significant credit problems for the banking industry. As a consequence, specific provisions for the half were higher than expected and rose to $366 million. We were able to absorb this and still produce a good result.

As an important step in continuing to lower the risk profile of ANZ, we have taken steps to mitigate the impact of such circumstances in the future by reducing our single customer concentration limits and by increasing our general provision to one of the strongest in the industry.

During the half we also experienced an environment of low interest rates and higher economic uncertainty. This impacted our businesses in different ways. Strong consumer confidence supported growth in Consumer Finance, Small Business and Wealth Management. Increased volumes in the deposit market were offset by tighter margins from competitive pricing. Mortgage growth was reasonable but margins stabilised. Despite subdued financial market activity and lower levels of business investment, our Corporate and Investment Banking businesses generally performed well.

All but three of our 16 businesses grew their profits over the last year and the majority achieved double-digit growth. This demonstrates the strength of our specialised business strategy and the benefits of a diversified portfolio of businesses. It also highlights our caution on risk, our tight cost discipline, our management capability and our performance-oriented culture.

At the end of the half, we announced a wealth management joint venture with ING. This is an exciting strategic development that fills this strategic gap. In a single move, it creates a unique strategic position in this high growth sector, and takes us jointly to the number four position in retail funds management in Australia and to the number one position in New Zealand. Importantly also, it creates an opportunity for further organic growth from over 6,000 professional financial advisers in addition to ANZ's own distribution network, and provides a strong platform for further strategic moves.

Looking forward, our aim is to be in a leadership position in all of our businesses. We already achieve this in a number of corporate and personal businesses, but we need to achieve higher growth in the others, particularly on the personal side through organic growth, further reshaping of our business portfolio, and through the creation of new growth options.

We are also positioning ANZ to take advantage of more significant strategic opportunities as they arise while maintaining our strategic options for the potential consolidation of the industry.

We continue to face the challenge of balancing the interests of shareholders, staff, customers and the community. Making real progress in these areas is fundamental, not only for the reputation of ANZ and the industry, but also for sustainable value creation. In the recent past we launched a range of initiatives, which we believe are now differentiating ANZ in the community:

- simpler low cost transaction accounts for everyone
- free transaction banking for customers over 60
- a Customer Advocate to help prevent and to resolve disputes
- a firm stand on rural branch closures

As a result, our customer retention is rising and an increasing number of people are opening new accounts with us.

Staff satisfaction is also improving across the board. Almost all our staff own shares in ANZ. Since its recent launch, over 3,000 managers and staff have taken part in our cultural development programme "Breakout", and we plan to train a further 3,000 this year. We believe the calibre of our people, the way we work together and the unique culture we are creating will give us the platform to outperform our competitors.

With regard to the immediate outlook, we expect the Australian and New Zealand economies to perform relatively well and for overseas markets to begin to strengthen from their low base. Loan demand is expected to remain reasonably subdued, and rising domestic interest rates are likely to cause a squeeze on mortgage margins, partially offset by an improvement in deposit margins. Loan losses tend to lag the economic cycle and these are expected to remain moderately high, although at levels that are manageable. Expense growth is being managed within the revenue growth rate, which should lead to further improvement in the cost-income ratio.

In summary, we had a very credible first half, particularly in the light of the subdued domestic environment, the international recession, the aftermath of September 11, and the collapse of Enron. For the first time in recent memory ANZ came through the cyclical downturn with consistent earnings performance, containable loan losses and in a strong financial condition.

Our unique strategy, a more favourable environment, our seasoned management team, the strong internal energy inside ANZ, and our good external momentum should create an environment for continued performance and value creation. Notwithstanding a very strong second half last year, we continue to expect a favourable operating performance in the second half.

Our 2002 and 2003 targets remain unchanged.

# ANZ Group Management Structure

## Group Leadership

Chief Executive Officer
**John McFarlane**

Group Finance
**Peter Marriott**

Group Treasury

Group Strategic Development
**Peter Hawkins**

Group Customers
**Roger Davis**

Group Risk
**Mark Lawrence**

Group People Capital
**Shane Freeman**

Group Corporate Affairs
**Gerard Brown**

Operations, Technology & Shared Services
**David Boyles**

## Segment Leadership

Personal Banking and Wealth
**Elmer Funke-Kupper**

Pers. Banking Aus
Pers. Banking NZ
Pers. Asia-Pacific
Wealth Management
*(ING Joint-Venture)*

Corporate
**Bob Edgar**

Corporate
Institutional
Global Transaction Services

ANZ Investment Bank
**Grahame Miller**

Global Foreign Exchange
Global Capital Markets
Corporate Financing and Advisory
Global Structured Finance

Consumer Finance
**Brian Hartzer**

Mortgages
**Greg Camm**

Asset Finance
**Elizabeth Proust**

Small-Medium Business
**Graham Hodges**

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

## *CONSOLIDATED FINANCIAL REPORT AND DIVIDEND ANNOUNCEMENT*
Half year ended 31 March 2002

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All amounts are in Australian dollars unless otherwise stated. The information on which this announcement is based has been reviewed by the Group's auditors, KPMG. The Company has a formally constituted Audit Committee of the Board of Directors. This report was approved by resolution of a Committee of the Board of Directors on 26 April 2002.

## *HIGHLIGHTS*

**CHIEF EXECUTIVE OFFICER**
John McFarlane

**Result for half year ended 31 March 2002 compared with half year ended 31 March 2001**

- Net profit after tax $1,050 million, up 17.3% from $895 million
- Earnings per ordinary share 66.3 cents, up 18.8% from 55.8 cents
- Return on ordinary shareholders' equity 21.6% from 19.6%
- Interim dividend 39 cents per share, fully franked, from 33 cents
- Non-interest income up 14%
- Cost to income ratio (excluding NHB recovery) 46.5% from 49.1%
- Provisioning levels increased broadly within expectations:
  - Net specific provisions $366 million from $181 million
  - Economic loss provision $301 million from $241 million
- Special provision of $250 million to increase general provision for doubtful debts
- Joint venture with ING Group creates unique strategic position going forward in funds management and life insurance in Australia and New Zealand
- Litigation with India's National Housing Bank (NHB) settled, with recovery of $248 million before tax
- EVA $718 million up 20.9% from $594 million

**Half year ended 31 March 2002, compared with half year ended 30 September 2001**

- Net profit after tax $1,050 million, up 7.7% from $975 million
- Profit excluding NHB recovery and special provision for doubtful debts $1,066 million up 9.3%
- Earnings per ordinary share up 8% to 66.3 cents from 61.6 cents
- Return on ordinary shareholders' equity 21.6% from 20.9%
- Cost to income ratio (excluding NHB recovery) 46.5% from 47.0%
- Net specific provisions $366 million from $339 million
- Economic loss provision $301 million from $290 million

## *FINANCIAL HIGHLIGHTS*

### Net Profit

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **1,965** | 1,954 | 1,879 | 1% | 5% |
| Other operating income | **1,409** | 1,333 | 1,240 | 6% | 14% |
| Operating income | **3,374** | 3,287 | 3,119 | 3% | 8% |
| Operating expenses | **(1,330)** | (1,553) | (1,539) | -14% | -14% |
| Profit before debt provision | **2,044** | 1,734 | 1,580 | 18% | 29% |
| Provision for doubtful debts | **(551)** | (290) | (241) | 90% | large |
| **Profit before income tax** | **1,493** | 1,444 | 1,339 | 3% | 12% |
| Income tax expense | **(441)** | (468) | (443) | -6% | - |
| Outside equity interests | **(2)** | (1) | (1) | 100% | 100% |
| **Net profit attributable to members of the Company** | **1,050** | 975 | 895 | 8% | 17% |

### Net Profit Reconciliation

| | | | | | |
|---|---|---|---|---|---|
| Profit excluding NHB recovery and special general provision for doubtful debts | **1,066** | 975 | 895 | 9% | 19% |
| Special general provision for doubtful debts after tax | **(175)** | - | - | n/a | n/a |
| Recovery from NHB litigation after tax | **159** | - | - | n/a | n/a |
| **Net profit attributable to members of the Company** | **1,050** | 975 | 895 | 8% | 17% |

### Profit excluding NHB recovery and special general provision for doubtful debts

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **1,965** | 1,954 | 1,879 | 1% | 5% |
| Other operating income | **1,409** | 1,333 | 1,240 | 6% | 14% |
| Operating income | **3,374** | 3,287 | 3,119 | 3% | 8% |
| Operating expenses | **(1,578)** | (1,553) | (1,539) | 2% | 3% |
| Profit before debt provision | **1,796** | 1,734 | 1,580 | 4% | 14% |
| Provision for doubtful debts | **(301)** | (290) | (241) | 4% | 25% |
| **Profit before income tax** | **1,495** | 1,444 | 1,339 | 4% | 12% |
| Income tax expense | **(427)** | (468) | (443) | -9% | -4% |
| Outside equity interests | **(2)** | (1) | (1) | 100% | 100% |
| **Profit excluding NHB recovery and special general provision for doubtful debts** | **1,066** | 975 | 895 | 9% | 19% |

## *FINANCIAL HIGHLIGHTS (continued)*

### Performance Measurements

| | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
|---|---|---|---|
| **Profitability ratios** | | | |
| Return on: | | | |
| Average ordinary shareholders' equity[1] | 21.6% | 20.9% | 19.6% |
| Average assets | 1.18% | 1.11% | 1.04% |
| Average risk weighted assets | 1.53% | 1.41% | 1.35% |
| Total income | 17.1% | 14.8% | 12.6% |
| Net interest average margin | 2.75% | 2.77% | 2.77% |
| Profit per average FTE ($) | 46,464 | 42,575 | 40,062 |
| **Efficiency ratios**[2] | | | |
| Operating expenses (excluding NHB[3] recovery) to operating income | 46.5% | 47.0% | 49.1% |
| Operating expenses (including NHB recovery) to operating income | 39.1% | 47.0% | 49.1% |
| Operating expenses (excluding NHB recovery) to average assets | 1.8% | 1.8% | 1.8% |
| Operating expenses (including NHB recovery) to average assets | 1.5% | 1.8% | 1.8% |
| **Debt provisioning** | | | |
| Economic loss provisioning ($M) | 301 | 290 | 241 |
| Special general provision charge ($M) | 250 | - | - |
| Net specific provisions ($M) | 366 | 339 | 181 |
| **Earnings per ordinary share (cents)** | | | |
| Earnings per ordinary share (basic) | 66.3 | 61.6 | 55.8 |
| Earnings per ordinary share (diluted) | 66.0 | 61.3 | 55.7 |
| **Ordinary share dividends (cents)** | | | |
| Interim - 100% franked (Mar 02: 100% franked) | 39 | n/a | 33 |
| Final - 100% franked (Sep 01: 100% franked) | n/a | 40 | n/a |
| Dividend payout ratio | 58.9% | 65.0% | 58.7% |
| **Preference share dividend** | | | |
| Dividend paid ($M) | 60 | 60 | 59 |

| | | | |
|---|---|---|---|
| **EVA™** | | | |
| Profit after tax excluding NHB recovery and special general provision for doubtful debts | **1,066** | 975 | 895 |
| Imputation credits | **217** | 249 | 228 |
| Risk adjusted profit | **1,283** | 1,224 | 1,123 |
| Cost of economic capital | **(505)** | (483) | (470) |
| Cost of preference share capital | **(60)** | (60) | (59) |
| **EVA™** | **718** | 681 | 594 |

1. *Ordinary shareholders' equity excluding outside equity interests*
2. *Exclude goodwill amortisation*
3. *India's National Housing Bank, refer note 17*

## Statement of Financial Position

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid assets | **6,752** | 7,794 | 5,113 | -13% | 32% |
| Due from other financial institutions | **3,468** | 4,829 | 4,076 | -28% | -15% |
| Trading and investment securities | **7,905** | 8,314 | 8,122 | -5% | -3% |
| Net loans and advances including acceptances | **139,779** | 137,981 | 137,439 | 1% | 2% |
| Other | **18,685** | 26,575 | 26,217 | -30% | -29% |
| **Total assets** | **176,589** | 185,493 | 180,967 | -5% | -2% |
| **Liabilities** | | | | | |
| Due to other financial institutions | **8,215** | 12,690 | 13,376 | -35% | -39% |
| Deposits and other borrowings | **105,616** | 104,874 | 102,046 | 1% | 3% |
| Liability for acceptances | **14,512** | 14,324 | 14,532 | 1% | - |
| Bonds and notes | **14,437** | 15,340 | 13,108 | -6% | 10% |
| Other | **23,006** | 27,714 | 27,705 | -17% | -17% |
| **Total liabilities** | **165,786** | 174,942 | 170,767 | -5% | -3% |
| **Total shareholders' equity** | **10,803** | 10,551 | 10,200 | 2% | 6% |

## *FINANCIAL HIGHLIGHTS (continued)*

### Assets and Capital

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Total assets ($M)** | **176,589** | 185,493 | 180,967 | -5% | -2% |
| **Risk weighted assets ($M)** | **135,418** | 139,129 | 137,000 | -3% | -1% |
| **Shareholders' equity[1, 2] ($M)** | **10,789** | 10,538 | 10,188 | 2% | 6% |
| Total advances ($M) | **142,934** | 141,800 | 140,974 | 1% | 1% |
| Specific provisions ($M) | **(589)** | (500) | (579) | 18% | 2% |
| **Net advances ($M)** | **142,345** | 141,300 | 140,395 | 1% | 1% |
| **Net tangible assets per ordinary share ($)** | **6.14** | 5.96 | 5.71 | 3% | 8% |
| Net tangible assets attributable to ordinary shareholders ($M) | **9,191** | 8,875 | 8,492 | 4% | 8% |
| Total number of ordinary shares (M) | **1,495.7** | 1,488.3 | 1,486.8 | - | 1% |
| **Capital adequacy ratio (%)** | | | | | |
| - Inner Tier 1 | **6.8%** | 6.4% | 6.2% | n/a | n/a |
| - Tier 1 | **7.8%** | 7.5% | 7.3% | n/a | n/a |
| - Tier 2 | **3.1%** | 3.3% | 3.4% | n/a | n/a |
| - Total | **10.4%** | 10.3% | 10.5% | n/a | n/a |
| **General provision ($M)** | **1,546** | 1,386 | 1,460 | 12% | 6% |
| General provision as a % of risk weighted assets | **1.14%** | 1.00% | 1.07% | n/a | n/a |
| **Non-accrual loans ($M)** | | | | | |
| Non-accrual loans | **1,357** | 1,260 | 1,295 | 8% | 5% |
| Specific provisions | **(524)** | (490) | (568) | 7% | -8% |
| Net non-accrual loans | **833** | 770 | 727 | 8% | 15% |
| Specific provision as a % of total non-accrual loans | **38.6%** | 38.9% | 43.9% | n/a | n/a |
| Total provisions[3] as a % of non-accrual loans | **152.5%** | 148.9% | 156.6% | n/a | n/a |
| Net non-accrual loans as a % of net advances | **0.6%** | 0.5% | 0.5% | n/a | n/a |
| Net non-accrual loans as a % of shareholders' equity[4] | **7.7%** | 7.3% | 7.1% | n/a | n/a |
| **Other information** | | | | | |
| **Full time equivalent staff (FTE's)** | **22,737** | 22,501 | 22,815 | 1% | - |
| Assets per FTE ($M) | **7.8** | 8.2 | 7.9 | -5% | -1% |
| Market capitalisation of ordinary shares ($M) | **26,579** | 23,783 | 20,488 | 12% | 30% |

1. *Excludes outside equity interests*
2. *Includes preference share capital of $1,410 million (Sep 2001: $1,526 million; Mar 2001: $1,526 million)*
3. *General provision plus specific provisions on non-accrual loans*
4. *Includes outside equity interests*

**CHIEF FINANCIAL OFFICER**
Peter Marriott

## Overview

Australia and New Zealand Banking Group Limited (ANZ, or the Group) recorded a profit after tax of $1,050 million for the half year ended 31 March 2002, an increase of 17.3% over the March 2001 half year. Adjusting for the 4% reduction in the Australian corporate tax rate, profit after tax increased by 13%. Earnings per ordinary share were 18.8% higher, at 66.3 cents, and return on ordinary shareholders' equity was up from 19.6% to 21.6%.

In January 2002, the Group settled its litigation with National Housing Bank in India (NHB). This resulted in the recovery of $248 million ($159 million after tax), from the net amount of $575 million, which had been provided when the Group sold Grindlays to Standard Chartered Bank.

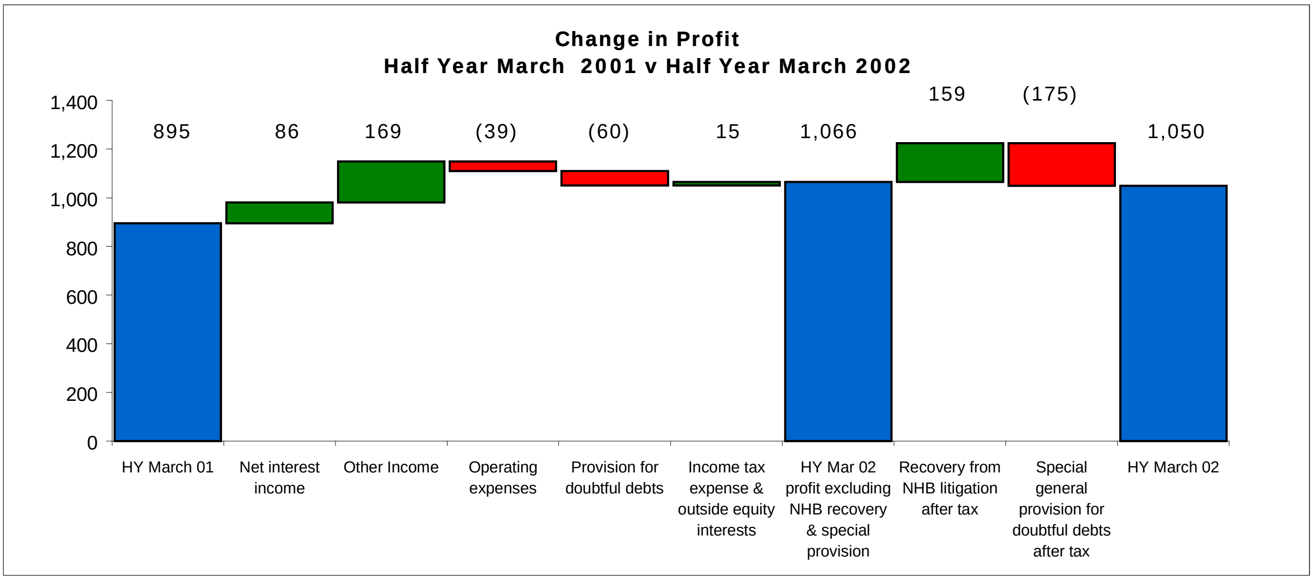
Operating Income was 8% higher than the March 2001 half year, with net interest income up 5% and non-interest income up 14%. Operating Expenses excluding the NHB recovery were 3% ($39 million) higher, with acquisitions and exchange rate movements adding $11 million and $7 million respectively.

The cost income ratio excluding the NHB settlement reduced to 46.5%, with investment in a number of growth initiatives offset by continuing efficiency gains.

Following an assessment of the general provision balance, a special provision for doubtful debts of $250 million has been charged in the half. Our economic loss provisioning models recognise that the general provision balance must be regularly reviewed, and in rare situations, increased to cover unusual events. The balance has been restored to an appropriate level.

Profit after tax, excluding the NHB recovery and the special general provision for doubtful debts, was $1,066 million, an increase of 19% over the March 2001 half year. Adjusting for the tax rate change, the increase was 14%.

On 10 April 2002, the Group entered a contract to sell certain life and general insurance and funds management businesses to a joint venture with ING Group, and acquire a 49% interest in the joint venture (refer note 23). The profit on sale of the businesses (approximately $180 million) will be accounted for in the second half. The sold businesses had a profit of $25 million (after adjustments, refer page 79) in the March 2002 half.



### Comparison with the September 2001 half year

Profit after tax, excluding the NHB recovery and the special provision for doubtful debts, was 9% higher than the September 2001 half year. Adjusting for the tax rate change, the increase was 5%.

Operating income growth was modest, at 3% (net interest income 1%, non-interest income 6%). The March half traditionally has lower activity than the September half, due to the timing of Christmas and the tax year-end. This effect was exacerbated by the impact of September 11 on certain markets and by Easter falling in the March 2002 half.

Total net interest margin reduced by 2 basis points, with falling rates eroding the benefit of non-interest bearing items, yet allowing improved spreads on most assets (excluding mortgages), and balance sheet management activities to widen spreads. Lending growth was constrained, with overall lending margins relatively stable. Mortgage lending increased 7%, whilst corporate lending contracted. There was no securitisation of mortgage assets during the half, with asset funding boosted by a successful campaign to grow deposit volumes. The growth in deposits was offset by lower deposit margins in a falling interest rate environment.

Operating expenses excluding the NHB recovery were held to a $25 million, or 2%, increase. Additional costs of $5 million from acquisitions in the Pacific were partly offset by a reduction of $1 million due to exchange rate movements. Our focus going forward is investment to grow income, whilst continuing to maintain a healthy buffer between income growth and cost growth and thus continuing to lower the cost income ratio.

There has been minor reclassification of amounts collected in interchange fees, to better reflect the substance of transactions where we collect fees to cover amounts we disperse to third parties. The reclassification, which has also been made in prior period comparatives, relates to scheme fees and Cardlink authorisation expenses. Operating expenses and other operating income have been reduced by $18 million in the March 2002 half year (September 2001 half year $18 million; March 2001 half year $21 million).

### Major Projects

Major projects being undertaken across the Group are designed to streamline our processes and to improve our interaction with customers. Our eTransformation program is leveraging the value of technology to create better ways to work and to serve our customers.

Our present projects include:

- A new information technology platform for our branch network. The new system will provide a multi-channel Sales and Service platform for general banking including branches, call centres, business centres, MILs, financial and mobile planners.
- Upgrading merchant EFTPOS devices in Australia and New Zealand with new devices that are able to read smart-chip credit cards.
- Implementation of a Common Administration System to deliver integrated web-based administration across Australia and New Zealand, covering accounts payable, procurement, general ledger, human resources management and payroll, and fixed assets management. This program will increase straight through processing, reduce paper consumption, and encourage employee self service.
- Proponix, a provider of global trade processing services to financial institutions. Proponix implemented trade processing for ANZ in October, and in February announced the opening of a Hong Kong service centre.
- The Payments Transformation Project will simplify the payments architecture of the Bank by replacing a range of existing payments processing applications and functions with a single integrated vendor solution.
- The replacement of the current cards back office processing with VisionPLUS, which is a user friendly and modern system. It has the flexibility to enable us to develop and implement new products and changes much quicker than we currently do.
- Our Restoring Customer Faith program is an initiative designed to radically transform our approach to the business of branch banking. The program aims to enable a customer-centric ownership culture that drives the transformation of the branch network. The pilot program in a Melbourne locality has been running for five months, and the model will now roll out across Victorian Consumer branches. The organisational model empowers our frontline staff, cuts bureaucracy and builds customer and staff advocacy.

The restructuring costs associated with these programs (mainly retrenchment costs, asset write offs and costs of surplus leased space) were provided for centrally at September 2000. Restructuring expenditure against the provision raised at September 2000 was $68 million in the March 2002 half (total spend to date $256 million).

ANZ also announced changes to its Qantas Telstra Visa Card program. The program will now be known as the Qantas ANZ Visa card, and points earned will be redeemable for Qantas award flights. Costs associated with the restructuring of the program were previously provided for.

**Risk**

The Group economic loss provision (ELP) was $301 million, compared with $290 million in the September 2001 half. A new methodology, which has enhanced our measurement of corporate credit risk, was implemented during the March 2002 half. Notably, and recognising recent experience, parameters for usage in the event of default and weightings for off balance sheet credit products have been increased, resulting in higher ELP charges. In addition, a more forward-looking ELP methodology has been developed for the Consumer Finance portfolio, which dynamically responds to modelled risk assessments of the current portfolio. These changes each increased ELP by approximately $15 million and prior period ELP charges in Business Unit results have been restated.

Including the revised methodologies, the calculated ELP charge increased to $273 million in the March 2002 half year, from $266 million, driven principally by volume growth. A larger proportion of mortgage lending and improved risk profiles in Corporate Banking offset deterioration in Institutional Banking and Consumer Finance. The second half of 2001 included a special charge to estimate the impact of September 11. Little effect directly attributable to September 11 is evident in the first half. Nonetheless, recognising the continued uncertain credit markets and unusual level of investment grade defaults the overall ELP rate has been maintained at around 42 basis points with an additional charge taken centrally.

Net specific provisions were $366 million, up from $339 million in the September 2001 half. The collapse of Enron dominated losses in the half with $170 million in new specific provisions representing approximately three-quarters of our exposure. Net non-accrual loans were $833 million at March 2002 compared with $770 million at September 2001 with new non-accruals principally from former investment grade names. The general provision balance at 31 March 2002 was $1,546 million (1.14% of risk weighted assets), compared with $1,386 million (1.00% of risk weighted assets) at 30 September 2001.

**Capital management**

The Group's Tier 1 ratio increased in the half to 7.8%. The total capital adequacy ratio remains strong at 10.4%, with a small reduction in the Tier 2 ratio.

In light of the joint venture with ING Group, we have refined our capital management policy to incorporate non-consolidated vehicles. Our principal focus going forward is Adjusted Common Equity, defined as the Tier 1 capital, less preference shares and deductions from total capital, including investments in funds management subsidiaries. Adjusted Common Equity increased from 6.0% to 6.3% of risk weighted assets, comfortably above our target range of 5.25% to 5.75%, providing the necessary capacity to fund the joint venture from internal resources. The investment in the joint venture increases the deductions from capital, as shown in the table below.

| | Proforma after joint venture $B | Mar 02 $B | Sep 01 $B | Mar 01 $B |
|---|---|---|---|---|
| Tier 1 | 10.8 | 10.6 | 10.4 | 10.0 |
| Preference Shares | (1.4) | (1.4) | (1.5) | (1.5) |
| Deductions | (1.7) | (0.7) | (0.6) | (0.3) |
| **Adjusted Common Equity** | **7.7** | **8.5** | **8.3** | **8.2** |
| **% of risk weighted assets** | **5.7%** | **6.3%** | **5.9%** | **6.0%** |

The Group is managed to maximise value for our shareholders. One measure of shareholder value is EVA™ (Economic Value Added) growth relative to prior periods. EVA™ for the half-year ended 31 March 2002 was $718 million, up from $594 million for the half-year ended 31 March 2001.

EVA™ is a measure of risk adjusted accounting profit. It is based on operating profit after tax, adjusted for one-off items, the cost of capital, imputation credits and economic credit costs. Of these, the major component is the cost of capital, which is calculated on the risk adjusted or economic capital at a rate of 11%.

At ANZ, economic capital is the equity allocated according to a business unit's inherent risk profile. It is allocated for several risk categories including: credit risk, operating risk, interest rate risk, basis risk, mismatch risk, investment risk, trading risk and other risk. The methodology used to allocate capital to business units for risk is designed to help drive appropriate risk management and business strategies throughout the Group.

EVA™ is a key measure for evaluating business unit performance and correspondingly is a key factor in determining the variable component of remuneration packages. Business unit results are equity standardised, by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted or economic capital.

## Business Segment Performance

Under the umbrella of a common vision and over-arching strategy, ANZ is managed as a portfolio of 16 specialist businesses. Some of these businesses are grouped to form segments where there are synergistic benefits. A description of each business, and of segment totals, together with analysis of results is contained on pages 11 to 30.

The Group from time to time modifies the organisation of its businesses to enhance the focus on delivery of specialised products or services to customers. Prior period numbers are adjusted for such organisational changes to allow comparability.

Net profit for each business is determined after service transfer pricing and equity standardisation.

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Personal Banking** | **218** | **214** | **204** | **2%** | **7%** |
| Personal Banking Australia | 129 | 126 | 130 | 2% | -1% |
| Personal Banking New Zealand | 46 | 57 | 46 | -19% | - |
| Personal Banking Pacific Asia | 43 | 31 | 28 | 39% | 54% |
| **Corporate Businesses** | **256** | **240** | **222** | **7%** | **15%** |
| Corporate Banking | 68 | 64 | 61 | 6% | 11% |
| Global Institutional Banking | 113 | 106 | 95 | 7% | 19% |
| Global Transaction Services | 75 | 70 | 66 | 7% | 14% |
| **ANZ Investment Bank** | **155** | **147** | **143** | **5%** | **8%** |
| Global Foreign Exchange | 41 | 46 | 42 | -11% | -2% |
| Global Capital Markets | 32 | 29 | 24 | 10% | 33% |
| Global Structured Finance | 41 | 38 | 39 | 8% | 5% |
| Corporate Finance & Advisory | 41 | 34 | 38 | 21% | 8% |
| **Wealth Management and ANZ Investments** | **80** | **69** | **58** | **16%** | **38%** |
| **Small to Medium Business** | **68** | **62** | **55** | **10%** | **24%** |
| **Mortgages** | **115** | **116** | **108** | **-1%** | **6%** |
| **Consumer Finance** | **79** | **59** | **40** | **34%** | **98%** |
| **Asset Finance** | **49** | **48** | **45** | **2%** | **9%** |
| **Group Treasury** | **63** | **50** | **26** | **26%** | **142%** |
| **Operating segments total** | **1,083** | **1,005** | **901** | **8%** | **20%** |
| **Corporate Centre** | **(17)** | **(30)** | **(6)** | **-43%** | **183%** |
| **Profit excluding NHB recovery and special general provision for doubtful debts** | **1,066** | **975** | **895** | 9% | 19% |

## Compilation of Segment Results

The Group uses **service transfer pricing** mechanisms 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 costs of the services it uses. Transfer pricing arrangements are reviewed periodically. Changes in transfer pricing arrangements in current periods are, to the extent possible, reflected in prior period comparatives to assist comparability.

The profit and loss statement of each business unit includes net inter business unit fees and net inter business unit expenses. This treatment is consistent with the Group's strategy of managing along specialist business lines. Net inter business unit fees includes intra-group receipts or payments for sales commissions. A product business (for example, Mortgages) will pay a distribution channel (for example, Personal Banking) for product sales. Both the payment and receipt are shown as net inter business unit fees. Net inter business unit expenses consist of the charges made to business units for the provision of support services. Examples of services provided include technology and payments, risk management, finance and human resources management. Both payments by business units and receipts by service providers are shown as net inter business unit expenses.

The results of segments may include business units and a support unit. The services provided by the support unit are allocated to the business units. As a result of this allocation, the sum of individual profit and loss line items of the business units may not equal the corresponding line item in the profit and loss statement of the segment.

Return on asset ratios include net intra group assets which are risk weighted at 0% for return on risk weighted assets calculations.

**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 economic capital. This enhances comparability of business unit performance. Changes to the methodology for allocating capital to business units will result, from time to time, in restatements of prior period comparatives. Geographic results are not equity standardised.

### Segments reorganisation

During the half, the former Personal, Corporate and International and Subsidiaries divisions were dissolved and business units were reorganised into the current portfolio. Further reorganisation of the Personal Banking segment is underway to re-position the consumer businesses for future growth.

### Credit cost calculation

A further enhancement to the Group's process for calculating economic loss provision and credit risk capital was implemented during the half (refer page 8). This changed the provision for doubtful debts and net interest income of some business units. Prior period numbers have been restated to give meaningful comparisons.

## PERSONAL BANKING

Elmer Funke Kupper

Comprises Personal Banking Australia, Personal Banking New Zealand and Personal Banking Pacific Asia

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **449** | 462 | 471 | -3% | -5% |
| Other external operating income | **282** | 267 | 244 | 6% | 16% |
| Net inter business unit fees | **191** | 187 | 189 | 2% | 1% |
| **Operating income** | **922** | 916 | 904 | 1% | 2% |
| External operating expenses | **(447)** | (433) | (434) | 3% | 3% |
| Net inter business unit expenses | **(147)** | (153) | (148) | -4% | -1% |
| **Operating expenses** | **(594)** | (586) | (582) | 1% | 2% |
| **Profit before debt provision** | **328** | 330 | 322 | -1% | 2% |
| Provision for doubtful debts | **(16)** | (16) | (15) | - | 7% |
| **Profit before income tax** | **312** | 314 | 307 | -1% | 2% |
| Income tax expense and outside equity interests | **(94)** | (100) | (103) | -6% | -9% |
| **Net profit attributable to members of the Company** | **218** | 214 | 204 | 2% | 7% |
| Net loans & advances including acceptances | **6,220** | 6,333 | 6,309 | -2% | -1% |
| Other external assets | **2,384** | 1,687 | 1,191 | 41% | 100% |
| External assets | **8,604** | 8,020 | 7,500 | 7% | 15% |
| Deposits and other borrowings | **30,152** | 28,133 | 26,362 | 7% | 14% |
| Other external liabilities | **779** | 883 | 824 | -12% | -5% |
| External liabilities | **30,931** | 29,016 | 27,186 | 7% | 14% |
| Net interest average margin | **3.15%** | 3.23% | 3.74% | -2% | -16% |
| Return on assets | **1.43%** | 1.47% | 1.57% | -3% | -9% |
| Return on risk weighted assets | **4.17%** | 4.18% | 4.06% | - | 3% |
| Operating expenses to operating income | **64.3%** | 64.0% | 64.4% | 1% | - |
| Operating expenses to average assets | **3.89%** | 4.03% | 4.48% | -3% | -13% |
| Net specific provisions | **10** | 19 | 12 | -47% | -17% |
| Net specific provision as a % of average net advances | **0.32%** | 0.61% | 0.38% | -48% | -17% |
| Net non-accrual loans | **22** | 24 | 24 | -8% | -8% |
| Net non-accrual loans as a % of net advances | **0.35%** | 0.38% | 0.38% | -7% | -7% |
| Total employees | **8,906** | 8,975 | 9,119 | -1% | -2% |

During a challenging half year, we have been re-positioning the Australasian businesses for future growth, with a goal of transforming our customers' banking experience through the Restoring Customer Faith initiative.

The combined result for Personal Banking reflected the following key factors:

- Net interest income from a liability-based business was reduced by the negative impact on margins of falling Australasian interest rates. This offset a successful campaign to grow customer deposits.
- Significant growth in non-interest income from Pacific Asia.
- Operating expenses increased due to acquisitions ($6 million) and investment in growth initiatives, offset by reductions in ongoing costs.

## PERSONAL BANKING AUSTRALIA

Elmer Funke Kupper

Provides a full range of banking services for personal and rural small business customers in Australia through branches, call centres and on-line banking

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **306** | 316 | 327 | -3% | -6% |
| Other external operating income | **143** | 146 | 130 | -2% | 10% |
| Net inter business unit fees | **166** | 161 | 165 | 3% | 1% |
| **Operating income** | **615** | 623 | 622 | -1% | -1% |
| External operating expenses | **(324)** | (327) | (316) | -1% | 3% |
| Net inter business unit expenses | **(99)** | (100) | (99) | -1% | - |
| **Operating expenses** | **(423)** | (427) | (415) | -1% | 2% |
| **Profit before debt provision** | **192** | 196 | 207 | -2% | -7% |
| Provision for doubtful debts | **(8)** | (9) | (9) | -11% | -11% |
| **Profit before income tax** | **184** | 187 | 198 | -2% | -7% |
| Income tax expense and outside equity interests | **(55)** | (61) | (68) | -10% | -19% |
| **Net profit attributable to members of the Company** | **129** | 126 | 130 | 2% | -1% |
| Operating expenses to operating income | **68.8%** | 68.5% | 66.7% | - | 3% |
| Net specific provisions | **9** | 13 | 9 | -31% | - |
| Net non-accrual loans | **7** | 9 | 14 | -22% | -50% |
| Total employees | **5,559** | 5,853 | 5,885 | -5% | -6% |

Net profit increased by 2% to $129 million, with profit before tax 2% lower. The main features of the result were as follows:

- Strong deposit growth of 9%, following a successful marketing campaign. However the full effect of wholesale interest rate reductions during the half could not be reflected in all deposit products. The resulting fall in margin caused a reduction in net interest income.
- Net inter business unit fees increased due to higher product sales, particularly in home loans which traditionally reflect higher demand in the March half.
- Operating expenses have been reduced by $4 million, driven by various workforce optimisation initiatives, lower non-lending losses and reduced back office costs. This is despite investing in growth initiatives, additional ATMs and improved technology platforms.
- Tax expense benefited from the reduction in the Australian tax rate.

A major initiative, known as Restoring Customer Faith, has been introduced to transform our customers' banking experience and win the trust of the community. The program, which includes empowering local managers to set business strategies for their markets, is currently being implemented in Victoria and other states will follow. There will be further significant investment in the second half, with revenue benefits expected in the fourth quarter.

During the half two new transaction accounts were launched, delivering simplified accounts at lower cost. Early take up of the Access Select and Access Advantage products reflect strong positive customer reaction.

## PERSONAL BANKING NEW ZEALAND

Murray Horn

Provides a full range of banking and wealth management services for consumers across New Zealand

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **88** | 89 | 87 | -1% | 1% |
| Other external operating income | **72** | 77 | 72 | -6% | - |
| Net inter business unit fees | **25** | 26 | 24 | -4% | 4% |
| **Operating income** | **185** | 192 | 183 | -4% | 1% |
| External operating expenses | **(80)** | (67) | (79) | 19% | 1% |
| Net inter business unit expenses | **(34)** | (37) | (34) | -8% | - |
| **Operating expenses** | **(114)** | (104) | (113) | 10% | 1% |
| **Profit before debt provision** | **71** | 88 | 70 | -19% | 1% |
| Provision for doubtful debts | **(2)** | (3) | (2) | -33% | - |
| **Profit before income tax** | **69** | 85 | 68 | -19% | 1% |
| Income tax expense and outside equity interests | **(23)** | (28) | (22) | -18% | 5% |
| **Net profit attributable to members of the Company** | **46** | 57 | 46 | -19% | - |
| Operating expenses to operating income | **61.6%** | 54.2% | 61.7% | 14% | - |
| Net specific provisions | **1** | 3 | 1 | -67% | - |
| Net non-accrual loans | **-** | 4 | - | -100% | n/a |
| Total employees | **1,781** | 1,774 | 1,841 | - | -3% |

Net profit decreased by 19% to $46 million. The second half of 2001 was a record result, with very strong revenue and an abnormally low cost base, due to cost recoveries. The main features of the March 2002 half result were as follows:

- Net interest income declined 1%, with 4% deposit growth, but a significant margin reduction due to falling interest rates and a mix change in favour of lower margin deposits. Lending margins were also down due to competitive pressure.
- Other external income was down 6%, due to soft lending growth and lower transaction fee volumes. In addition, the previous half's result was enhanced by the $2 million gain on sale of a property portfolio of bank branches.
- Net inter business unit fees were lower due to a change in the structure of commissions received on mortgage sales and retentions.
- Operating expenses were up 10%, largely due to one-off cost recoveries which reduced expenses in the second half of 2001, although there has also been some investment in the new sales and service platform, branch refurbishment and new ATM sites.

The New Zealand pilot of the Restoring Customer Faith (refer Personal Banking Australia page 12) initiative is well advanced. Branches are being organised into small areas, with managers running each area as a business. Managers will have greater freedom to deliver a better customer experience. We are also expecting a gradual strengthening of performance in the Wealth Management segment as a result of the recently announced ING joint venture. Because the full benefits of these initiatives will not be realised until 2003, a number of smaller initiatives have been taken, or are well advanced, that will underpin revenue growth in the second half (for example, more active marketing of higher margin liability products and new product offerings).

## PERSONAL BANKING PACIFIC ASIA

Bob Lyon

Provision of primarily retail banking services in the Pacific Region and Asia, including ANZ's share of PT Panin Bank in Indonesia

| | **Half year Mar 02 $M** | **Half year Sep 01 $M** | **Half year Mar 01 $M** | **Movt Mar 02 v. Sep 01 %** | **Movt Mar 02 v. Mar 01 %** |
|---|---|---|---|---|---|
| Net interest income | **55** | 56 | 57 | -2% | -4% |
| Other external operating income | **67** | 44 | 42 | 52% | 60% |
| Net inter business unit fees | **-** | - | - | n/a | n/a |
| **Operating income** | **122** | 100 | 99 | 22% | 23% |
| External operating expenses | **(44)** | (38) | (39) | 16% | 13% |
| Net inter business unit expenses | **(14)** | (16) | (16) | -13% | -13% |
| **Operating expenses** | **(58)** | (54) | (55) | 7% | 5% |
| **Profit before debt provision** | **64** | 46 | 44 | 39% | 45% |
| Provision for doubtful debts | **(5)** | (4) | (4) | 25% | 25% |
| **Profit before income tax** | **59** | 42 | 40 | 40% | 48% |
| Income tax expense and outside equity interests | **(16)** | (11) | (12) | 45% | 33% |
| **Net profit attributable to members of the Company** | **43** | 31 | 28 | 39% | 54% |
| | | | | | |
| Operating expenses to operating income | **46.7%** | 54.0% | 55.6% | -13% | -16% |
| Net specific provisions | **-** | 3 | 2 | -100% | -100% |
| Net non-accrual loans | **14** | 10 | 10 | 40% | 40% |
| Total employees | **1,566** | 1,347 | 1,394 | 16% | 12% |

Net profit increased by 39% to $43 million including a higher contribution from Panin and the benefit of acquisitions during the half in Kiribati, PNG, Vanuatu and Fiji. These acquisitions contributed net profit of $1 million and increased staff numbers by 227. The full impact will be seen in the second half. The result had the following features:

- A small reduction in net interest income, with the impact of acquisitions ($4 million) offset by exchange rate movements and lower margins, due to regulatory pressure and lower interest rates on US dollar balances.
- A substantial increase in other income. Acquisitions added $3 million and the equity accounted income from Panin increased by $6 million. However the total increase for the half attributed to Panin was $10 million after allowing for foreign exchange movements, tax and funding costs in the second half of 2001. Income from electronic banking channels was higher, following significant increases in numbers of ATMs and EFTPOS terminals, a credit card processing arrangement and the first interchange agreement in the Pacific region.
- Costs excluding acquisitions ($6 million) were slightly lower, with reduced central infrastructure costs.
- The quality of the loan portfolio improved; the increase in economic loss provision was due to additional volume from the acquisitions.

The integration of acquired businesses continues, with further synergies to be achieved. A number of initiatives should ensure continued organic growth. Internet banking was launched in Fiji during the first half and Vanuatu is scheduled for the second half. A sales transformation initiative is underway, which is expected to result in an increase in sales per employee.

**CORPORATE BUSINESSES**
Bob Edgar

Comprises Corporate Banking, Global Institutional Banking (including Asia) and Global Transaction Services

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **333** | 334 | 335 | - | -1% |
| Other external operating income | **351** | 344 | 321 | 2% | 9% |
| Net inter business unit fees | **(17)** | (15) | (20) | 13% | -15% |
| **Operating income** | **667** | 663 | 636 | 1% | 5% |
| External operating expenses | **(153)** | (156) | (154) | -2% | -1% |
| Net inter business unit expenses | **(70)** | (71) | (75) | -1% | -7% |
| **Operating expenses** | **(223)** | (227) | (229) | -2% | -3% |
| **Profit before debt provision** | **444** | 436 | 407 | 2% | 9% |
| Provision for doubtful debts | **(74)** | (76) | (74) | -3% | - |
| **Profit before income tax** | **370** | 360 | 333 | 3% | 11% |
| Income tax expense and outside equity interests | **(114)** | (120) | (111) | -5% | 3% |
| **Net profit attributable to members of the Company** | **256** | 240 | 222 | 7% | 15% |
| | | | | | |
| Net loans & advances including acceptances | **37,888** | 40,068 | 41,112 | -5% | -8% |
| Other external assets | **4,008** | 4,170 | 3,881 | -4% | 3% |
| External assets | **41,896** | 44,238 | 44,993 | -5% | -7% |
| Deposits and other borrowings | **16,974** | 17,784 | 16,116 | -5% | 5% |
| Other external liabilities | **19,507** | 19,342 | 18,905 | 1% | 3% |
| External liabilities | **36,481** | 37,126 | 35,021 | -2% | 4% |
| | | | | | |
| Net interest average margin | **2.35%** | 2.22% | 2.33% | 6% | 1% |
| Return on assets | **1.19%** | 1.06% | 1.01% | 12% | 18% |
| Return on risk weighted assets | **0.98%** | 0.89% | 0.84% | 10% | 16% |
| Operating expenses to operating income | **33.4%** | 34.1% | 36.0% | -2% | -7% |
| Operating expenses to average assets | **1.03%** | 1.00% | 1.04% | 3% | -1% |
| Net specific provisions | **64** | 90 | 29 | -29% | large |
| Net specific provision as a % of average net advances | **0.32%** | 0.43% | 0.14% | -25% | large |
| Net non-accrual loans | **239** | 400 | 471 | -40% | -49% |
| Net non-accrual loans as a % of net advances | **0.62%** | 0.98% | 1.13% | -37% | -45% |
| Total employees | **2,279** | 2,300 | 2,370 | -1% | -4% |

The overall result for Corporate Businesses was derived from:

- Flat performance in the middle market / Corporate Banking where business opportunities were restrained.
- Moderate growth in the Institutional segment offset by negative growth in Asia.
- Solid growth in Global Transactions Services despite the limited global business activity.

The risk profile of the business improved markedly with a reduction in non-accrual loans and significantly reduced specific provisions. The strategic focus remains the tight utilisation of balance sheet resources deployed to generate the maximum revenue from all ANZ products.

## CORPORATE BANKING
Bob Edgar

Managing customer relationships and developing product strategies for medium sized businesses (turnover $10 million to $100 million) in Australasia

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **114** | 114 | 121 | - | -6% |
| Other external operating income[1] | **75** | 76 | 67 | -1% | 12% |
| Net inter business unit fees | **(6)** | (5) | (6) | 20% | - |
| **Operating income** | **183** | 185 | 182 | -1% | 1% |
| External operating expenses | **(44)** | (45) | (43) | -2% | 2% |
| Net inter business unit expenses | **(19)** | (18) | (22) | 6% | -14% |
| **Operating expenses** | **(63)** | (63) | (65) | - | -3% |
| **Profit before debt provision** | **120** | 122 | 117 | -2% | 3% |
| Provision for doubtful debts | **(22)** | (25) | (25) | -12% | -12% |
| **Profit before income tax** | **98** | 97 | 92 | 1% | 7% |
| Income tax expense and outside equity interests | **(30)** | (33) | (31) | -9% | -3% |
| **Net profit attributable to members of the Company** | **68** | 64 | 61 | 6% | 11% |
| Operating expenses to operating income | **34.4%** | 34.1% | 35.7% | 1% | -4% |
| Net specific provisions | **22** | 27 | 26 | -19% | -15% |
| Net non-accrual loans | **90** | 130 | 214 | -31% | -58% |
| Total employees | **706** | 723 | 765 | -2% | -8% |

1 *Includes commercial bill income*

The Corporate Banking result reflects the contribution of lending, leasing and deposit products, with revenues from other ANZ products used by Corporate Banking clients being booked in other business units.

Balance sheet growth was restrained in the March half given the challenging business environment. Growth in the Corporate Banking unit was therefore constrained, with net profit increasing by 6% to $68 million, and profit before tax 1% higher. The main features of the result were as follows:

- Net interest income was in line with the previous half, with volume and margins both stable.
- Other income remained steady and operating expenses were well controlled.
- Provision for doubtful debts and net specific provisions were both reduced, reflecting the improving quality of the loan book and strong risk management controls.
- Tax expense was lower due to the reduction in the Australian tax rate.

An initiative to rationalise the current distributed middle office operations is underway to increase focus on Regional sales activity, while improving operating efficiency. Tiering of customers to simplify the credit approval process and focus on higher value customers is also being undertaken. Initiatives for future growth are focused on non-lending product income.

## GLOBAL INSTITUTIONAL BANKING

Bob Edgar

Managing customer relationships and developing financial services solutions and strategies for large businesses (turnover greater than $100 million) and specialised industry segments including property lending in Australasia plus corporates in Asia

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **120** | 120 | 120 | - | - |
| Other external operating income[1] | **158** | 149 | 136 | 6% | 16% |
| Net inter business unit fees | **1** | 2 | - | -50% | n/a |
| **Operating income** | **279** | 271 | 256 | 3% | 9% |
| External operating expenses | **(61)** | (59) | (61) | 3% | - |
| Net inter business unit expenses | **(7)** | (8) | (8) | -13% | -13% |
| **Operating expenses** | **(68)** | (67) | (69) | 1% | -1% |
| **Profit before debt provision** | **211** | 204 | 187 | 3% | 13% |
| Provision for doubtful debts | **(47)** | (46) | (44) | 2% | 7% |
| **Profit before income tax** | **164** | 158 | 143 | 4% | 15% |
| Income tax expense and outside equity interests | **(51)** | (52) | (48) | -2% | 6% |
| **Net profit attributable to members of the Company** | **113** | 106 | 95 | 7% | 19% |
| Operating expenses to operating income | **24.4%** | 24.4% | 27.0% | - | -10% |
| Net specific provisions | **35** | 65 | 2 | -46% | large |
| Net non-accrual loans | **145** | 260 | 246 | -44% | -41% |
| Total employees | **783** | 773 | 786 | 1% | - |

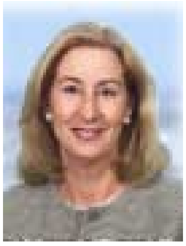
1 *Includes commercial bill income*

The Global Institutional Banking business is based around lending and co-ordinating specialist products from other ANZ businesses to provide complete financial solutions to customers. Revenues from these other products are booked in other business units, with the Global Institutional Banking result reflecting profit from lending based products only.

Net profit increased by 7% to $113 million. Profit before tax was 4% higher. With balance sheet growth constrained in a challenging business environment, growth was primarily from non-lending income:

- Net interest income was flat, with a decrease in average volume partly offset by a margin improvement.
- Other income was 6% higher due to a moderate increase in fee income and profits from securities and run-off of property ventures.
- Continuing tight cost control maintained flat operating expenses in Australasia, with the small overall increase due to higher employee numbers and costs in Asia.
- Provision for doubtful debts increased by 2%, reflecting a deterioration in risk profile due to downgrades among existing customers. Net specific provisions were reduced, with the previous half impacted by the potential losses on a small number of high profile customers.
- Tax expense was lower due to the reduction in the Australian tax rate.

Future growth initiatives are focused on non-lending income, including advisory services, structured finance and credit derivatives.



## GLOBAL TRANSACTION SERVICES

Carole Anderson

Provision of cash management, trade finance, international payments, clearing and custodian services principally to institutional and corporate customers in Australasia and overseas

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **99** | 100 | 94 | -1% | 5% |
| Other external operating income | **118** | 119 | 118 | -1% | - |
| Net inter business unit fees | **(12)** | (12) | (14) | - | -14% |
| **Operating income** | **205** | 207 | 198 | -1% | 4% |
| External operating expenses | **(48)** | (52) | (50) | -8% | -4% |
| Net inter business unit expenses | **(44)** | (45) | (45) | -2% | -2% |
| **Operating expenses** | **(92)** | (97) | (95) | -5% | -3% |
| **Profit before debt provision** | **113** | 110 | 103 | 3% | 10% |
| Provision for doubtful debts | **(5)** | (5) | (5) | - | - |
| **Profit before income tax** | **108** | 105 | 98 | 3% | 10% |
| Income tax expense and outside equity interests | **(33)** | (35) | (32) | -6% | 3% |
| **Net profit attributable to members of the Company** | **75** | 70 | 66 | 7% | 14% |
| | | | | | |
| Operating expenses to operating income | **44.9%** | 46.9% | 48.0% | -4% | -6% |
| Net specific provisions | **7** | (2) | 1 | n/a | large |
| Net non-accrual loans | **4** | 9 | 9 | -56% | -56% |
| Total employees | **790** | 805 | 820 | -2% | -4% |

Net profit increased by 7% to $75 million, with profit before tax 3% higher. The main features of the result were:

- Net interest income was flat, with growth in deposit volumes offset by margin contraction and significant run-off in Latin American trade finance assets, with a focus of re-positioning the portfolio to lower risk business.
- Other income was slightly lower than prior half, with solid growth in structured trade partly offset by the post September 11 downturn in tourism activity reducing revenues from foreign cash and travellers cheques.
- Operating expenses were well down, with benefits flowing from our trade processing joint venture initiative, a reduction in support-related activities and lower non-lending losses. These were marginally offset by costs associated with the implementation of wholesale banking services, our custody system replacement and successful introduction of a cheque fraud detection system.
- Higher net specific provision was due to a provision for a Latin American exposure.

Increased investment is planned for the second half to build on our growth strategies. These target wholesale banking services, development of our commodity trade finance business, e-enablement of cash management and payment products and replacement of our core custody system.

## ANZ INVESTMENT BANK
Grahame Miller

ANZ Investment Bank is recognised for providing a customer focussed integrated service, utilising specialist capabilities, innovative products and customised client solutions. Comprises Global Foreign Exchange, Global Capital Markets, Global Structured Finance and Corporate Financing & Advisory (reported separately for the first time).

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **124** | 122 | 89 | 2% | 39% |
| Other operating income | **264** | 269 | 279 | -2% | -5% |
| Net inter business unit fees | **(2)** | (6) | (2) | -67% | - |
| **Operating income** | **386** | 385 | 366 | - | 5% |
| External operating expenses | **(168)** | (168) | (163) | - | 3% |
| Net inter business unit expenses | **(13)** | (10) | (13) | 30% | - |
| **Operating expenses** | **(181)** | (178) | (176) | 2% | 3% |
| **Profit before debt provision** | **205** | 207 | 190 | -1% | 8% |
| Provision for doubtful debts | **(33)** | (32) | (32) | 3% | 3% |
| **Profit before income tax** | **172** | 175 | 158 | -2% | 9% |
| Income tax expense and outside equity interests | **(17)** | (28) | (15) | -39% | 13% |
| **Net profit attributable to members of the Company** | **155** | 147 | 143 | 5% | 8% |
| Net loans & advances including acceptances | **13,714** | 13,644 | 13,904 | 1% | -1% |
| Other external assets | **11,846** | 16,207 | 16,817 | -27% | -30% |
| External assets | **25,560** | 29,851 | 30,721 | -14% | -17% |
| Deposits and other borrowings | **12,641** | 13,904 | 10,971 | -9% | 15% |
| Other external liabilities | **8,648** | 12,208 | 13,572 | -29% | -36% |
| External liabilities | **21,289** | 26,112 | 24,543 | -18% | -13% |
| Net interest average margin | **1.34%** | 1.29% | 1.10% | 3% | 22% |
| Return on assets | **1.09%** | 1.07% | 0.98% | 2% | 11% |
| Return on risk weighted assets | **1.27%** | 1.16% | 1.26% | 10% | 1% |
| Operating expenses to operating income | **46.9%** | 46.1% | 48.2% | 2% | -3% |
| Operating expenses to average assets | **1.27%** | 1.29% | 1.22% | -1% | 5% |
| Net specific provisions | **191** | 74 | 21 | large | large |
| Net specific provision as a % of average net advances | **2.45%** | 0.96% | 0.30% | large | large |
| Net non-accrual loans | **478** | 209 | 38 | large | large |
| Net non-accrual loans as a % of net advances | **3.22%** | 1.32% | 0.24% | large | large |
| Total employees | **1,041** | 1,068 | 1,086 | -3% | -4% |

ANZ Investment Bank's net profit grew 5% over the previous half, despite subdued market activity and the events of September 11. The result reflects:

- Strong fee income partially offsetting seasonally lower foreign exchange earnings and subdued trading levels.
- Investment in new product initiatives offset by savings from continued rationalisation and headcount reduction. The cost to income ratio of 46.9% compares favourably with similar businesses globally.
- ELP charges only marginally higher in a more challenging global economic environment, due to heightened focus on risk management. Specific provisions of $191 million were due to a small number of customer exposures, principally Enron.

## GLOBAL FOREIGN EXCHANGE

Chris Cooper

Provision of foreign exchange and commodity trading and sales related services to corporate and institutional clients globally

| | **Half year Mar 02 $M** | **Half year Sep 01 $M** | **Half year Mar 01 $M** | **Movt Mar 02 v. Sep 01 %** | **Movt Mar 02 v. Mar 01 %** |
|---|---|---|---|---|---|
| Net interest income | **14** | - | (3) | n/a | n/a |
| Other operating income | **108** | 134 | 133 | -19% | -19% |
| Net inter business unit fees | **-** | (2) | - | -100% | n/a |
| **Operating income** | **122** | 132 | 130 | -8% | -6% |
| External operating expenses | **(30)** | (28) | (27) | 7% | 11% |
| Net inter business unit expenses | **(30)** | (33) | (36) | -9% | -17% |
| **Operating expenses** | **(60)** | (61) | (63) | -2% | -5% |
| **Profit before debt provision** | **62** | 71 | 67 | -13% | -7% |
| Provision for doubtful debts | **(2)** | (3) | (3) | -33% | -33% |
| **Profit before income tax** | **60** | 68 | 64 | -12% | -6% |
| Income tax expense and outside equity interests | **(19)** | (22) | (22) | -14% | -14% |
| **Net profit attributable to members of the Company** | **41** | 46 | 42 | -11% | -2% |
| | | | | | |
| Operating expenses to operating income | **49.2%** | 46.2% | 48.5% | 6% | 1% |
| Net specific provisions | **(1)** | 56 | 1 | n/a | n/a |
| Net non-accrual loans | **77** | 77 | - | - | n/a |
| Total employees | **206** | 219 | 221 | -6% | -7% |

Net profit decreased by 11% to $41 million. Profit before tax was 12% lower. Operating income from foreign exchange activities was lower compared to the second half of 2001, influenced by the following factors:

- Seasonally December and January are relatively quiet trading months.
- Trading is influenced by volatility, but exchange rates were relatively stable during the reporting period.
- Tightened credit conditions in light of corporate failures reduced activity in some of the product lines.
- The end of the Euro related currencies has increased competition in other currency markets.

Ongoing rationalisation resulted in expenses being further reduced, despite investment in building a commodity business to grow future revenue. Revenue benefits from this initiative should begin to feed through in the second half. Further investment in refining the global operating model is planned for the second half and this should be complete by the March 2003 reporting period. This investment will lead to improvements in operating efficiency, consolidated risk reporting and lower infrastructure costs.

ANZ remains the leading provider of foreign exchange services to the Australian market. In the most recent FX Week poll, our clients rated ANZ 9th in the world overall and 5th throughout Asia/Pacific. In addition, they rated ANZ 5th globally in the following categories; Spot Foreign Exchange, Foreign Exchange Forwards and Foreign Exchange Research and Strategy.

## GLOBAL CAPITAL MARKETS
David Hornery

Provision of origination, underwriting, structuring, risk management, advice and sale of credit and derivative products globally

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **31** | 39 | 35 | -21% | -11% |
| Other operating income | **53** | 44 | 40 | 20% | 33% |
| Net inter business unit fees | **6** | 5 | 5 | 20% | 20% |
| **Operating income** [1] | **90** | 88 | 80 | 2% | 13% |
| External operating expenses | **(22)** | (20) | (20) | 10% | 10% |
| Net inter business unit expenses | **(21)** | (22) | (23) | -5% | -9% |
| **Operating expenses** | **(43)** | (42) | (43) | 2% | - |
| **Profit before debt provision** | **47** | 46 | 37 | 2% | 27% |
| Provision for doubtful debts | **(1)** | (2) | (1) | -50% | - |
| **Profit before income tax** | **46** | 44 | 36 | 5% | 28% |
| Income tax expense and outside equity interests | **(14)** | (15) | (12) | -7% | 17% |
| **Net profit attributable to members of the Company** | **32** | 29 | 24 | 10% | 33% |
| Operating expenses to operating income | **47.8%** | 47.7% | 53.8% | - | -11% |
| Net specific provisions | **-** | 1 | - | -100% | n/a |
| Total employees | **181** | 178 | 177 | 2% | 2% |

[1] *Global Capital Markets derives and manages its revenue from the mark-to-market of its trading portfolios less holding costs and receipt of fee income. For disclosure purposes, the business is required to separately identify net interest income, notwithstanding that performance is best assessed on a total revenue basis.*

Net profit increased by 10% to $32 million, with profit before tax 5% higher despite significantly reduced activity in the Credit and Derivative markets, with a slowing economic cycle and the events of September 11.

Highlights of the half were:

- Modest revenue growth in a difficult environment with strong debt sales and completion of global structured derivative transactions.
- Core costs remained flat; the cost increases were attributable to continued significant investment in the Securitisation and Credit Derivative fields.
- Maintenance of a pre-eminent position in our chosen markets.
- Syndications; Asia Pacific Bank of the Year *(Source: Project Finance International Year Book).*
- Derivatives; 1st Use of Bank & 1st Product Penetration *(Source: Greenwich Research).*
- Ranked 1st in Interest Rate Derivatives, Credit Derivatives and Equity Derivatives in Asia Money's annual poll.

Significant investment in areas of high intellectual property will continue in the second half. These have in part been funded with offsetting headcount and cost reductions across the business including the closure of regional corporate sales offices.

## GLOBAL STRUCTURED FINANCE

Gordon Branston

Provision of arranging, underwriting and advisory services, financial engineering solutions and the funding of large structured debt transactions internationally

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **55** | 63 | 71 | -13% | -23% |
| Other external operating income | **68** | 62 | 60 | 10% | 13% |
| Net inter business unit fees | **1** | (2) | (1) | n/a | n/a |
| **Operating income** | **124** | 123 | 130 | 1% | -5% |
| External operating expenses | **(30)** | (29) | (27) | 3% | 11% |
| Net inter business unit expenses | **(29)** | (27) | (26) | 7% | 12% |
| **Operating expenses** | **(59)** | (56) | (53) | 5% | 11% |
| **Profit before debt provision** | **65** | 67 | 77 | -3% | -16% |
| Provision for doubtful debts | **(24)** | (22) | (21) | 9% | 14% |
| **Profit before income tax** | **41** | 45 | 56 | -9% | -27% |
| Income tax expense and outside equity interests | **-** | (7) | (17) | -100% | -100% |
| **Net profit attributable to members of the Company** | **41** | 38 | 39 | 8% | 5% |
| | | | | | |
| Operating expenses to operating income | **47.6%** | 45.5% | 40.8% | 5% | 17% |
| Net specific provisions | **154** | 18 | (10) | large | n/a |
| Net non-accrual loans | **377** | 107 | 3 | large | large |
| Total employees | **194** | 194 | 184 | - | 5% |

The Global Structured Finance net profit increased by 8% to $41 million despite subdued markets following the events of September 11. The main features of the result were as follows:

- As a result of constrained asset growth in the current credit environment and the increased cost of funding non-accrual loans, net interest income reduced.
- Other income increased with significant growth in non-lending fees in the USA and Singapore in particular, with aggregate fee income increasing to 56% of operating income.
- The increase in operating expenses was due to slightly higher salary and related costs.
- Provision for doubtful debts increased in a more challenging global economic environment, reflecting a deterioration in the credit portfolio. The increase in non accrual loans and specific provisions relates mainly to a small number of hitherto predominantly investment grade customer exposures. Specific provisions include a $136 million provision for Enron. The credit portfolio is continuing to be closely monitored and appropriate action taken to mitigate risk.
- The reduction in income tax expense reflects the utilisation of available tax deductions in various international jurisdictions.

Global Structured Finance's expertise in its core project finance business is reflected in a series of recent awards. ANZ was rated as the leading project finance bank in Asia Pacific by both Project Finance International and Global Finance magazines. A number of individual transactions led by GSF also won deal of the year awards in the specialist industry press. ANZ was ranked in the top ten corporate finance advisors for Asia for the calendar year 2002 *(Source: Thomson Financial).*

## CORPORATE FINANCING & ADVISORY

Peter Hodgson

Provision of complex financing and advisory services, structured financial products, leasing, private equity, project, export and leveraged finance and infrastructure investment

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **23** | 18 | (14) | 28% | n/a |
| Other external operating income | **33** | 29 | 46 | 14% | -28% |
| Net inter business unit fees | **(7)** | (6) | (6) | 17% | 17% |
| **Operating income** | **49** | 41 | 26 | 20% | 88% |
| External operating expenses | **(12)** | (11) | (10) | 9% | 20% |
| Net inter business unit expenses | **(7)** | (7) | (7) | - | - |
| **Operating expenses** | **(19)** | (18) | (17) | 6% | 12% |
| **Profit before debt provision** | **30** | 23 | 9 | 30% | large |
| Provision for doubtful debts | **(6)** | (6) | (7) | - | -14% |
| **Profit before income tax** | **24** | 17 | 2 | 41% | large |
| Income tax expense and outside equity interests | **17** | 17 | 36 | - | -53% |
| **Net profit attributable to members of the Company** | **41** | 34 | 38 | 21% | 8% |
| Operating expenses to operating income | **38.8%** | 43.9% | 65.4% | -12% | -41% |
| Net specific provisions | **38** | - | 30 | n/a | 27% |
| Net non-accrual loans | **25** | 26 | 35 | -4% | -29% |
| Total employees | **97** | 97 | 102 | - | -5% |

Net profit grew by 21% to $41 million. The main features of the result were:

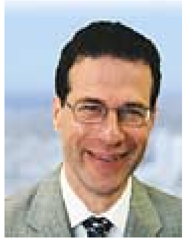
- A re-balancing of the portfolio during the last 12 months resulting in strong interest income, with a lower level of structured transactions in previous periods.
- Other income reflects fee revenue from leading roles in the financing for a number of major projects; successful execution of the private equity investment strategy and a gain on disposal of a residual underwriting asset.
- Despite robust revenue growth expenses have been contained to a marginal increase reflecting market related remuneration adjustments and significant investment in a growth initiative.
- Provision for doubtful debts was held steady, due to heightened focus on risk management during a period of economic uncertainty. The specific provisions related mainly to exposures to Enron.

During the period ANZ's role as Lead Arranger, Agent and Bookrunner for the Alice Springs to Darwin Rail Link (a project of national importance) was marked by Project Finance and Global Finance magazines who respectively voted the transaction as Asia Pacific Deal of the Year and Asia Pacific Infrastructure Deal of the Year.

Corporate Financing and Advisory is a leading participant in the Australasian investment banking market, having the benefit of a deep industry and client knowledge, strong global links with Global Structured Finance, close interdependencies with the Corporate and Institutional Banking customer base and clear cross sales into ANZ Investment Bank and other ANZ product areas.

## WEALTH MANAGEMENT AND ANZ INVESTMENTS

Craig Coleman **Elmer Funke-Kupper** Bruce Bonyhady



Wealth Management delivers comprehensive financial advisory and distribution services to high net worth customers in Australia covering investment, risk, lending and banking. ANZ Investments sources and develops managed investments and insurance products

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **92** | 95 | 90 | -3% | 2% |
| Other external operating income | **163** | 174 | 148 | -6% | 10% |
| Net inter business unit fees | **-** | (15) | (18) | -100% | -100% |
| **Operating income** | **255** | 254 | 220 | - | 16% |
| External operating expenses | **(107)** | (109) | (108) | -2% | -1% |
| Net inter business unit expenses | **(18)** | (17) | (17) | 6% | 6% |
| **Operating expenses** | **(125)** | (126) | (125) | -1% | - |
| **Profit before debt provision** | **130** | 128 | 95 | 2% | 37% |
| Provision for doubtful debts | **(1)** | (1) | (1) | - | - |
| **Profit before income tax** | **129** | 127 | 94 | 2% | 37% |
| Income tax expense and outside equity interests | **(49)** | (58) | (36) | -16% | 36% |
| **Net profit attributable to members of the Company** | **80** | 69 | 58 | 16% | 38% |
| Operating expenses to operating income | **49.0%** | 49.6% | 56.8% | -1% | -14% |
| Net specific provisions | **1** | 1 | - | - | n/a |
| Net non-accrual loans | **1** | 1 | - | - | n/a |
| Total employees | **1,504** | 1,446 | 1,428 | 4% | 5% |

Net profit increased by 16% to $80 million. Profit before tax was 2% higher. Half on half comparison of the components of the results is complicated by the requirement of AASB 1038 to consolidate the ANZ Investments policyholder income tax and superannuation contributions tax along with the corresponding income. This gross up of tax expense and operating income was $7 million lower in the March 2002 half due to seasonally higher superannuation flows in the previous half. Reversing the gross up to focus on the underlying result for shareholders leads to the following key features:

- Net interest income was $3 million lower, with a 5% rise in deposit volumes offset by reduced margin due to falling interest rates.
- Other income was $4 million lower in ANZ Investments, due to the seasonally higher investment activity at the tax year end in the second half of 2001. Higher income from E*Trade milestone shares in Wealth Management was offset by lower income from sales of third party investment products.
- Net inter business unit fees improved, due to growth in Wealth Management mortgage sales and retentions.
- The increase in headcount reflects the recruitment of financial planners toward the end of the half. However, a reduction in other staff at the beginning of the half resulted in a 2% reduction in external expenses.
- Tax expense was $2 million lower, benefiting from the reduction in the Australian tax rate.

Wealth Management is investing to enhance its sales, support and infrastructure capabilities. A significant increase in professionally accredited financial planners is in progress and will continue. Investment in technology will improve their capability to service customers. The investment in growing financial planning expertise will increase costs in future periods, but this will be funded by revenue growth. The joint venture between ANZ and ING is expected to result in an enhanced product platform and to enable leveraging of technology and training. ANZ's share of the future joint venture profits will be reported in the Wealth Management business segment.

## SMALL TO MEDIUM BUSINESS
Graham Hodges

Provides a full range of banking services for metropolitan based small to medium business in Australia and New Zealand with turnover up to $10 million

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **141** | 138 | 135 | 2% | 4% |
| Other external operating income | **35** | 31 | 31 | 13% | 13% |
| Net inter business unit fees | **(15)** | (18) | (16) | -17% | -6% |
| **Operating income** | **161** | 151 | 150 | 7% | 7% |
| External operating expenses | **(54)** | (51) | (53) | 6% | 2% |
| Net inter business unit expenses | **(2)** | (2) | (5) | - | -60% |
| **Operating expenses** | **(56)** | (53) | (58) | 6% | -3% |
| **Profit before debt provision** | **105** | 98 | 92 | 7% | 14% |
| Provision for doubtful debts | **(7)** | (7) | (8) | - | -13% |
| **Profit before income tax** | **98** | 91 | 84 | 8% | 17% |
| Income tax expense and outside equity interests | **(30)** | (29) | (29) | 3% | 3% |
| **Net profit attributable to members of the Company** | **68** | 62 | 55 | 10% | 24% |
| | | | | | |
| Operating expenses to operating income | **34.8%** | 35.1% | 38.7% | -1% | -10% |
| Net specific provisions | **6** | 12 | 7 | -50% | -14% |
| Net non-accrual loans | **6** | 7 | 14 | -14% | -57% |
| Total employees | **1,134** | 1,089 | 1,094 | 4% | 4% |

Net profit increased by 10% to $68 million. Profit before tax was 8% higher. The main features of the result were:

- Deposit and lending volumes increased, with the former growing more rapidly in the final quarter of 2001 due to caution following September 11. Continued competitive pressures led to some margin reduction in the lending book, while deposit margins fell in response to both cuts in interest rates and competition for liability funds.
- Other income increased, due to product sales campaigns and adoption of a customer based EVA™ focus in the business.
- Expenses were higher, due to investments in growth initiatives.
- Specific provisions were well contained at below second half 2001 levels. The quality of the loan book remains high, in part due to the risk management initiatives in previous halves including the introduction of behavioural scorecards.
- Tax expense was flat due to the reduction in the Australian tax rate.

Expenditure on growth initiatives will accelerate in the second half with investment centred on increased geographical coverage and industry specialisation. Some income benefit from the growth initiatives should occur in the second half, but the full effect is expected in subsequent half years.

## MORTGAGES

Greg Camm

Provision of mortgage finance secured by residential real estate in Australia and New Zealand

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **338** | 330 | 322 | 2% | 5% |
| Other external operating income | **35** | 35 | 29 | - | 21% |
| Net inter business unit fees | **(111)** | (106) | (97) | 5% | 14% |
| **Operating income** | **262** | 259 | 254 | 1% | 3% |
| External operating expenses | **(61)** | (51) | (56) | 20% | 9% |
| Net inter business unit expenses | **(22)** | (21) | (23) | 5% | -4% |
| **Operating expenses** | **(83)** | (72) | (79) | 15% | 5% |
| **Profit before debt provision** | **179** | 187 | 175 | -4% | 2% |
| Provision for doubtful debts | **(13)** | (12) | (12) | 8% | 8% |
| **Profit before income tax** | **166** | 175 | 163 | -5% | 2% |
| Income tax expense and outside equity interests | **(51)** | (59) | (55) | -14% | -7% |
| **Net profit attributable to members of the Company** | **115** | 116 | 108 | -1% | 6% |
| | | | | | |
| Operating expenses to operating income | **30.5%** | 26.3% | 29.9% | 16% | 2% |
| Net specific provisions | **4** | 15 | 6 | -73% | -33% |
| Net non-accrual loans | **38** | 50 | 60 | -24% | -37% |
| Total employees | **963** | 903 | 860 | 7% | 12% |

Net profit for the half was 1% lower at $115 million. Profit before tax decreased by 5%. The main features of the result were as follows:

- Net interest income growth, at 2%, was impacted by competitive pressure on margins and rising funding costs. The yield curve benefit from interest rate reductions was also lower than the previous half. Volume growth was 6%.
- Net inter business unit fees paid to Wealth Management and Personal Banking increased in line with growth in funds under management.
- Expenses were higher, due to the seasonally higher marketing spend in the first half, software amortisation charges following the introduction of a new origination system and investment in growth initiatives. Staff numbers increased due to a new venture servicing third party loans.
- The loan risk profile has improved, with a reduction in specific provisions and net non-accrual loans due in part to recoveries in New Zealand following conservative provisioning in the previous half.
- Tax expense benefited from the reduction in the Australian tax rate.

In December, ANZ commenced servicing a third party mortgage loan portfolio. The revenue benefits of this initiative will be reflected in the second half. Investment is also being made in web applications for third party originators to achieve straight through loan processing. An automated valuations process should also achieve cost benefits. Total operating expenses are expected to fall in the second half.

ANZ's product quality was again recognised in the five star Cannex ratings for a number of mortgage products, and in the Personal Investor Magazine award with ANZ being named the Home Lender of the Year for the third consecutive year.

## CONSUMER FINANCE
Brian Hartzer

Provides consumer and commercial credit cards, ePayment products, personal loans, and merchant payment facilities in Australia, New Zealand, and selected overseas markets

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **197** | 178 | 155 | 11% | 27% |
| Other external operating income | **196** | 168 | 162 | 17% | 21% |
| Net inter business unit fees | **(43)** | (32) | (38) | 34% | 13% |
| **Operating income** | **350** | 314 | 279 | 11% | 25% |
| External operating expenses | **(111)** | (104) | (96) | 7% | 16% |
| Net inter business unit expenses | **(37)** | (35) | (31) | 6% | 19% |
| **Operating expenses** | **(148)** | (139) | (127) | 6% | 17% |
| **Profit before debt provision** | **202** | 175 | 152 | 15% | 33% |
| Provision for doubtful debts | **(86)** | (82) | (89) | 5% | -3% |
| **Profit before income tax** | **116** | 93 | 63 | 25% | 84% |
| Income tax expense and outside equity interests | **(37)** | (34) | (23) | 9% | 61% |
| **Net profit attributable to members of the Company** | **79** | 59 | 40 | 34% | 98% |
| | | | | | |
| Operating expenses to operating income | **41.1%** | 43.0% | 44.4% | -4% | -7% |
| Net specific provisions | **70** | 74 | 65 | -5% | 8% |
| Net non-accrual loans | **2** | 1 | 2 | 100% | - |
| Total employees | **1,165** | 1,057 | 996 | 10% | 17% |

Net profit increased by 34% to $79 million. Profit before tax increased by 25%. The main features of the result were as follows:

- Significant growth in ANZ's cards portfolio following the collapse of competitor airline loyalty programs which boosted cards on issue to 3.4 million.
- Net interest income was 11% higher. Overall volume growth was modest, with growth in cards outstandings across all geographies offset by a reduction in higher risk personal loan customers.
- Other external income grew by 17%, due mainly to increases in merchant turnover and card spending volumes in Australia and New Zealand.
- Net inter-business unit fees paid were higher due to the increase in branch and call centre transactions.
- External expenses were 7% higher, reflecting increased marketing investments, higher business volumes, and project staff numbers. Significant investment was made in chip technology, rollout of new terminals and training staff to use a new card processing system. Marketing investments were also made to launch a new Platinum card in Hong Kong and Gold card in Indonesia.
- Provision for doubtful debts was held to an increase of 5%, reflecting improved credit performance in the personal loan portfolio and more effective collections practices.
- Tax expense benefited from the reduction in the Australian tax rate.

Investment in technology and marketing for the "First" and "Zed" branded chip cards will continue in the second half, with some revenue benefits expected in the fourth quarter. A new card processing system, which will increase service quality and processing efficiency in Australia and New Zealand, was introduced in March.

## ASSET FINANCE
Elizabeth Proust

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

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **168** | 166 | 173 | 1% | -3% |
| Other external operating income | **32** | 32 | 27 | - | 19% |
| Net inter business unit fees | **(4)** | (4) | (5) | - | -20% |
| **Operating income** | **196** | 194 | 195 | 1% | 1% |
| External operating expenses | **(75)** | (77) | (81) | -3% | -7% |
| Net inter business unit expenses | **(15)** | (15) | (15) | - | - |
| **Operating expenses** | **(90)** | (92) | (96) | -2% | -6% |
| **Profit before debt provision** | **106** | 102 | 99 | 4% | 7% |
| Provision for doubtful debts | **(35)** | (33) | (32) | 6% | 9% |
| **Profit before income tax** | **71** | 69 | 67 | 3% | 6% |
| Income tax expense and outside equity interests | **(22)** | (21) | (22) | 5% | - |
| **Net profit attributable to members of the Company** | **49** | 48 | 45 | 2% | 9% |
| | | | | | |
| Operating expenses to operating income | **45.4%** | 46.9% | 48.7% | -3% | -7% |
| Net specific provisions | **26** | 50 | 36 | -48% | -28% |
| Net non-accrual loans | **64** | 66 | 80 | -3% | -20% |
| Total employees | **1,315** | 1,270 | 1,378 | 4% | -5% |

Net profit grew by 2% with profit before tax up 3%. The main features of the result were:

- Margin performance improved on a relatively steady stream of new business, resulting in a small improvement in net interest income.
- Operating expenses fell by 2%, despite a headcount increase following an acquisition by Esanda FleetPartners Australia. This reflects a continuation of the policy of strict cost containment that has seen operating costs reduce significantly over the last few years.
- Provision for doubtful debts increased slightly over the half reflecting the prevailing economic climate. Specific provisions returned to more traditional levels after a small number of abnormally large provisions adversely impacted the September 2001 half result.
- The tax expense benefit arising from the reduction in the Australian tax rate was masked by tax credits received in the previous half.

In February, a new operating platform was introduced in Australia. This platform is the outcome of a significant investment that will facilitate increased cross-selling of products and deliver improved flexibility and response times. Further developments in the second half will be aimed at improving back office efficiency. An initiative to develop franchising in New Zealand is also under way.

## GROUP TREASURY
Rick Sawers

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

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **98** | 79 | 44 | 24% | large |
| Other external operating income | **4** | 5 | 3 | -20% | 33% |
| Net inter business unit fees | **-** | - | - | n/a | n/a |
| **Operating income** | **102** | 84 | 47 | 21% | large |
| External operating expenses | **(8)** | (7) | (7) | 14% | 14% |
| Net inter business unit expenses | **(3)** | (3) | (3) | - | - |
| **Operating expenses** | **(11)** | (10) | (10) | 10% | 10% |
| **Profit before debt provision** | **91** | 74 | 37 | 23% | large |
| Provision for doubtful debts | **-** | - | - | n/a | n/a |
| **Profit before income tax** | **91** | 74 | 37 | 23% | large |
| Income tax expense and outside equity interests | **(28)** | (24) | (11) | 17% | large |
| **Net profit attributable to members of the Company** | **63** | 50 | 26 | 26% | large |
| | | | | | |
| Total employees | **45** | 45 | 41 | - | 10% |

Net profit increased by 26% to $63 million. Profit before tax was 23% higher, with the tax charge benefiting from the reduction in the Australian tax rate.

Net interest income from interest rate risk management activities was very strong in the current half, resulting from Group Treasury lengthening the actual investment term of net assets, beyond the benchmark portfolio investment term. This action was taken in the first half of 2001, in anticipation of a global easing of monetary policy by central banks in response to slowing economies. The subsequent significant reductions in rates (USA 4.5% and Australia 3.5%) has resulted in an improved margin on these term asset positions over the last two half years, with the first half of 2002 benefiting the most. This benefit has to some extent compensated for the lower margins in ANZ's deposit based businesses in the falling interest rate environment. The benefit to Group Treasury will reduce in future periods.

Group Treasury provides a centralised, market risk management service for ANZ's businesses and manages these risks as a single unit interface to the external markets. Risk is internally transferred to Group Treasury at market prices and capital, interest free funds and interest rate insensitive deposits are purchased from the business units by Group Treasury at benchmark yields. This reduces market volatility within the businesses.

## CORPORATE CENTRE

David Boyles Peter Marriott

Comprises technology and payments operations, central support units and costs relating to hedging overseas revenue and capital positions. Also includes the residual results of discontinued businesses.

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **26** | 55 | 61 | -53% | -57% |
| Other external operating income | **46** | 5 | (3) | large | n/a |
| Net inter business unit fees | **-** | 8 | 8 | -100% | -100% |
| **Operating income** | **72** | 68 | 66 | 6% | 9% |
| External operating expenses | **(360)** | (362) | (354) | -1% | 2% |
| Net inter business unit expenses | **295** | 293 | 296 | 1% | - |
| **Operating expenses** | **(65)** | (69) | (58) | -6% | 12% |
| **Profit before debt provision** | **7** | (1) | 8 | n/a | -13% |
| Provision for doubtful debts | **(36)** | (30) | 21 | 20% | n/a |
| **Profit before income tax** | **(29)** | (31) | 29 | -6% | n/a |
| Income tax expense and outside equity interests | **12** | 1 | (35) | large | n/a |
| **Net profit attributable to members of the Company** | **(17)** | (30) | (6) | -43% | large |
| | | | | | |
| Total employees | **4,246** | 4,174 | 4,307 | 2% | -1% |

The operations of Corporate Centre resulted in a net loss of $17 million, compared with a loss of $30 million in the previous half. Key features of the results were:

- Reductions in USD interest rates resulted in higher hedge income from an interest rate swap which covers the USD payments to holders of preference shares (TrUEPrs). This was offset by reduced net interest income earned on the floating rate asset pool which is part funded by the TrUEPrs proceeds.
- External expenses were slightly lower, with increased software purchase costs offset by a seasonal reduction in advertising spend and lower centrally funded costs on the Perform, Grow and Breakout program.
- A further enhancement to the process of calculating economic loss provision and credit risk capital was introduced during the March half. Prior period comparatives have been restated in the Business Unit results and the offset to those restatements is reflected in the Corporate Centre.

## Geographic Segment Performance

| | Half year Mar 02 $M | % | Half year Sep 01 $M | % | Half year Mar 01 $M | % |
|---|---|---|---|---|---|---|
| **Net profit attributable to members of the Company** | | | | | | |
| Australia | **774** | **74%** | 720 | 74% | 724 | 81% |
| New Zealand | **142** | **13%** | 152 | 16% | 126 | 14% |
| Overseas Markets | **134** | **13%** | 103 | 10% | 45 | 5% |
| | **1,050** | **100%** | 975 | 100% | 895 | 100% |

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Total assets** | | | | | |
| Australia | **131,655** | 133,057 | 129,341 | -1% | 2% |
| New Zealand | **22,540** | 22,337 | 22,891 | 1% | -2% |
| Overseas Markets | **22,394** | 30,099 | 28,735 | -26% | -22% |
| | **176,589** | 185,493 | 180,967 | -5% | -2% |
| **Risk weighted assets** | | | | | |
| Australia | **98,894** | 98,236 | 96,650 | 1% | 2% |
| New Zealand | **14,936** | 15,147 | 14,871 | -1% | - |
| Overseas Markets | **21,588** | 25,746 | 25,479 | -16% | -15% |
| | **135,418** | 139,129 | 137,000 | -3% | -1% |

## Geographic Segment Australia

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **1,477** | 1,453 | 1,414 | 2% | 4% |
| Fee income | **738** | 706 | 668 | 5% | 10% |
| Other operating income | **298** | 271 | 276 | 10% | 8% |
| **Operating income** | **2,513** | 2,430 | 2,358 | 3% | 7% |
| Operating expenses | **(917)** | (1,129) | (1,114) | -19% | -18% |
| **Profit before debt provision** | **1,596** | 1,301 | 1,244 | 23% | 28% |
| Provision for doubtful debts | **(475)** | (218) | (167) | large | large |
| Income tax expense | **(347)** | (363) | (353) | -4% | -2% |
| **Net profit attributable to members of the Company** | **774** | 720 | 724 | 8% | 7% |
| Net interest average margin | **2.95%** | 2.95% | 2.97% | - | -1% |
| Return on risk weighted assets | **1.57%** | 1.47% | 1.53% | 7% | 3% |
| Operating expenses to operating income | **36.3%** | 46.3% | 47.1% | -22% | -23% |
| Operating expenses to average assets | **1.40%** | 1.77% | 1.77% | -21% | -21% |
| Net specific provision | **196** | 297 | 177 | -34% | 11% |
| Net specific provision as a % of average net advances | **0.36%** | 0.55% | 0.34% | -34% | 7% |
| Net non-accrual loans | **367** | 492 | 430 | -25% | -15% |
| Net non-accrual loans as a % of net advances | **0.33%** | 0.46% | 0.41% | -27% | -18% |
| Total employees | **16,121** | 16,152 | 16,309 | - | -1% |
| Lending growth | **2.7%** | 1.3% | 1.8% | large | 50% |
| External assets | **131,655** | 133,057 | 129,341 | -1% | 2% |
| Risk weighted assets | **98,894** | 98,236 | 96,650 | 1% | 2% |

Net profit increased by 8% to $774 million, reflecting:

- Net interest income increased 2% ($24 million) mainly due to reduced funding costs in Cards. Lending growth of 2.7% occurred primarily in Mortgages however competitive pressures and the absence of the re-pricing benefit from interest rate reductions has resulted in the curtailment of growth in net interest income.
- Strong growth in fee income, particularly in Consumer Finance, from an increase in merchant turnover, higher card spending volumes and the full half impact of new fees introduced late last year.
- Increased other income from hedging of TrUEPrs cash flows (refer page 48).
- Operating expenses for the March 2002 half includes $248 million recovery from the settlement of litigation with India's National Housing Bank. Excluding this, operating expenses increased by 3% primarily due to seasonally higher Mortgages marketing spend and significant investment in growth initiatives within Consumer Finance and other businesses. Operating expenses to operating income excluding the NHB recovery reduced to 46.2%.
- The increase in economic loss provision includes a special provision for doubtful debts of $250 million, following an assessment of the general provision balance.
- Income tax expense benefited by $40 million from the drop in the Australian corporate tax rate from 34% to 30%.

**Geographic Segment – New Zealand**
Murray Horn

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **276** | 274 | 246 | 1% | 12% |
| Fee income | **142** | 151 | 140 | -6% | 1% |
| Other operating income | **41** | 40 | 39 | 3% | 5% |
| **Operating income** | **459** | 465 | 425 | -1% | 8% |
| Operating expenses | **(229)** | (221) | (229) | 4% | - |
| **Profit before debt provision** | **230** | 244 | 196 | -6% | 17% |
| Provision for doubtful debts | **(28)** | (26) | (19) | 8% | 47% |
| Income tax expense | **(60)** | (66) | (51) | -9% | 18% |
| **Net profit attributable to members of the Company** | **142** | 152 | 126 | -7% | 13% |
| Net interest average margin | **2.74%** | 2.68% | 2.60% | 2% | 5% |
| Return on risk weighted assets | **1.91%** | 2.04% | 1.76% | -7% | 8% |
| Operating expenses to operating income | **49.0%** | 46.7% | 52.9% | 5% | -7% |
| Operating expenses to average assets | **2.07%** | 1.94% | 2.09% | 6% | -1% |
| Net specific provision | **13** | 32 | 10 | -59% | 30% |
| Net specific provision as a % of average net advances | **0.15%** | 0.37% | 0.12% | -61% | 25% |
| Net non-accrual loans | **17** | 48 | 68 | -65% | -75% |
| Net non-accrual loans as a % of net advances | **0.09%** | 0.27% | 0.38% | -65% | -76% |
| Total employees | **3,706** | 3,683 | 3,831 | 1% | -3% |
| Lending growth (including FX impact) | **0.9%** | 1.4% | 9.4% | -36% | -90% |
| Lending growth (excluding FX impact) | **0.9%** | 1.4% | (0.4%) | -36% | n/a |
| External assets | **22,540** | 22,337 | 22,891 | 1% | -2% |
| Risk weighted assets | **14,936** | 15,147 | 14,871 | -1% | - |

Net profit in New Zealand for the March 2002 half year decreased by 7% from the record result for the September half. The main factors were:

- Flat net interest income, with the impact of low asset growth being offset by improved margin in a falling rate environment.
- Lower fee income, reflecting lower transaction fee volumes and reduced corporate financing activity.
- Increased operating expenses, largely due to one-off cost recoveries which reduced expenses in the second half of 2001, although there has also been some investment in the new sales and service platform, branch refurbishment and new ATM sites.
- Credit quality remains sound, with the specific provision charge and non accrual loans at low levels. The book continues to be well provisioned.

Net profit was 13% higher than the March 2001 half year, with improved net interest income and flat operating costs. The focus is on further raising performance to the record levels of the September 2001 half. Strategies to deepen customer relationships and to raise service levels in the personal segment, and to further leverage the significant resources in the branch network are currently being implemented. The New Zealand pilot of the Restoring Customer Faith initiative is well advanced. Branches are being organised into small areas, with managers running each area as a business. We are also expecting a gradual strengthening of performance in the Wealth Management segment as a result of the recently announced ING joint venture. Because the full benefits of these initiatives will not be realised until 2003, a number of smaller initiatives have been taken, or are well advanced, that will underpin revenue growth in the second half (eg, reduction in fee waivers, more active marketing of higher margin liability products and new product offerings).

## Geographic Segment – Overseas Markets

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **212** | 227 | 219 | -7% | -3% |
| Fee income | **129** | 118 | 109 | 9% | 18% |
| Other operating income | **61** | 47 | 8 | 30% | large |
| **Operating income** | **402** | 392 | 336 | 3% | 20% |
| Operating expenses | **(184)** | (203) | (196) | -9% | -6% |
| **Profit before debt provision** | **218** | 189 | 140 | 15% | 56% |
| Provision for doubtful debts | **(48)** | (46) | (55) | 4% | -13% |
| Income tax expense | **(34)** | (39) | (39) | -13% | -13% |
| Outside equity interests | **(2)** | (1) | (1) | 100% | 100% |
| **Net profit attributable to members of the Company** | **134** | 103 | 45 | 30% | large |
| Net interest average margin | **1.33%** | 1.27% | 1.35% | 4% | -1% |
| Return on risk weighted assets | **1.13%** | 0.85% | 0.39% | 32% | large |
| Operating expenses to operating income | **45.5%** | 51.8% | 58.0% | -12% | -22% |
| Operating expenses to average assets | **1.03%** | 1.04% | 1.07% | -1% | -4% |
| Net specific provision | **157** | 10 | (6) | large | n/a |
| Net specific provision as a % of average net advances | **2.04%** | 0.13% | (0.08%) | large | n/a |
| Net non-accrual loans | **449** | 230 | 229 | 95% | 96% |
| Net non-accrual loans as a % of net advances | **3.20%** | 1.44% | 1.37% | large | large |
| Total employees | **2,910** | 2,666 | 2,675 | 9% | 9% |
| Lending growth (including FX impact) | **(12.3%)** | (4.4%) | 20.6% | large | n/a |
| Lending growth (excluding FX impact) | **(3.4%)** | (5.6%) | 11.0% | -39% | n/a |
| External assets | **22,394** | 30,099 | 28,735 | -26% | -22% |
| Risk weighted assets | **21,588** | 25,746 | 25,479 | -16% | -15% |

Net profit increased by 30% to $134 million in the first half, including $1 million profit from new acquisitions.

The main influences of this result were:

- Lower net interest income primarily in London reflecting the continuing winding up of the Grindlays Private Bank portfolio and reduced margins on leasing transactions.
- Higher fee income through several large structured finance deals completed in London, Americas and Singapore.
- Higher other income reflects the impact of several unusual items reducing income in the September 2001 half. In addition, the current half year benefited from increased foreign exchange earnings in America and Pacific, following acquisitions in Kiribati, PNG, Vanuatu and Fiji.
- Operating expenses have reduced primarily due to higher expenses incurred in the September second half in relation to exited businesses and higher internal income received on fee sharing arrangements on swap deals between London and Melbourne investment bank business.
- Economic loss provision charge increased in a more challenging global economic environment.

## Overseas Markets – Asia
John Winders

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Net interest income | **66** | 67 | 74 | -1% | -11% |
| Fee income | **34** | 29 | 23 | 17% | 48% |
| Other operating income | **30** | 14 | (38) | large | n/a |
| **Operating income** | **130** | 110 | 59 | 18% | large |
| Operating expenses | **(58)** | (64) | (62) | -9% | -6% |
| **Profit before debt provision** | **72** | 46 | (3) | 57% | n/a |
| Provision for doubtful debts | **(13)** | (12) | (12) | 8% | 8% |
| Income tax expense | **(12)** | (12) | (10) | - | 20% |
| **Net profit attributable to members of the Company** | **47** | 22 | (25) | 114% | n/a |
| | | | | | |
| Operating expenses to operating income | **43.8%** | 59.1% | 105.1% | -26% | -58% |
| Net specific provision | **3** | (2) | (9) | n/a | n/a |
| Net non-accrual loans | **43** | 80 | 117 | -46% | -63% |
| Total employees | **619** | 601 | 619 | 3% | - |

The Asia business provides trade finance, foreign exchange, capital markets, structured finance and lending products to a high quality customer base and in some countries, a growing retail banking presence.

Profit after tax for the March 2002 half increased by $25 million to $47 million.

The main influences on this result were:
- Increased fee income, including structured finance in Singapore.
- Higher equity accounted income from our investment in PT Panin Bank Indonesia (Panin) resulted in an increase in other operating income.
- A reduction in operating expenses is attributable to expenses incurred in the second half of last year in exited businesses and a rebalancing of costs towards growth activities.
- Continued improvement in the quality of the loan portfolio.

The March 2001 results were adversely impacted by the loss from the discontinued joint venture with OCBC in Singapore and the write-down of the investment in Panin, partially offset by a dividend received from Panin and other one-off items.

Growth of the business across 11 countries in Asia continues to focus on leveraging core group capabilities from both the Corporate and Personal banking areas.

## *FOUR YEAR SUMMARY BY HALF YEAR*

| | Mar 02 $M | Sep 01 $M | Mar 01 $M | Sep 00 $M | Mar 00 $M | Sep 99 $M | Mar 99 $M | Sep 98 $M |
|---|---|---|---|---|---|---|---|---|
| **Statement of Financial Performance**[1] | | | | | | | | |
| Net interest income | **1,965** | 1,954 | 1,879 | 1,929 | 1,872 | 1,839 | 1,816 | 1,774 |
| Other operating income | **1,409** | 1,333 | 1,240 | 2,422 | 1,335 | 1,221 | 1,156 | 901 |
| Operating expenses | **(1,330)** | (1,553) | (1,539) | (2,622) | (1,645) | (1,654) | (1,646) | (1,733) |
| Provision for doubtful debts | **(551)** | (290) | (241) | (246) | (256) | (252) | (258) | (250) |
| Profit before income tax | **1,493** | 1,444 | 1,339 | 1,483 | 1,306 | 1,154 | 1,068 | 692 |
| Income tax expense | **(441)** | (468) | (443) | (552) | (488) | (389) | (347) | (206) |
| Outside equity interests | **(2)** | (1) | (1) | (1) | (1) | (2) | (4) | (5) |
| **Net profit attributable to members of the Company** | **1,050** | 975 | 895 | 930 | 817 | 763 | 717 | 481 |
| **Statement of Financial Position** | | | | | | | | |
| Assets | **176,589** | 185,493 | 180,967 | 172,467 | 166,958 | 152,801 | 152,417 | 153,215 |
| Net assets | **10,803** | 10,551 | 10,200 | 9,807 | 9,662 | 9,429 | 9,234 | 8,391 |
| **Ratios** | | | | | | | | |
| Return on average ordinary equity | **21.6%** | 20.9% | 19.6% | 19.7% | 17.8% | 17.1% | 17.3% | 12.3% |
| Return on average assets | **1.2%** | 1.1% | 1.0% | 1.1% | 1.0% | 1.0% | 0.9% | 0.6% |
| Tier 1 capital ratio | **7.8%** | 7.5% | 7.3% | 7.4% | 7.5% | 7.9% | 7.7% | 7.2% |
| Cost to income[2] | **46.5%** | 47.0% | 49.1% | 60.1% | 51.1% | 53.9% | 55.2% | 64.7% |
| **Shareholder value - ordinary shares** | | | | | | | | |
| Total return to shareholders (share price movement plus dividends) | **13.7%** | 18.4% | 6.4% | 30.5% | 4.4% | -8.2% | 30.0% | -8.3% |
| Market capitalisation | **26,579** | 23,783 | 20,488 | 20,002 | 15,948 | 16,045 | 17,797 | 13,885 |
| Dividend | **39.0c** | 40.0c | 33.0c | 35.0c | 29.0c | 30.0c | 26.0c | 28.0c |
| Franked portion | **100%** | 100% | 100% | 100% | 100% | 80% | 75% | 60% |
| Share price | | | | | | | | |
| - high | **$18.61** | $17.39 | $16.08 | $13.46 | $11.67 | $12.45 | $11.69 | $11.88 |
| - low | **$16.36** | $13.44 | $13.20 | $9.60 | $9.71 | $8.58 | $8.58 | $8.45 |
| - closing | **$17.77** | $15.98 | $13.78 | $13.28 | $10.40 | $10.25 | $11.45 | $9.02 |
| **Share information (per fully paid ordinary share)** | | | | | | | | |
| Earnings per share - basic | **66.3c** | 61.6c | 55.8c | 57.6c | 49.3c | 45.9c | 44.7c | 31.3c |
| Dividend payout ratio | **58.9%** | 65.0% | 58.7% | 60.2% | 57.9% | 65.6% | 58.4% | 89.6% |
| Net tangible assets | **6.14** | 5.96 | 5.71 | 5.49 | 5.42 | 5.21 | 5.09 | 4.98 |
| **Number of fully paid ordinary shares on issue (millions)** | **1,495.7** | 1,488.3 | 1,486.8 | 1,506.2 | 1,533.4 | 1,565.4 | 1,554.3 | 1,539.4 |
| **Other information** | | | | | | | | |
| Permanent employees (FTE's) | **21,508** | 21,403 | 21,617 | 21,774 | 27,703 | 28,744 | 29,648 | 30,827 |
| Temporary employees (FTE's) | **1,229** | 1,098 | 1,198 | 1,360 | 1,237 | 1,427 | 1,331 | 1,245 |
| Total employees | **22,737** | 22,501 | 22,815 | 23,134 | 28,940 | 30,171 | 30,979 | 32,072 |
| Number of shareholders | **190,133** | 181,035 | 180,108 | 179,244 | 223,803 | 214,151 | 184,183 | 151,564 |

1. *Prior years restated for AASB 1038 gross up from Sep 1998*
2. *Excludes the impact of goodwill amortisation and NHB recovery in half year ended 31 March 2002*

**Australia and New Zealand Banking Group Limited**

***FINANCIAL REPORT***

**Half year ended**
**31 March 2002**

This Financial Report on the consolidated Group constitutes the Appendix 4B required by the Australian Stock Exchange, and should be read in conjunction with the September 2001 Annual Financial Report. The financial statements and notes to the financial statements have been reviewed by KPMG.

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## *DIRECTORS' REPORT*

The directors present their report on the consolidated accounts for the half year ended 31 March 2002.

### Directors

The names of the directors of the Company who held office during and since the end of the half year are:

Mr CB Goode AC - Chairman
Mr J McFarlane OBE - Chief Executive Officer
Mr JC Dahlsen
Dr RS Deane
Mr JK Ellis
Mr DM Gonski (appointed 7 February 2002)
Ms MA Jackson
Dr BW Scott AO
Mr GK Toomey (resigned 8 October 2001)

### Result

The consolidated profit from ordinary activities after income tax attributable to shareholders of the Company was $1,050 million. Further details are contained in the Chief Financial Officer's Review on pages 6 to 35 and in the financial report.

### Review of Operations

A review of the operations of the Group during the half year and the results of those operations are contained in the Chief Financial Officer's Review on pages 6 to 35 and in the financial report.

### Rounding of Amounts

The Company is a company of the kind referred to in the Australian Securities and Investments Commission class order 98/100 dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001. Consequently, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars except where otherwise indicated.

Signed in accordance with a resolution of the directors

**Charles Goode**
Chairman

**John McFarlane**
Chief Executive Officer

26 April 2002

## *CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE*

| | Note | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|---|
| Total income | 2 | **5,796** | 6,166 | 6,658 | -6% | -13% |
| Interest income | | **4,387** | 4,833 | 5,418 | -9% | -19% |
| Interest expense | | **(2,422)** | (2,879) | (3,539) | -16% | -32% |
| Net interest income | | **1,965** | 1,954 | 1,879 | 1% | 5% |
| Other operating income | 2 | **1,409** | 1,333 | 1,240 | 6% | 14% |
| Operating income | | **3,374** | 3,287 | 3,119 | 3% | 8% |
| Operating expenses | 3 | **(1,330)** | (1,553) | (1,539) | -14% | -14% |
| Profit before debt provision | | **2,044** | 1,734 | 1,580 | 18% | 29% |
| Provision for doubtful debts | 10 | **(551)** | (290) | (241) | 90% | large |
| **Profit before income tax** | | **1,493** | 1,444 | 1,339 | 3% | 12% |
| Income tax expense | 4 | **(441)** | (468) | (443) | -6% | - |
| Profit after income tax | | **1,052** | 976 | 896 | 8% | 17% |
| Net profit attributable to outside equity interests | | **(2)** | (1) | (1) | 100% | 100% |
| **Net profit attributable to members of the Company** | | **1,050** | 975 | 895 | 8% | 17% |
| Currency translation adjustments, net of hedges after tax | | **(143)** | (4) | 201 | large | n/a |
| **Total changes in equity other than those resulting from transactions with shareholders as owners** | | **907** | 971 | 1,096 | -7% | -17% |
| **Earnings per ordinary share (cents)** | | | | | | |
| Basic | 6 | **66.3** | 61.6 | 55.8 | 8% | 19% |
| Diluted | 6 | **66.0** | 61.3 | 55.7 | 8% | 18% |
| **Dividend per ordinary share (cents)** | 5 | **39** | 40 | 33 | -3% | 18% |
| **Net tangible assets per ordinary share ($)** | | **6.14** | 5.96 | 5.71 | 3% | 8% |

*The notes appearing on pages 44 to 79 form an integral part of these financial statements*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Liquid assets | | **6,752** | 7,794 | 5,113 | -13% | 32% |
| Due from other financial institutions | | **3,468** | 4,829 | 4,076 | -28% | -15% |
| Trading securities[1] | | **5,189** | 4,827 | 4,670 | 7% | 11% |
| Investment securities | 7 | **2,716** | 3,487 | 3,452 | -22% | -21% |
| Net loans and advances | 8 | **125,267** | 123,657 | 122,907 | 1% | 2% |
| Customers' liability for acceptances | | **14,512** | 14,324 | 14,532 | 1% | - |
| Life insurance investment assets | | **5,064** | 4,774 | 4,786 | 6% | 6% |
| Regulatory deposits | | **128** | 133 | 162 | -4% | -21% |
| Shares in associates | | **76** | 64 | 24 | 19% | large |
| Deferred tax assets | | **1,185** | 1,200 | 1,206 | -1% | -2% |
| Other assets[2] | | **10,801** | 19,043 | 18,690 | -43% | -42% |
| Premises and equipment | | **1,431** | 1,361 | 1,349 | 5% | 6% |
| **Total assets** | | **176,589** | 185,493 | 180,967 | -5% | -2% |
| **Liabilities** | | | | | | |
| Due to other financial institutions | | **8,215** | 12,690 | 13,376 | -35% | -39% |
| Deposits and other borrowings | | **105,616** | 104,874 | 102,046 | 1% | 3% |
| Liability for acceptances | | **14,512** | 14,324 | 14,532 | 1% | - |
| Income tax liabilities | | **1,193** | 1,335 | 1,213 | -11% | -2% |
| Creditors and other liabilities | | **11,958** | 15,948 | 15,943 | -25% | -25% |
| Provisions | | **1,611** | 2,142 | 2,126 | -25% | -24% |
| Life insurance policy liabilities | | **4,754** | 4,458 | 4,418 | 7% | 8% |
| Bonds and notes | | **14,437** | 15,340 | 13,108 | -6% | 10% |
| Loan capital | | **3,490** | 3,831 | 4,005 | -9% | -13% |
| **Total liabilities** | | **165,786** | 174,942 | 170,767 | -5% | -3% |
| **Net assets** | | **10,803** | 10,551 | 10,200 | 2% | 6% |
| **Shareholders' equity** | | | | | | |
| Ordinary share capital | | **3,824** | 3,733 | 3,711 | 2% | 3% |
| Preference share capital | | **1,410** | 1,526 | 1,526 | -8% | -8% |
| Reserves | | **523** | 717 | 1,011 | -27% | -48% |
| Retained profits | | **5,032** | 4,562 | 3,940 | 10% | 28% |
| Share capital and reserves attributable to members of the Company | | **10,789** | 10,538 | 10,188 | 2% | 6% |
| Outside equity interests | | **14** | 13 | 12 | 8% | 17% |
| **Total shareholders' equity** | | **10,803** | 10,551 | 10,200 | 2% | 6% |
| Derivative financial instruments | 16 | | | | | |
| Contingent liabilities | 17 | | | | | |

1. *Includes bills held in portfolio (Mar 2002: $1,021 million; Sep 2001: $1,933 million; Mar 2001: $1,496 million) which are part of net advances*
2. *Includes interest revenue receivable (Mar 2002: $985 million; Sep 2001: $1,310 million; Mar 2001: $1,566 million)*

*The notes appearing on pages 44 to 79 form an integral part of these financial statements*

## *STATEMENT OF CHANGES IN EQUITY*

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M |
|---|---|---|---|
| **Share capital** | | | |
| Balance at start of period | **5,259** | 5,237 | 5,402 |
| Ordinary share | | | |
| Dividend reinvestment plan | **46** | 43 | 43 |
| Group employee share acquisition scheme | **29** | 28 | 37 |
| Group share option scheme | **16** | 17 | 4 |
| Small shareholder voluntary top up scheme | **-** | - | 12 |
| New issues | **-** | 16 | - |
| Share buyback | **-** | (82) | (413) |
| Retranslation of preference shares | **(116)** | - | 152 |
| **Total share capital** | **5,234** | 5,259 | 5,237 |
| **Foreign currency translation reserve** | | | |
| Balance at start of period | **215** | 219 | 18 |
| Currency translation adjustments, net of hedges after tax | **(143)** | (4) | 201 |
| | **72** | 215 | 219 |
| **General reserve** | | | |
| Balance at start of period | **322** | 612 | 588 |
| Transfers (to) from retained profits | **(51)** | (290) | 24 |
| | **271** | 322 | 612 |
| **Asset revaluation reserve** | **31** | 31 | 31 |
| **Capital reserve** | **149** | 149 | 149 |
| **Total reserves** | **523** | 717 | 1,011 |
| **Retained profits** | | | |
| Balance at start of period | **4,562** | 3,940 | 3,607 |
| Net profit attributable to members of the Company | **1,050** | 975 | 895 |
| Total available for appropriation | **5,612** | 4,915 | 4,502 |
| Transfers from (to) reserves | **51** | 290 | (24) |
| Ordinary share dividends provided for or paid | **(571)** | (583) | (479) |
| Preference share dividends paid | **(60)** | (60) | (59) |
| **Retained profits at end of period** | **5,032** | 4,562 | 3,940 |
| **Total shareholders' equity attributable to members of the Company** | **10,789** | 10,538 | 10,188 |

*The notes appearing on pages 44 to 79 form an integral part of these financial statements*

## *CONSOLIDATED STATEMENT OF CASH FLOWS*

| | Note | Half year Mar 02 Inflows (Outflows) $M | Half year Sep 01 Inflows (Outflows) $M | Half year Mar 01 Inflows (Outflows) $M |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest received | | **5,011** | 5,469 | 5,585 |
| Dividends received | | **-** | 17 | 58 |
| Fees and other income received | | **1,522** | 1,393 | 1,390 |
| Interest paid | | **(2,729)** | (3,182) | (3,521) |
| Personnel expenses paid | | **(942)** | (936) | (891) |
| Premises expenses paid | | **(134)** | (126) | (127) |
| Other operating expenses paid | | **(921)** | (939) | (836) |
| Income taxes paid | | | | |
| Australia | | **(515)** | (258) | (355) |
| Overseas | | **(75)** | (124) | (86) |
| GST paid to the Australian Tax Office | | **(31)** | (8) | (45) |
| Net (increase) decrease in trading securities | | **(363)** | (151) | (478) |
| **Net cash provided by operating activities** | 18 | **823** | 1,155 | 694 |
| **Cash flows from investing activities** | | | | |
| Net decrease(increase) | | | | |
| Due from other financial institutions | | **262** | (17) | 926 |
| Regulatory deposits | | **90** | 28 | (55) |
| Loans and advances | | **(3,477)** | (764) | (4,065) |
| Shares in controlled entities and associates | | **(2)** | (32) | (4) |
| Investment securities | | | | |
| Purchases | | **(1,133)** | (870) | (3,135) |
| Proceeds from sale or maturity | | **1,698** | 945 | 2,685 |
| Controlled entities and associates | | | | |
| Purchased (net of cash acquired) | | **(69)** | (36) | - |
| Premises and equipment | | | | |
| Purchases | | **(213)** | (213) | (239) |
| Proceeds from sale | | **31** | 52 | 75 |
| Recovery from NHB litigation | | **248** | - | - |
| Other | | **808** | (896) | 1,425 |
| **Net cash (used in) investing activities** | | **(1,757)** | (1,803) | (2,387) |
| **Cash flows from financing activities** | | | | |
| Net (decrease)increase | | | | |
| Due to other financial institutions | | **(3,634)** | (898) | 72 |
| Deposits and other borrowings | | **2,399** | 2,497 | (1,607) |
| Creditors and other liabilities | | **891** | 915 | (334) |
| Bonds and notes | | | | |
| Issue proceeds | | **2,376** | 4,349 | 3,193 |
| Redemptions | | **(1,751)** | (2,250) | (628) |
| Loan capital | | | | |
| Issue proceeds | | **500** | (0) | 0 |
| Redemptions | | **(398)** | (164) | (80) |
| Decrease in outside equity interests | | **-** | (1) | - |
| Dividends paid | | **(597)** | (496) | (532) |
| Share capital issues | | **44** | 61 | 53 |
| Share buyback | | **-** | (82) | (413) |
| **Net cash provided by financing activities** | | **(170)** | 3,931 | (276) |
| Net cash provided by operating activities | | **823** | 1,155 | 694 |
| Net cash (used in) investing activities | | **(1,757)** | (1,803) | (2,387) |
| Net cash provided by financing activities | | **(170)** | 3,931 | (276) |
| Net (decrease)increase in cash and cash equivalents | | **(1,104)** | 3,283 | (1,969) |
| Cash and cash equivalents at beginning of half year | | **9,071** | 5,671 | 6,462 |
| Foreign currency translation on opening balances | | **(615)** | 117 | 1,178 |
| **Cash and cash equivalents at end of half year** | 18 | **7,352** | 9,071 | 5,671 |

*The notes appearing on pages 44 to 79 form an integral part of these financial statements*

## 1. Accounting policies

This report should be read in conjunction with the Annual Financial Report of the Group as at 30 September 2001 and with any public announcements made by the Group and its controlled entities during the half year ended 31 March 2002 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

These consolidated financial statements are made out in accordance with the Corporations Act 2001, applicable Accounting Standards, Urgent Issues Group Consensus Views and other mandatory reporting requirements. This report does not include all notes of the type normally included in the annual financial report.

This report has been prepared in accordance with the historical cost convention, as modified by the revaluation of trading instruments and life insurance assets and liabilities and the deemed cost of properties.

Where necessary, amounts shown for previous periods have been reclassified to facilitate comparison.

The accounting policies followed in this report are the same as those applied in the 30 September 2001 Annual Financial Report.

## Significant Accounting Policies

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

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

### Economic loss provisioning

Each month, the Group charges profits with the expected loss on the current loan portfolio risk profile. The method used by the Group for determining this period charge is referred to as 'economic loss provisioning'. The models which calculate the expected loss consider the history of loss for each type and risk grade of lending, and use this coupled with the size, composition and risk profile of the current portfolio, to calculate the charge for the month. The charge made to profit is credited to the general provision.

As part of its review of the outputs of its models, the Group also reviews the overall level of the general provision. The Group is required, by APRA prudential standards, to have policies that 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.

The Group regularly reviews the assumptions used in the models, which calculate each period's loss charge. Methodologies are updated as improved analysis becomes available, and the robustness of outcomes is reviewed by reference to actual loss experience, and losses sustained by other banks operating in similar markets.

### Provisions

The Group provisions for losses once they become probable. All known potential and existing litigation is reviewed regularly, and where appropriate provisions are raised for any expected loss.

Provisions for employee entitlements are based on existing obligations that have accrued to employees (for example, annual leave), or on an estimate of the obligation that will accrue (for example, long service leave). The Group obtains an actuarial review of the adequacy of its long service leave provision each year.

Restructuring provisions are made when the Group has committed to significant changes in activities, and incurs exit costs as a result. The main restructuring costs are payments to retrenched employees, the write off of surplus or obsolete assets, and premises exit costs. In addition, provisions are taken when the Group is committed to further lease payments on premises that it no longer needs.

### Carrying value of assets other than loans

The Group's main assets, other than loans, are trading securities, investment securities, investments in associates and investments in strategic entities.

## 1. Accounting policies (continued)

Trading securities are marked to market daily. In some circumstances, certain securities held may not be trading in a deep and liquid market, and judgement must be applied to assess the carrying value.

Investment securities are held to maturity, and generally face value is recovered. These securities are written down if we believe a permanent diminution in value has occurred.

The Group has from time to time made a number of strategic investments including several in other banks and in e-commerce companies. The carrying value of these investments is reviewed at least half yearly, and where there is a permanent diminution in value, the investment is written down.

Investments in associates are equity accounted. In addition, the carrying amount of these investments is reviewed regularly.

### Revenue recognition

Fee and commission income is recognised on an accruals basis. Fees that in nature are similar to interest, but are paid up-front, are deferred and recognised as income over the life of the loan. Application and activation fees are recognised when a loan is made, or when the commitment to lend expires.

Revenue recognised on trading securities represents the unrealised mark to market valuations of those instruments. Market values are recorded daily, and the net movement is recognised as a profit or loss.

### Capitalised software

The Group capitalises software expenditure only where that expenditure clearly relates to the building of an asset. Internal costs incurred during the development of software are capitalised, providing they directly relate to software development. These costs are capitalised until such time as the software is installed and ready for use, at which time the asset created is transferred to the fixed asset register and depreciated over the expected useful life of the software (usually three to five years). Costs incurred during the preliminary project phase, and costs incurred post-implementation of the software, are expensed.

### Special purpose and off balance sheet vehicles

The Group’s accounts include the results of all entities that are controlled by the parent company. Control is determined by considering all the facts of the relationship between the parent company and another entity. While the level of ownership is an indicator of control, other factors (such as voting rights, Board composition) must also be considered when assessing whether control exists.

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

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

| **Type of Special Purpose Vehicle (SPV)** | **Reason for establishment** | **Key Risks** |
|---|---|---|
| Securitisation vehicle | Assets are transferred to a SPV, which funds the purchase by issuing securities.<br>Enables ANZ or customers to increase diversity of funding sources. | ANZ may manage securitisation vehicles, service assets in a vehicle and provide liquidity support, so retains the risks associated with the provision of these services. The main risks and benefits associated with the underlying assets are not retained by ANZ. ANZ may also provide other services (eg. Swaps, credit guarantees), for which ANZ earns a fee at commercial rates. |
| 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. |
| Managed funds | These funds invest in specified investment on behalf of clients. | ANZ, as manager of the funds, is exposed to operational risk and reputational risk. |
| Loyalty programs | ANZ may set up an SPV to manage the loyalty program offered to credit card users. | The programs are structured to have income exceed obligations to customers for awards. ANZ would be liable should there be a shortfall in the assets of the SPV. |

## 1. Accounting policies (continued)

### Derivatives and Hedging

The Group uses derivatives to hedge its interest rate risk and its foreign exchange risk. These derivative instruments are accounted for on the same basis as the underlying exposure.

The hedging relationship is identified at the time the Group enters the hedge.

Interest rate swaps that are hedges of the balance sheet positions are accounted for on an accruals basis. Interest receipts and payments made under a hedging swap are recognised in profit and loss when they are receivable or due to be paid. The mark to market value of the swap is not recognised in the profit or loss, nor on the balance sheet.

Gains or losses on derivatives hedging foreign income are taken to profit and loss in the same period as the foreign income is received. These gains or losses are recognised as they occur – the underlying instrument is not marked to market.

Movements in the value of foreign exchange contracts that are hedging overseas operations are taken to the foreign currency translation reserve, along with the net translation difference arising from the translation of the overseas operation.

ANZ expects that the Australian Accounting Standards Board will issue further standards covering accounting for derivatives and hedging in the foreseeable future. The current hedge accounting used by ANZ may be impacted once such standards are applicable in Australia.

## 2. Income

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v Sep01 % | Movt Mar 02 v Mar 01 % |
|---|---|---|---|---|---|
| Interest income | **4,387** | 4,833 | 5,418 | -9% | -19% |
| Interest expense | **(2,422)** | (2,879) | (3,539) | -16% | -32% |
| **Net interest income** | **1,965** | 1,954 | 1,879 | 1% | 5% |
| **Interest spread and net interest average margin (%)** | | | | | |
| Gross interest spread | **2.28** | 2.21 | 2.14 | n/a | n/a |
| Interest forgone on impaired assets | **(0.04)** | (0.07) | (0.06) | n/a | n/a |
| Net interest spread | **2.24** | 2.14 | 2.08 | n/a | n/a |
| Interest attributable to net non-interest bearing items | **0.51** | 0.63 | 0.69 | n/a | n/a |
| **Net interest average margin** | **2.75** | 2.77 | 2.77 | n/a | n/a |
| Average interest earning assets ($M) | **143,948** | 141,502 | 137,087 | 2% | 5% |

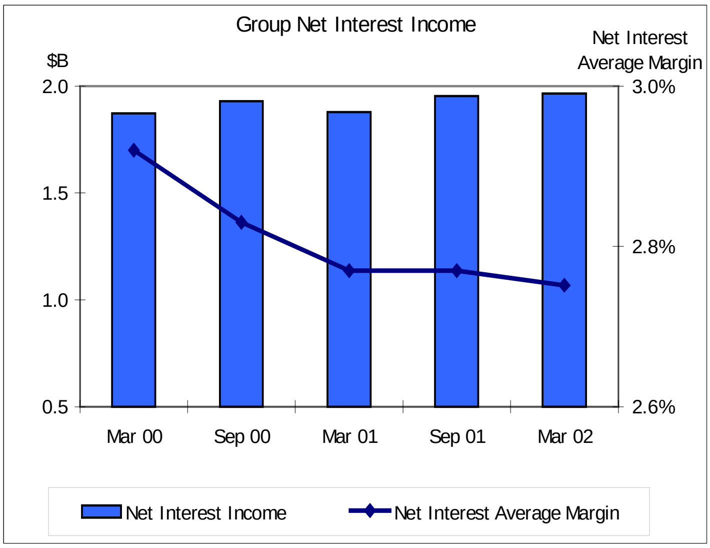
Net interest income increased by 1% compared with the September 2001 half year, with an overall decline in the net interest margin of 0.02%.

Gross interest spread increased in all geographic segments due to the positive influence of the following factors:

- Improved spread in most asset based businesses, excepting mortgages.
- Strong asset and liability management outcomes.
- Reduced low yield liquid assets.
- Higher proportion of retail funding.

offset by:

- Lower margins on deposits with falling interest rates.




Interest forgone on impaired assets was improved by:

- Reduced average levels of non-accrual loans overseas and sale/write-off of consumer finance receivables.
- A continuing focus on risk management and asset quality.

The positive benefit of interest on non-interest bearing items decreased due to:

- The declining interest rate environment.
- Reduction in the volume of net non-interest bearing items.

## 2. Income (continued)

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Interest income | **4,387** | 4,833 | 5,418 | -9% | -19% |
| **Other operating income** | | | | | |
| Fee income | | | | | |
| Lending | **417** | 409 | 378 | 2% | 10% |
| Other, commissions[1] | **593** | 566 | 539 | 5% | 10% |
| Total fee income | **1,010** | 975 | 917 | 4% | 10% |
| Other income | | | | | |
| Foreign exchange earnings | **184** | 175 | 173 | 5% | 6% |
| Profit on trading instruments | **33** | 31 | 32 | 6% | 3% |
| Life insurance margin on services operating income (page 49) | **85** | 104 | 86 | -18% | -1% |
| Profit on sale of strategic investment | **-** | - | 99 | n/a | -100% |
| Writedown of equity investments | **-** | - | (84) | n/a | -100% |
| Hedge of TrUEPrs[2] Cash Flows | **35** | 21 | 6 | 67% | large |
| Profit (loss) from associated entities | **13** | 3 | (28) | large | n/a |
| Other | **49** | 24 | 39 | large | 26% |
| Total other income | **399** | 358 | 323 | 11% | 24% |
| Total other operating income | **1,409** | 1,333 | 1,240 | 6% | 14% |
| **Total income** | **5,796** | 6,166 | 6,658 | -6% | -13% |

1. *Includes commissions from funds management business*
2. *Preference shares are issued via the TrUEPrs structure*

Other operating income, at $1,409 million, was 6% ($76 million) higher than the September 2001 half year.

Total fee income was 4% ($35 million) higher than the September 2001 half year, continuing the growth experienced throughout last year. Key drivers include:

- Lending fee income increased 2% due to increased focus on fee income from lending based products within Global Structured Finance and Institutional Banking and an increase in consumer lending activity coupled with a revised fee structure within Personal.
- Non-lending fees increased 5% due mainly to volume related increases in card merchant fees and seasonality of annual card fees.

Other income was 11% ($41 million) higher. Key features of the result were:

- Increased hedge income from an interest rate swap which covers the USD payments to holders of preference shares, due to reductions in USD interest rates. The preference share dividends payable under the TrUEPrs structure are fixed rate at an average of 8.03% per annum and the outflows are hedged by a fixed receive/floating pay swap. The swap converts the effective cash flow into floating rate and matches the interest rate risk profile of the asset pool funded by TrUEPrs.
- Increased equity accounted profit from associated entities, principally PT Panin Indonesia Bank.
- Reduced margin on services income due to seasonally lower premium revenue.
- Increased sundry commissions, higher E*Trade income, and private equity transactions. Other other income in the second half of 2002 was impacted by asset write-offs.

## 2. Income (continued)

### Margin on Services

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Life insurance margin on services operating income** | | | | | |
| Premium and related revenue | **609** | 921 | 679 | -34% | -10% |
| Investment revenue | **263** | (103) | 123 | n/a | large |
| Claims expense and Insurance policy liabilities expense | **(787)** | (714) | (716) | 10% | 10% |
| | **85** | 104 | 86 | -18% | -1% |

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Life insurance profit after tax arose from** | | | | | |
| **Movement in policy liabilities separated between** | | | | | |
| Planned margin of revenues over expenses released | **15** | 18 | 18 | -17% | -17% |
| Difference between actual and assumed experience | **1** | (7) | (4) | n/a | n/a |
| **Investment earnings of assets in excess of policy liabilities** | **5** | 3 | 10 | 67% | -50% |
| **Operating profit after income tax** | **21** | 14 | 24 | 50% | -13% |

Premium revenue was lower in the March 2002 half year than the previous half, mainly due to second half seasonality of superannuation business as well as increased inflows in the second half due to the Australian tax year end.

Investment revenue improved markedly, reflecting recent upturns in global equity markets.

Claims expense includes redemptions from investment products, and claims from risk products. Claims expense was lower than the prior half due to seasonality as there are generally higher redemptions of superannuation business investment products in the second half.

## 3. Operating expenses

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Personnel | | | | | |
| Employee taxes | | | | | |
| Fringe benefits tax | **17** | 20 | 20 | -15% | -15% |
| Payroll tax | **33** | 29 | 31 | 14% | 6% |
| Pension fund | **52** | 47 | 46 | 11% | 13% |
| Provision for employee entitlements | **12** | 19 | 12 | -37% | - |
| Salaries and wages | **577** | 558 | 566 | 3% | 2% |
| Other | **162** | 166 | 161 | -2% | 1% |
| Total personnel expenses | **853** | 839 | 836 | 2% | 2% |
| Premises | | | | | |
| Amortisation of leasehold improvements | **7** | 9 | 6 | -22% | 17% |
| Depreciation of buildings and integrals | **8** | 9 | 9 | -11% | -11% |
| Rent | **81** | 74 | 78 | 9% | 4% |
| Utilities and other outgoings | **43** | 45 | 44 | -4% | -2% |
| Other | **10** | 4 | 7 | large | 43% |
| Total premises expenses | **149** | 141 | 144 | 6% | 3% |
| Computer | | | | | |
| Computer contractors | **19** | 17 | 27 | 12% | -30% |
| Data communications | **29** | 28 | 21 | 4% | 38% |
| Depreciation and amortisation | **65** | 59 | 49 | 10% | 33% |
| Rentals and repairs | **32** | 31 | 30 | 3% | 7% |
| Software purchased | **52** | 40 | 42 | 30% | 24% |
| Other | **12** | 10 | 10 | 20% | 20% |
| Total computer expenses | **209** | 185 | 179 | 13% | 17% |
| Other | | | | | |
| Advertising and public relations | **51** | 52 | 54 | -2% | -6% |
| Amortisation of goodwill | **10** | 8 | 9 | 25% | 11% |
| Audit fees | **1** | 1 | 2 | - | -50% |
| Depreciation of furniture and equipment | **18** | 22 | 20 | -18% | -10% |
| Freight and cartage | **17** | 17 | 15 | - | 13% |
| Loss on disposal of premises and equipment | **1** | 4 | 1 | -75% | - |
| Non-lending losses, frauds and forgeries | **23** | 28 | 17 | -18% | 35% |
| Postage | **23** | 22 | 20 | 5% | 15% |
| Professional fees | **43** | 60 | 54 | -28% | -20% |
| Stationery | **25** | 27 | 25 | -7% | - |
| Telephone | **30** | 33 | 37 | -9% | -19% |
| Travel | **35** | 41 | 38 | -15% | -8% |
| Other | **58** | 30 | 45 | 93% | 29% |
| Total other expenses | **335** | 345 | 337 | -3% | -1% |
| Restructuring | **32** | 43 | 43 | -26% | -26% |
| **Operating expenses excluding NHB recovery** | **1,578** | 1,553 | 1,539 | 2% | 3% |
| | | | | | |
| Recovery from NHB litigation | **(248)** | - | - | n/a | n/a |
| **Total operating expenses** | **1,330** | 1,553 | 1,539 | -14% | -14% |
| | | | | | |
| Employees (FTE) - Permanent | **21,508** | 21,403 | 21,617 | - | -1% |
| Employees (FTE) - Temporary | **1,229** | 1,098 | 1,198 | 12% | 3% |
| **Total employees** | **22,737** | 22,501 | 22,815 | 1% | - |

## 3. Operating expenses (continued)

Compared with September 2001 half year, operating expenses excluding the NHB recovery, as shown in the table on page 50, increased by 2% ($25 million). Acquisitions added $6 million and exchange rate movements decreased expenses by $1 million.

Personnel costs increased 2% largely due to CPI and performance related salary increases and a 1% increase in staff numbers.

Premises costs increased 6% mainly due to rent reviews on leased properties.

Computer costs increased 13% reflecting the continued investment in technology. Software licenses renewals traditionally fall in the first half year and software amortisation charges increased as new systems became operational.

Other expenses were 3% lower with reductions in professional fees, travel and non-lending losses.

## 4. Income tax expense

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

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Operating profit before income tax** | **1,493** | 1,444 | 1,339 | 3% | 12% |
| Prima facie income tax at 30% (2001: 34%) | **448** | 491 | 455 | -9% | -2% |
| Tax effect of permanent differences | | | | | |
| Overseas tax rate differential | **12** | 1 | 1 | large | large |
| Rebateable and non-assessable dividends | **(5)** | (5) | (27) | - | -81% |
| Other non-assessable income | **(20)** | (22) | (14) | -9% | 43% |
| Life insurance accounting | **10** | 14 | 4 | -29% | large |
| Writedown of investments | **-** | (1) | 28 | -100% | -100% |
| NHB settlement tax rate differential | **15** | - | - | n/a | n/a |
| Other | **(16)** | (9) | (9) | 78% | 78% |
| | **444** | 469 | 438 | -5% | 1% |
| Income tax (over) under provided in prior years | **(3)** | (1) | 5 | large | n/a |
| Total income tax expense on profit | **441** | 468 | 443 | -6% | - |
| Australia | **347** | 363 | 353 | -4% | -2% |
| Overseas | **94** | 105 | 90 | -10% | 4% |
| | **441** | 468 | 443 | -6% | - |
| Effective tax rate | **29.5%** | 32.4% | 33.1% | -9% | -11% |

The Group's effective tax rate decreased 2.9% from last year largely as a result of the 4% reduction in the Australian corporate tax rate. This reduction increased the overseas tax rate differential. The NHB settlement has been tax effected at 36%.

## 5. Dividends

| | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
|---|---|---|---|
| **Dividend per ordinary share[1] (cents)** | | | |
| Interim (fully franked) | **39** | n/a | 33 |
| Final (fully franked) | **n/a** | 40 | n/a |
| **Ordinary share dividend[1] ($M)** | | | |
| Proposed Interim dividend | **583** | n/a | 491 |
| Final dividend | **n/a** | 595 | n/a |
| Bonus option plan adjustment | **(12)** | (12) | (12) |
| Total | **571** | 583 | 479 |
| **Ordinary share dividend payout ratio (%)** | **58.9%** | 65.0% | 58.7% |

1. *Excludes preference share dividend*

The directors propose that an interim dividend of 39 cents per share be paid on each ordinary share. The dividend will be fully franked. The Group expects to pay fully franked dividends for the whole year.

The Group has a dividend reinvestment plan and a bonus option plan. Participation in these plans is limited to 50,000 shares in each plan. Election notices for these plans must be received by 23 May 2002.

The proposed interim dividend will be payable on 1 July 2002. Dividends payable to shareholders resident in the United Kingdom and New Zealand will be converted to their local currency at ANZ's daily forward exchange rate on 23 May 2002.

In 1998 the Company issued 124,032,000 preference shares which raised USD775 million (net USD748 million after costs) via Trust Securities issues. The Trust Securities carry an entitlement to a distribution of 8% (USD400 million) or 8.08% (USD375 million). The amounts are payable quarterly in arrears.

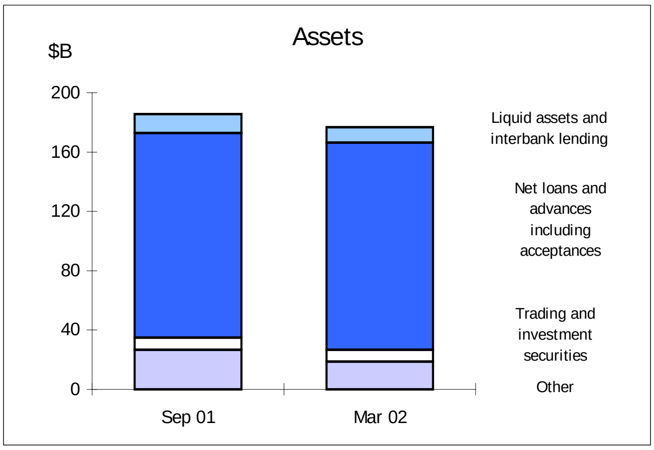
| | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
|---|---|---|---|
| **Preference share dividend** | | | |
| Dividend paid ($M) | **60** | 60 | 59 |
| **Dividend per preference share (USD cents)** | **25.1** | 25.1 | 25.1 |

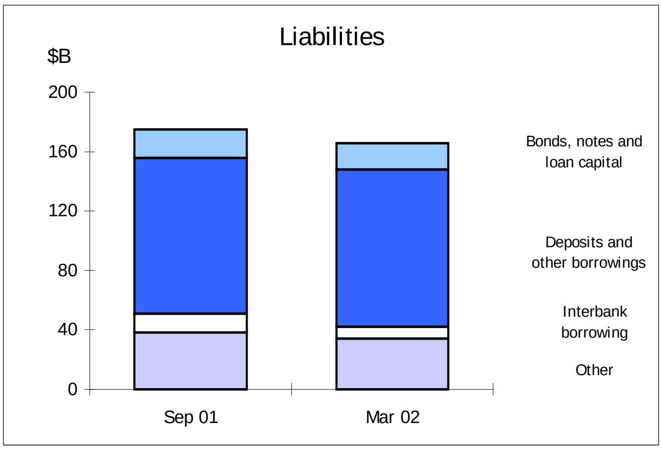
## 6. Earnings per ordinary share

| | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
|---|---|---|---|
| **Basic** | | | |
| Net profit attributable to members of the Company[1] ($M) | **990** | 915 | 836 |
| Weighted average number of ordinary shares (M) | **1,492.2** | 1,486.1 | 1,498.1 |
| **Basic earnings per share (cents)** | **66.3** | 61.6 | 55.8 |
| **Diluted** | | | |
| Weighted average number of shares - diluted (M) | **1,499.7** | 1,491.7 | 1,501.9 |
| **Diluted earnings per share (cents)** | **66.0** | 61.3 | 55.7 |
| **Number of fully paid ordinary shares on issue (M)** | **1,495.7** | 1,488.3 | 1,486.8 |

1. *Excludes preference share dividend*

## Statement of Financial Position




Total Group Assets decreased by $8.9 billion (5%) from September 2001. The decrease included $2.7 billion due to exchange rate movements and underlying movement of $6.2 billion (3%). Total Group Liabilities decreased by $9.2 billion (5%) from September 2001.

Movements described below are underlying movements from September 2001 after adjusting for the impact of exchange rate movements.

Liquid assets decreased by $0.6 billion. This reflects the reduction in the additional liquidity that was held at September 2001 as a result of the worsening economic climate and the events of September 11.

Due from non group financial institutions decreased $1.1 billion, primarily due to reduced lending to the inter-bank market in Singapore.

Trading securities increased by $0.4 billion and Investment securities decreased by $0.8 billion, driven by a shift in the portfolio towards longer dated securities.

Net loans and advances increased by $3.1 billion largely from growth in housing loans, which increased by $4.0 billion, helped by low interest rates and the extension of the “First Home Buyers Grant” in Australia. The housing loan growth was partly offset by a decrease in corporate loans in a less favourable credit environment.

Other Assets decreased by $7.6 billion mainly due to the revaluation of off balance sheet derivative instruments and the release of the NHB deposit.

Amounts due to other financial institutions were $3.6 billion below September 2001 resulting from reduced inter-bank borrowing requirements generally and increased funding from customer deposits.

Deposits and other borrowings increased by $2.6 billion, reflecting higher certificates of deposit and a successful campaign to grow retail customer deposits.

Non bank creditors and liabilities were $3.4 billion below September 2001, mainly due to the revaluation of off balance sheet instruments, reflecting the appreciating Australian dollar.

Bonds, notes and loan capital were $1.2 billion below September 2001 due to reduced term funding requirements.

## 7. Investment securities

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Total book value | **2,716** | 3,487 | 3,452 | -22% | -21% |
| Total market value | **2,712** | 3,489 | 3,450 | -22% | -21% |

## 8. Net loans and advances

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| Australia | | | | | |
| Term loans - housing | **47,812** | 43,969 | 42,495 | 9% | 13% |
| Term loans - non housing | **30,511** | 31,381 | 31,294 | -3% | -3% |
| Lease finance/hire purchase | **10,519** | 10,599 | 10,891 | -1% | -3% |
| Overdrafts | **2,752** | 2,430 | 2,992 | 13% | -8% |
| Credit card oustandings | **3,604** | 3,352 | 3,215 | 8% | 12% |
| Other | **751** | 724 | 484 | 4% | 55% |
| | **95,949** | 92,455 | 91,371 | 4% | 5% |
| New Zealand | | | | | |
| Term loans - housing | **9,384** | 9,394 | 9,333 | - | 1% |
| Term loans - non housing | **6,157** | 6,154 | 5,893 | - | 4% |
| Lease finance/hire purchase | **765** | 739 | 700 | 4% | 9% |
| Overdrafts | **596** | 707 | 686 | -16% | -13% |
| Credit card oustandings | **425** | 409 | 397 | 4% | 7% |
| Other | **1,140** | 902 | 1,028 | 26% | 11% |
| | **18,467** | 18,305 | 18,037 | 1% | 2% |
| Overseas markets | | | | | |
| Term loans - housing | **297** | 320 | 367 | -7% | -19% |
| Term loans - non housing | **12,518** | 14,291 | 15,177 | -12% | -18% |
| Lease finance/hire purchase | **557** | 642 | 521 | -13% | 7% |
| Overdrafts | **625** | 579 | 634 | 8% | -1% |
| Credit card outstandings | **79** | 70 | 38 | 13% | large |
| Other | **15** | 28 | 17 | -46% | -12% |
| | **14,091** | 15,930 | 16,754 | -12% | -16% |
| **Total gross loans and advances**[1] | **128,507** | 126,690 | 126,162 | 1% | 2% |
| Less: | | | | | |
| Provisions for doubtful debts | **(2,135)** | (1,886) | (2,039) | 13% | 5% |
| Income yet to mature | **(1,105)** | (1,147) | (1,216) | -4% | -9% |
| **Total net loans and advances**[1] | **125,267** | 123,657 | 122,907 | 1% | 2% |

[1] *Bills held in portfolio, $1,021 million (Sep 2001: $1,933 million; Mar 2001: $1,496 million) are included in trading securities*

Securitised mortgages outstanding were $2,240 million at 31 March 2002 (Sep 2001: $2,649 million; Mar 2001: $944 million).

## 9. Impaired assets

### Asset quality

The charge for doubtful debts was determined under economic loss provisioning principles (ELP) and represents the expected average annual loss on principal over the economic cycle for the current risk profile of the lending portfolio. The ELP charge was $301 million for the March 2002 half as compared to $290 million for the September 2001 half. The March half year charge as a percentage of average net lending assets was 42 basis points, representing a less than one basis point increase on the level reported for the September 2001 half (refer page 8).

Actual loss experience or net specific provisions for the half year to 31 March totalled $366 million, an increase of $27 million over the second half to 30 September 2001. Enron accounted for $170 million of this loss. Save for this loss, specific provisions were generally down across the Group. Lower net specific provisions were experienced in Australia in the half due to lower large single name losses and lower consumer losses.

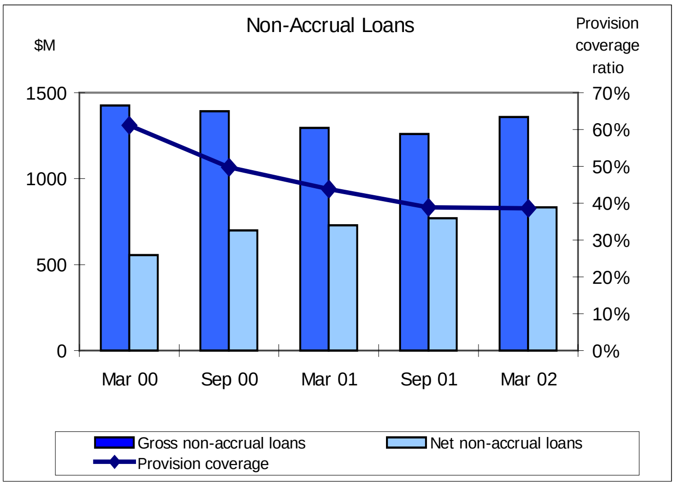
At 31 March 2002, the general provision was strong and stood at $1,546 million, a surplus of $544 million over the tax effected 0.5% of risk weighted assets guidelines indicated by the Australian Prudential Regulation Authority. This includes a special provision of $250 million charged in the March 2002 half following an assessment of our general provision balance.

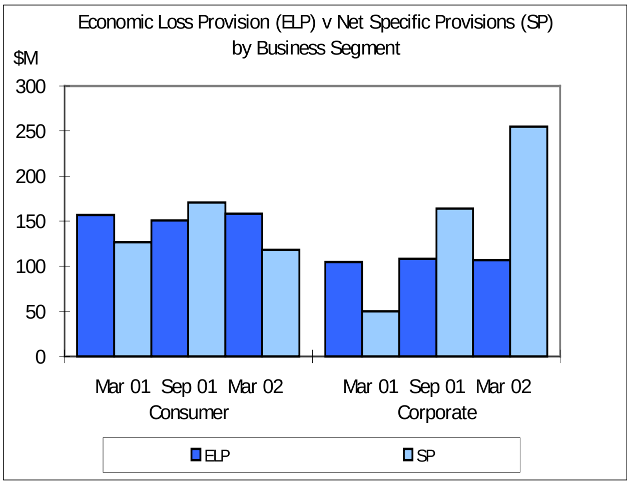
### Non-accrual loans

Gross non-accrual loans increased to $1,357 million from $1,260 million at September 2001 with new non-accruals partially offset by one large upgrade. New non-accruals of $824 million were booked of which 45% were in Australia and New Zealand and 55% in Overseas Markets, principally in the Americas and the United Kingdom.

Within the Americas and the United Kingdom, there were a small number of new non-accruals, the most high profile being Enron, which were predominantly investment grade and suffered rapid deterioration.

The Group remains well provided with a specific provision coverage ratio of 39% which remains at similar levels to September 2001. Net non-accruals are $833 million (September 2001: $770 million) and represents 7.7% of shareholders' equity at March 2002.

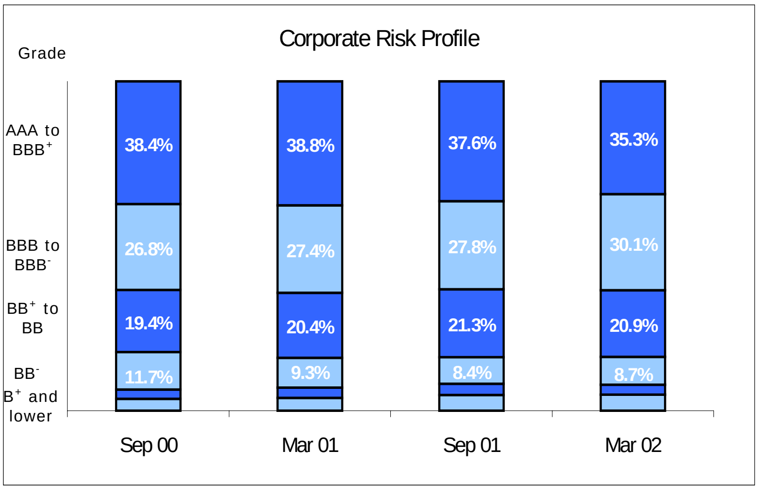


## 9. Impaired assets (continued)

### Corporate Risk profile

The Corporate lending risk profile has shown slight deterioration with some downward migration evident in the higher quality risk grades, and increased non-accruals. Increased non-accruals have mainly been attributable to a small number of large single name exposures in the offshore investment banking portfolio. The domestic corporate portfolio has shown improvement as a result of continuing focus on the credit quality of the portfolio.




| Grade | Sep 00 | Mar 01 | Sep 01 | Mar 02 |
|---|---|---|---|---|
| $B^+$ to CCC | 2.9% | 3.1% | 3.5% | 3.1% |
| CCC and lower | 0.8% | 1.0% | 1.4% | 1.9% |

### Australian and New Zealand Industry Exposure

| | **As at Mar 02** | As at Sep 01 | As at Mar 01 |
|---|---|---|---|
| **Industry** | | | |
| Real Estate Operators and Developers | **7.6%** | 8.2% | 8.1% |
| Manufacturing | **7.0%** | 7.4% | 7.2% |
| Retail Trade | **4.1%** | 4.2% | 4.1% |
| Wholesale Trade | **2.9%** | 3.5% | 3.3% |
| Agriculture | **2.8%** | 2.8% | 2.8% |
| Business Services | **2.3%** | 2.6% | 2.5% |
| Finance - Other | **2.4%** | 2.2% | 2.2% |
| Finance Banks, Building Societies, Authorised Money Markets | **2.4%** | 2.2% | 2.9% |
| Transport & Storage | **2.1%** | 2.1% | 2.0% |
| Accommodation, Clubs, Pubs, Cafes & Restaurants | **2.0%** | 1.9% | 1.9% |
| Utilities | **1.5%** | 1.6% | 1.7% |
| Construction | **1.3%** | 1.3% | 1.4% |
| Health & Community Services | **1.1%** | 1.2% | 1.1% |
| Mining | **1.0%** | 1.3% | 1.5% |
| Cultural & Recreational Services | **1.2%** | 1.0% | 1.4% |
| Personal & Other Services | **0.4%** | 0.5% | 0.3% |
| Forestry & Fishing | **0.4%** | 0.4% | 0.4% |
| Communication Services | **0.3%** | 0.3% | 0.4% |
| Education | **0.2%** | 0.2% | 0.2% |
| Finance - Insurance & Superannuation | **0.2%** | 0.2% | 0.4% |
| Government Administration & Defence | **0.1%** | 0.2% | 0.1% |
| Consumer | **56.7%** | 54.7% | 54.1% |
| **Total** | **100%** | 100% | 100% |

## 9. Impaired Assets (continued)

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Summary of impaired assets** | | | |
| Non-accrual loans | **1,357** | 1,260 | 1,295 |
| Restructured loans | **1** | 1 | 1 |
| Unproductive facilities | **144** | 41 | 30 |
| **Gross impaired assets** | **1,502** | 1,302 | 1,326 |
| Less specific provisions: | | | |
| Non-accrual loans | **(524)** | (490) | (568) |
| Unproductive facilities | **(65)** | (10) | (11) |
| **Net impaired assets** | **913** | 802 | 747 |
| **Non-accrual loans** | | | |
| Non-accrual loans | **1,357** | 1,260 | 1,295 |
| Specific provisions | **(524)** | (490) | (568) |
| **Total net non-accrual loans** | **833** | 770 | 727 |
| **Before specific provisions** | | | |
| Australia | **688** | 792 | 749 |
| New Zealand | **34** | 80 | 89 |
| Overseas markets | **635** | 388 | 457 |
| **Total non-accrual loans** | **1,357** | 1,260 | 1,295 |
| **After specific provisions** | | | |
| Australia | **367** | 492 | 430 |
| New Zealand | **17** | 48 | 68 |
| Overseas markets | **449** | 230 | 229 |
| **Total net non-accrual loans** | **833** | 770 | 727 |

## 9. Impaired Assets (continued)

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Restructured loans** | | | |
| Australia | **1** | 1 | 1 |
| New Zealand | **-** | - | - |
| Overseas markets | **-** | - | - |
| | **1** | 1 | 1 |
| **Other real estate owned (OREO)** | **-** | - | - |

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.

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Unproductive facilities** | | | |
| Australia | **34** | 34 | 21 |
| New Zealand | **-** | 1 | 1 |
| Overseas markets | **110** | 6 | 8 |
| **Gross unproductive facilities** | **144** | 41 | 30 |
| **Specific provision** | | | |
| Australia | **-** | 3 | 3 |
| New Zealand | **-** | 1 | 1 |
| Overseas markets | **65** | 6 | 7 |
| **Specific provision** | **65** | 10 | 11 |
| **Net unproductive facilities** | **79** | 31 | 19 |

The following amounts are not classified as impaired assets and therefore are not included within the summary on page 58.

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Accruing loans past due 90 days or more** | | | |
| Australia | **220** | 277 | 352 |
| New Zealand | **51** | 63 | 38 |
| Overseas markets | **7** | 11 | 1 |
| | **278** | 351 | 391 |

Past dues further decreased this half to $278 million. The reduction, mainly in Australia, was due to continued improvement in consumer credit management and collection activities.

## 9. Impaired assets (continued)

Further analysis on non-accrual loans at 31 March 2002 and interest and/or other income received during the period is as follows:

| | Gross balance outstanding $M | Specific provision $M | Interest and/or other income received $M |
|---|---|---|---|
| **Non-accrual loans** | | | |
| Without provisions | | | |
| Australia | **100** | **-** | **2** |
| New Zealand | **7** | **-** | **-** |
| Overseas markets | **367** | **-** | **3** |
| | **474** | **-** | **5** |
| With provisions and no, or partial, performance[1] | | | |
| Australia | **580** | **315** | **3** |
| New Zealand | **27** | **17** | **1** |
| Overseas markets | **258** | **182** | **1** |
| | **865** | **514** | **5** |
| With provisions and full performance[1] | | | |
| Australia | **8** | **6** | **1** |
| New Zealand | **-** | **-** | **-** |
| Overseas markets | **10** | **4** | **-** |
| | **18** | **10** | **1** |
| **Total non-accrual loans** | **1,357** | **524** | **11** |
| **Restructured loans** | **1** | **-** | **-** |
| **Unproductive facilities** | **144** | **65** | **-** |
| **Total** | **1,502** | **589** | **11** |

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

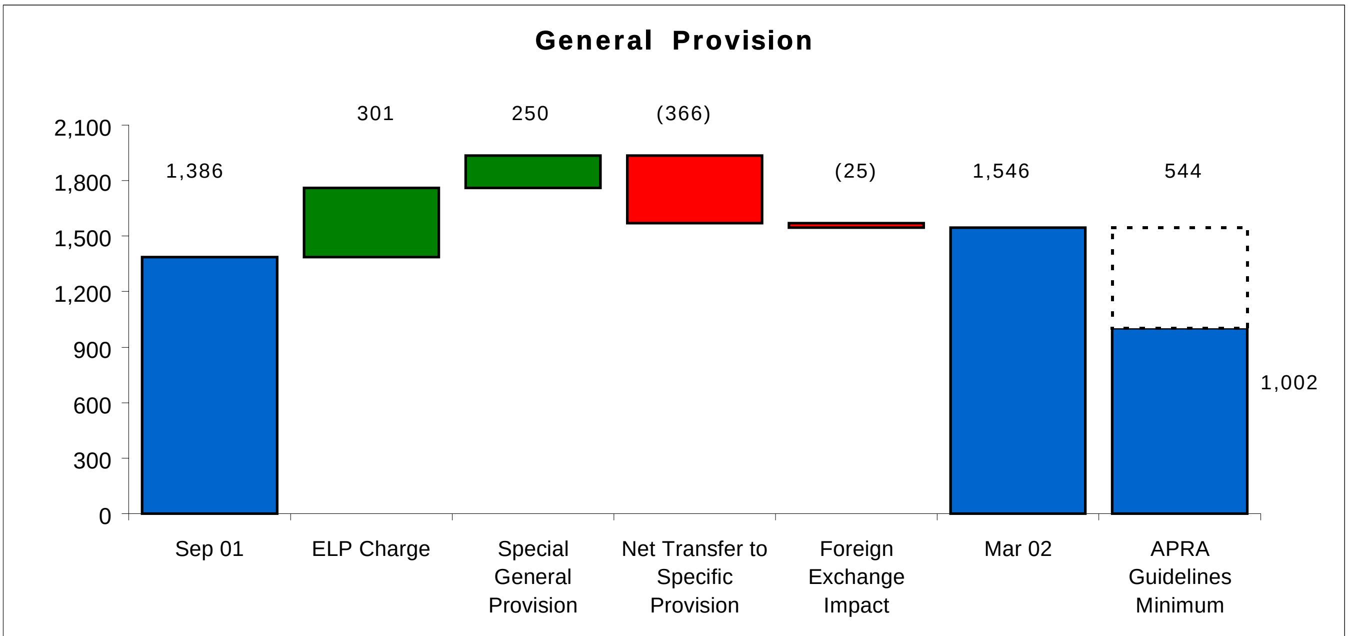
### Interest and other income forgone on impaired assets

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

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M |
|---|---|---|---|
| **Gross interest and other income receivable on non-accrual loans, restructured loans and unproductive facilities** | | | |
| Australia | **23** | 24 | 23 |
| New Zealand | **1** | 8 | 4 |
| Overseas markets | **18** | 30 | 37 |
| Total gross interest and other income receivable on impaired assets | **42** | 62 | 64 |
| **Interest and other income received** | | | |
| Australia | **(6)** | (8) | (12) |
| New Zealand | **(1)** | (2) | (2) |
| Overseas markets | **(4)** | (4) | (10) |
| Total interest income and other income received | **(11)** | (14) | (24) |
| **Net interest and other income forgone** | | | |
| Australia | **17** | 16 | 11 |
| New Zealand | **-** | 6 | 2 |
| Overseas markets | **14** | 26 | 27 |
| Total net interest and other income forgone | **31** | 48 | 40 |

## 10. Provisions for doubtful debts

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **General provision** | | | | | |
| Balance at start of period | **1,386** | 1,460 | 1,373 | -5% | 1% |
| Adjustment for exchange rate fluctuations | **(25)** | (25) | 27 | - | n/a |
| Charge to profit and loss | **551** | 290 | 241 | 90% | large |
| Transfer to specific provision | **(393)** | (384) | (211) | 2% | 86% |
| Recoveries | **27** | 45 | 30 | -40% | -10% |
| Total general provision | **1,546** | 1,386 | 1,460 | 12% | 6% |
| **Specific provision** | | | | | |
| Balance at start of period | **500** | 579 | 709 | -14% | -29% |
| Adjustment for exchange rate fluctuations | **(11)** | (6) | 36 | 83% | n/a |
| Bad debts written off | **(293)** | (457) | (377) | -36% | -22% |
| Transfer from general provision | **393** | 384 | 211 | 2% | 86% |
| Total specific provision | **589** | 500 | 579 | 18% | 2% |
| **Total provisions for doubtful debts** | **2,135** | 1,886 | 2,039 | 13% | 5% |



## 10. Provision for doubtful debts (continued)

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Specific provision balance** | | | |
| Australia | **321** | 303 | 322 |
| New Zealand | **17** | 33 | 22 |
| Domestic markets | **338** | 336 | 344 |
| Overseas markets | **251** | 164 | 235 |
| **Total specific provision** | **589** | 500 | 579 |
| **General provision** | **1,546** | 1,386 | 1,460 |
| **Total provisions for doubtful debts** | **2,135** | 1,886 | 2,039 |

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Provision movement analysis** | | | | | |
| New and increased provisions | | | | | |
| Australia | **242** | 347 | 215 | -30% | 13% |
| New Zealand | **29** | 41 | 26 | -29% | 12% |
| Overseas markets | **180** | 31 | 16 | large | large |
| | **451** | 419 | 257 | 8% | 75% |
| Provision releases | **(58)** | (35) | (46) | 66% | 26% |
| | **393** | 384 | 211 | 2% | 86% |
| Recoveries of amounts previously written off | **(27)** | (45) | (30) | -40% | -10% |
| **Net specific provisions** | **366** | 339 | 181 | 8% | large |
| Net credit to general provision | **185** | (49) | 60 | n/a | large |
| **Charge to profit and loss** | **551** | 290 | 241 | 90% | large |

## 11. Capital adequacy

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Qualifying capital** | | | | | |
| **Tier 1** | | | | | |
| Total shareholders' equity and outside equity interests[1] | **10,772** | 10,520 | 10,169 | 2% | 6% |
| Less: Unamortised goodwill | **(165)** | (115) | (113) | 43% | 46% |
| Investment in ANZ Lenders Mortgage Insurance | **(18)** | (18) | (18) | - | - |
| **Tier 1 capital** | **10,589** | 10,387 | 10,038 | 2% | 5% |
| **Tier 2** | | | | | |
| Asset revaluation reserve | **31** | 31 | 31 | - | - |
| Perpetual subordinated notes | **1,053** | 1,140 | 1,140 | -8% | -8% |
| General provision for doubtful debts[2] | **1,045** | 950 | 988 | 10% | 6% |
| | **2,129** | 2,121 | 2,159 | - | -1% |
| Subordinated notes[3] | **2,017** | 2,436 | 2,514 | -17% | -20% |
| **Tier 2 capital** | **4,146** | 4,557 | 4,673 | -9% | -11% |
| **Deductions** | | | | | |
| Investment in Funds Management entities | **608** | 567 | 298 | 7% | large |
| Other | **49** | 37 | 32 | 32% | 53% |
| **Total deductions** | **657** | 604 | 330 | 9% | 99% |
| **Total qualifying capital** | **14,078** | 14,340 | 14,381 | -2% | -2% |
| **Ratios (%)** | | | | | |
| Inner Tier 1 | **6.8%** | 6.4% | 6.2% | n/a | n/a |
| Tier 1 | **7.8%** | 7.5% | 7.3% | n/a | n/a |
| Tier 2 | **3.1%** | 3.3% | 3.4% | n/a | n/a |
| | **10.9%** | 10.7% | 10.7% | n/a | n/a |
| Less: Deductions | **(0.5%)** | (0.4%) | (0.2%) | n/a | n/a |
| **Total** | **10.4%** | 10.3% | 10.5% | n/a | n/a |
| Adjusted common equity[4] | **6.3%** | 5.9% | 6.0% | n/a | n/a |
| **Risk weighted assets** | **135,418** | 139,129 | 137,000 | -3% | -1% |

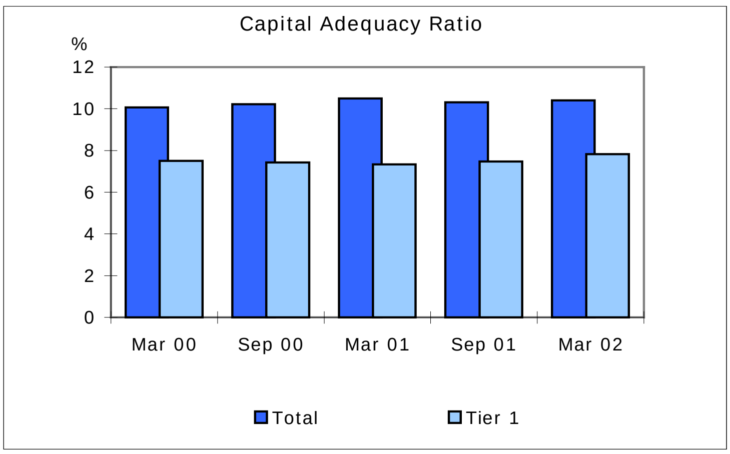
1. *Excluding asset revaluation reserve which is included within Tier 2 capital*
2. *Excluding attributable future income tax benefit*
3. *For capital adequacy calculation purposes, subordinated note issues are reduced each year by 20% of the original amount during the last five years to maturity*
4. *Inner Tier 1, less deductions (refer page 8)*

The Group's capital position continues to be strong. The total capital ratio of 10.4% is well above APRA's minimum guideline ratio of 8%.

Inner Tier 1 and Tier 1 ratios increased during the half-year through growth in retained earnings. This provides a solid base to cover the capital needed for the joint venture with ING Group (page 79).

Increased goodwill relates mainly to acquisitions in the Pacific region.

The reduction in Tier 2 ratio is due to maturity of subordinated debts.



## 12. Share capital and options

### Issue and quoted securities

| | Number quoted | Issue price per share | Amount paid up per share |
|---|---|---|---|
| **Ordinary shares** | | | |
| **Total at 31 March 2002** | 1,495,726,362 | $1.00 | $1.00 |
| Issued during half year | 7,459,216 | | |
| **Preference shares** | | | |
| Total at 31 March 2002 | 124,032,000 | US$6.25 | US$6.25 |

| | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
|---|---|---|---|
| Operating profit as a % of shareholders' equity (including preference shares) at end of period | **19.5%** | 18.5% | 17.6% |

## 12. Share capital and options (continued)

| Options | Number issued | Exercise price | Expiry date |
|---|---|---|---|
| On issue | 100,000 | $8.76 | 01/06/2002 |
| | 500,000 | $11.40 | 01/10/2002 |
| | 500,000 | $12.12 | 01/10/2002 |
| | 29,766 | $11.45 | 22/01/2003 |
| | 625,000 | $9.51 | 23/02/2003 |
| | 72,524 | $0.00 | 24/10/2003 |
| | 450,000 | $8.97 | 27/10/2003 |
| | 360,000 | $10.34 | 10/12/2003 |
| | 500,000 | $17.52 | 31/12/2003 |
| | 10,000 | $10.41 | 27/01/2004 |
| | 150,000 | $10.44 | 23/02/2004 |
| | 125,000 | $11.44 | 24/03/2004 |
| | 2,637,500 | $11.20 | 01/06/2004 |
| | 2,500 | $11.26 | 06/06/2004 |
| | 25,000 | $11.29 | 04/07/2004 |
| | 150,000 | $11.30 | 11/07/2004 |
| | 900,000 | $9.94 | 26/10/2004 |
| | 500,000 | $17.20 | 31/12/2004 |
| | 750,000 | $11.49 | 31/12/2004 |
| | 750,000 | $14.78 | 31/12/2004 |
| | 100,000 | $10.63 | 30/01/2005 |
| | 1,100,000 | $10.11 | 22/02/2007 |
| | 350,000 | $10.20 | 07/03/2007 |
| | 637,500 | $11.81 | 22/05/2007 |
| | 60,000 | $11.64 | 25/05/2007 |
| | 200,000 | $12.23 | 06/06/2007 |
| | 82,500 | $12.75 | 25/09/2007 |
| | 2,486,258 | $14.34 | 21/11/2007 |
| | 2,835,750 | $14.63 | 07/02/2008 |
| | 4,692,525 | $14.92 | 20/02/2008 |
| | 75,000 | $15.47 | 26/02/2008 |
| | 50,000 | $15.66 | 06/03/2008 |
| | 3,768,077 | $13.70 | 24/04/2008 |
| | 205,500 | $13.70 | 06/05/2008 |
| | 473,000 | $15.33 | 31/05/2008 |
| | 76,000 | $16.49 | 20/08/2008 |
| | 93,000 | $16.81 | 26/08/2008 |
| | 50,000 | $17.05 | 23/10/2008 |
| | 4,535,150 | $17.05 | 24/10/2008 |
| | 20,000 | $18.21 | 25/02/2009 |

## 12. Share capital and options (continued)

| Options | Number issued | Exercise price | Expiry date |
|---|---|---|---|
| Issued during current half year | 7,500 | $11.81 | 31/03/2002 |
| | 72,524 | $0.00 | 24/10/2003 |
| | 500,000 | $17.20 | 31/12/2004 |
| | 500,000 | $17.52 | 31/12/2003 |
| | 50,000 | $17.05 | 23/10/2008 |
| | 4,569,425 | $17.05 | 24/10/2008 |
| | 20,000 | $18.21 | 25/02/2009 |

| Options | Number issued | Exercise price | Expiry date |
|---|---|---|---|
| Exercised during current half year | 11,915 | $8.76 | 30/01/2002 |
| | 9,635 | $8.76 | 13/02/2002 |
| | 50,000 | $8.76 | 01/06/2002 |
| | 9,758 | $11.45 | 22/01/2003 |
| | 300,000 | $9.51 | 23/02/2003 |
| | 50,000 | $10.64 | 21/06/2003 |
| | 100,000 | $8.93 | 01/10/2003 |
| | 425,000 | $8.97 | 27/10/2003 |
| | 145,000 | $10.34 | 10/12/2003 |
| | 30,000 | $11.44 | 24/03/2004 |
| | 32,500 | $11.20 | 01/06/2004 |
| | 70,000 | $10.11 | 22/02/2007 |
| | 15,000 | $11.81 | 22/05/2007 |
| | 24,000 | $14.34 | 21/11/2007 |
| | 82,500 | $14.63 | 07/02/2008 |
| | 99,750 | $14.92 | 20/02/2008 |
| | 43,425 | $13.70 | 24/04/2008 |
| | 4,500 | $15.33 | 31/05/2008 |
| | 750 | $16.81 | 26/08/2008 |
| | 5,800 | $17.05 | 24/10/2008 |

| Options | Number issued | Exercise price | Expiry date |
|---|---|---|---|
| Lapsed during current half year | 199 | $8.76 | 30/01/2002 |
| | 50,000 | $8.93 | 01/10/2003 |
| | 52,500 | $11.20 | 01/06/2004 |
| | 5,000 | $11.81 | 22/05/2007 |
| | 2,500 | $12.75 | 25/09/2007 |
| | 72,000 | $14.63 | 07/02/2008 |
| | 95,500 | $14.92 | 20/02/2008 |
| | 44,750 | $13.70 | 24/04/2008 |
| | 1,350 | $13.70 | 06/05/2008 |
| | 9,000 | $15.33 | 31/05/2008 |
| | 2,250 | $16.81 | 26/08/2008 |
| | 28,475 | $17.05 | 24/10/2008 |

## 13. Average Balance Sheet and related interest

Averages used in the following tables are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Non-accrual loans are included under the interest earning asset category, "loans, advances and bills discounted". Intragroup interest earning assets and interest bearing liabilities are treated as external assets and liabilities for the geographic segments.

### Half-year Average Balance Sheet

| | Half year Mar 02 | | | Half year Sep 01 | | | Half year Mar 01 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ave bal | Int | Rate | Ave bal | Int | Rate | Ave bal | Int | Rate |
| | $M | $M | % | $M | $M | % | $M | $M | % |
| **Interest earning assets** | | | | | | | | | |
| Due from other financial institutions | | | | | | | | | |
| Australia | **837** | **18** | **4.4%** | 791 | 20 | 5.0% | 925 | 27 | 5.9% |
| New Zealand | **545** | **12** | **4.3%** | 651 | 18 | 5.5% | 527 | 16 | 6.1% |
| Overseas markets | **2,454** | **38** | **3.1%** | 2,465 | 59 | 4.8% | 2,186 | 74 | 6.8% |
| Investments in public securities | | | | | | | | | |
| Australia | **4,890** | **114** | **4.7%** | 4,764 | 122 | 5.1% | 4,269 | 132 | 6.2% |
| New Zealand | **1,259** | **27** | **4.2%** | 1,996 | 58 | 5.8% | 1,382 | 45 | 6.5% |
| Overseas markets | **1,431** | **43** | **5.9%** | 1,730 | 61 | 7.0% | 1,495 | 53 | 7.1% |
| Loans, advances and bills discounted | | | | | | | | | |
| Australia | **93,525** | **3,001** | **6.5%** | 91,196 | 3,185 | 7.0% | 88,854 | 3,524 | 8.0% |
| New Zealand | **17,744** | **652** | **7.4%** | 17,501 | 710 | 8.1% | 17,014 | 756 | 8.9% |
| Overseas markets | **15,331** | **335** | **4.4%** | 15,400 | 449 | 5.8% | 14,772 | 537 | 7.3% |
| Other assets | | | | | | | | | |
| Australia | **1,204** | **22** | **3.7%** | 1,389 | 34 | 4.9% | 1,561 | 49 | 6.4% |
| New Zealand | **1,349** | **37** | **5.5%** | 1,119 | 36 | 6.4% | 1,099 | 33 | 6.0% |
| Overseas markets | **3,379** | **98** | **5.8%** | 2,500 | 91 | 7.3% | 3,003 | 185 | 12.4% |
| Intragroup assets | | | | | | | | | |
| Overseas markets | **9,708** | **108** | **2.2%** | 13,541 | 270 | 4.0% | 11,169 | 266 | 4.8% |
| | **153,656** | **4,505** | | 155,043 | 5,113 | | 148,256 | 5,697 | |
| Intragroup elimination | **(9,708)** | **(108)** | | (13,541) | (270) | | (11,169) | (266) | |
| | **143,948** | **4,397** | **6.1%** | 141,502 | 4,843 | 6.8% | 137,087 | 5,431 | 8.0% |
| **Non-interest earning assets** | | | | | | | | | |
| Acceptances | | | | | | | | | |
| Australia | **14,826** | | | 15,313 | | | 15,530 | | |
| Overseas markets | **215** | | | 291 | | | 207 | | |
| Premises and equipment | **1,347** | | | 1,308 | | | 1,220 | | |
| Other assets | **19,918** | | | 19,623 | | | 20,780 | | |
| Provisions for doubtful debts | | | | | | | | | |
| Australia | **(1,681)** | | | (1,771) | | | (1,713) | | |
| New Zealand | **(168)** | | | (170) | | | (162) | | |
| Overseas markets | **(83)** | | | (144) | | | (168) | | |
| | **34,374** | | | 34,450 | | | 35,694 | | |
| **Total assets** | **178,322** | | | 175,952 | | | 172,781 | | |

## 13. Average Balance Sheet and related interest (continued)

| | Half year Mar 02 | | | Half year Sep 01 | | | Half year Mar 01 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ave bal $M | Int $M | Rate % | Ave bal $M | Int $M | Rate % | Ave bal $M | Int $M | Rate % |
| **Interest bearing liabilities** | | | | | | | | | |
| Time deposits | | | | | | | | | |
| Australia | **19,429** | **431** | **4.5%** | 18,496 | 447 | 4.8% | 20,299 | 634 | 6.3% |
| New Zealand | **8,567** | **216** | **5.1%** | 8,682 | 255 | 5.9% | 8,138 | 264 | 6.5% |
| Overseas markets | **15,688** | **218** | **2.8%** | 13,923 | 306 | 4.4% | 12,385 | 352 | 5.7% |
| Savings deposits | | | | | | | | | |
| Australia | **10,588** | **123** | **2.3%** | 9,834 | 125 | 2.5% | 9,411 | 144 | 3.1% |
| New Zealand | **3,050** | **39** | **2.5%** | 2,889 | 43 | 3.0% | 2,775 | 46 | 3.3% |
| Overseas markets | **399** | **3** | **1.4%** | 365 | 3 | 1.6% | 341 | 4 | 2.4% |
| Other demand deposits | | | | | | | | | |
| Australia | **22,756** | **357** | **3.1%** | 21,155 | 379 | 3.6% | 19,753 | 494 | 5.0% |
| New Zealand | **1,847** | **34** | **3.7%** | 1,706 | 41 | 4.8% | 1,535 | 41 | 5.4% |
| Overseas markets | **701** | **6** | **1.8%** | 811 | 5 | 1.2% | 807 | 15 | 3.7% |
| Due to other financial institutions | | | | | | | | | |
| Australia | **884** | **23** | **5.1%** | 504 | 15 | 5.9% | 364 | 16 | 8.8% |
| New Zealand | **521** | **9** | **3.4%** | 565 | 12 | 4.2% | 396 | 8 | 4.0% |
| Overseas markets | **8,255** | **108** | **2.6%** | 9,922 | 221 | 4.4% | 10,528 | 318 | 6.1% |
| Commercial paper | | | | | | | | | |
| Australia | **4,066** | **66** | **3.3%** | 3,975 | 101 | 5.1% | 6,582 | 209 | 6.4% |
| Overseas markets | **3,403** | **38** | **2.3%** | 5,657 | 116 | 4.1% | 5,158 | 158 | 6.1% |
| Borrowing corporations' debt | | | | | | | | | |
| Australia | **5,976** | **155** | **5.2%** | 6,000 | 174 | 5.8% | 6,217 | 191 | 6.2% |
| New Zealand | **1,365** | **41** | **6.0%** | 1,348 | 43 | 6.4% | 1,320 | 45 | 6.8% |
| Loan capital, bonds and notes | | | | | | | | | |
| Australia | **14,496** | **345** | **4.8%** | 12,900 | 343 | 5.3% | 11,891 | 391 | 6.6% |
| New Zealand | **410** | **13** | **6.4%** | 406 | 14 | 6.9% | 392 | 15 | 7.7% |
| Overseas markets | **625** | **9** | **2.9%** | 595 | 15 | 5.0% | 605 | 20 | 6.6% |
| Other liabilities [1] | | | | | | | | | |
| Australia | **1,899** | **113** | **n/a** | 1,919 | 119 | n/a | 1,957 | 50 | n/a |
| New Zealand | **147** | **49** | **n/a** | 97 | 65 | n/a | 119 | 95 | n/a |
| Overseas markets | **11** | **26** | **n/a** | 488 | 37 | n/a | 91 | 29 | n/a |
| Intragroup liabilities | | | | | | | | | |
| Australia | **6,786** | **66** | **2.0%** | 10,098 | 207 | 4.1% | 7,421 | 188 | 5.1% |
| New Zealand | **2,922** | **42** | **2.9%** | 3,443 | 63 | 3.7% | 3,748 | 78 | 4.2% |
| | **134,791** | **2,530** | | 135,778 | 3,149 | | 132,233 | 3,805 | |
| Intragroup elimination | **(9,708)** | **(108)** | | (13,541) | (270) | | (11,169) | (266) | |
| | **125,083** | **2,422** | **3.9%** | 122,237 | 2,879 | 4.7% | 121,064 | 3,539 | 5.9% |
| **Non-interest bearing liabilities** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Australia | **4,056** | | | 3,710 | | | 3,716 | | |
| New Zealand | **886** | | | 930 | | | 836 | | |
| Overseas markets | **604** | | | 469 | | | 395 | | |
| Acceptances | | | | | | | | | |
| Australia | **14,826** | | | 15,313 | | | 15,530 | | |
| Overseas markets | **215** | | | 291 | | | 207 | | |
| Other liabilities | **21,975** | | | 22,780 | | | 21,048 | | |
| | **42,562** | | | 43,493 | | | 41,732 | | |
| **Total liabilities** | **167,645** | | | 165,730 | | | 162,796 | | |

1. *Includes foreign exchange swap costs*

## 13. Average Balance Sheet and related interest (continued)

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M |
|---|---|---|---|
| **Total average assets** | | | |
| Australia | **130,676** | 127,243 | 125,813 |
| New Zealand | **21,831** | 22,275 | 21,573 |
| Overseas markets | **35,523** | 39,975 | 36,564 |
| less intragroup elimination | **(9,708)** | (13,541) | (11,169) |
| | **178,322** | 175,952 | 172,781 |
| % of total average assets attributable to overseas activities | **26.7%** | 27.7% | 27.2% |
| **Total average liabilities** | | | |
| Australia | **123,706** | 121,268 | 119,559 |
| New Zealand | **20,821** | 21,408 | 20,566 |
| Overseas markets | **32,826** | 36,595 | 33,840 |
| less intragroup elimination | **(9,708)** | (13,541) | (11,169) |
| | **167,645** | 165,730 | 162,796 |
| **Total average shareholders' equity** | | | |
| Ordinary share capital | **9,205** | 8,752 | 8,580 |
| Preference share capital | **1,472** | 1,470 | 1,405 |
| | **10,677** | 10,222 | 9,985 |
| **Total average liabilities and shareholders' equity** | **178,322** | 175,952 | 172,781 |
| % of total average liabilities attributable to overseas activities | **30.3%** | 32.9% | 31.1% |
| | | | |
| **Average interest earning assets** | | | |
| Australia | **100,456** | 98,139 | 95,609 |
| New Zealand | **20,897** | 21,267 | 20,022 |
| Overseas markets | **32,303** | 35,637 | 32,625 |
| less intragroup elimination | **(9,708)** | (13,541) | (11,169) |
| | **143,948** | 141,502 | 137,087 |

## 14. Interest spreads and net interest average margins

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

| | Half year Mar 02 % | Half year Sep 01 % | Half year Mar 01 % |
|---|---|---|---|
| **Gross earnings rate**[1] | | | |
| Australia | **6.30** | 6.83 | 7.83 |
| New Zealand | **6.98** | 7.71 | 8.53 |
| Overseas markets | **3.86** | 5.21 | 6.85 |
| Total Group | **6.13** | 6.83 | 7.95 |

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

| | Half year Mar 02 % | Half year Sep 01 % | Half year Mar 01 % |
|---|---|---|---|
| **Australia** | | | |
| Gross interest spread | **2.45** | 2.38 | 2.31 |
| Interest forgone on impaired assets | **(0.03)** | (0.03) | (0.02) |
| Net interest spread | **2.42** | 2.35 | 2.29 |
| Interest attributable to net non-interest bearing items | **0.53** | 0.60 | 0.68 |
| Net interest average margin - Australia | **2.95** | 2.95 | 2.97 |
| **New Zealand** | | | |
| Gross interest spread | **2.27** | 2.18 | 2.12 |
| Interest forgone on impaired assets | **(0.00)** | (0.06) | (0.03) |
| Net interest spread | **2.27** | 2.12 | 2.09 |
| Interest attributable to net non-interest bearing items | **0.47** | 0.56 | 0.51 |
| Net interest average margin - New Zealand | **2.74** | 2.68 | 2.60 |
| **Overseas markets** | | | |
| Gross interest spread | **1.13** | 0.95 | 1.01 |
| Interest forgone on impaired assets | **(0.09)** | (0.15) | (0.17) |
| Net interest spread | **1.04** | 0.80 | 0.84 |
| Interest attributable to net non-interest bearing items | **0.29** | 0.47 | 0.51 |
| Net interest average margin - Overseas markets | **1.33** | 1.27 | 1.35 |
| **Group** | | | |
| Gross interest spread | **2.28** | 2.21 | 2.14 |
| Interest forgone on impaired assets | **(0.04)** | (0.07) | (0.06) |
| Net interest spread | **2.24** | 2.14 | 2.08 |
| Interest attributable to net non-interest bearing items | **0.51** | 0.63 | 0.69 |
| Net interest average margin - Group | **2.75** | 2.77 | 2.77 |

1. *Average interest rate received on interest earning asset*

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Segment analysis

The following analysis shows segment revenue and result for each business segment.

**Industry**

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | Movt Mar 02 v. Sep 01 % | Movt Mar 02 v. Mar 01 % |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Personal Banking | 738 | 736 | 736 | - | - |
| Corporate Banking Businesses | 1,032 | 1,176 | 1,257 | -12% | -18% |
| ANZ Investment Bank | 759 | 899 | 1,130 | -16% | -33% |
| Wealth Management | 195 | 193 | 168 | 1% | 16% |
| Small to Medium Business | 202 | 202 | 204 | - | -1% |
| Mortgages | 1,656 | 1,741 | 1,886 | -5% | -12% |
| Consumer Finance | 446 | 419 | 408 | 6% | 9% |
| Asset Finance | 507 | 525 | 536 | -3% | -5% |
| Group Treasury | 236 | 278 | 329 | -15% | -28% |
| Corporate Centre | 23 | 22 | 6 | 5% | large |
| | **5,794** | 6,191 | 6,660 | -6% | -13% |
| **Net profit after income tax (equity standardised)[1]** | | | | | |
| Personal Banking | 218 | 214 | 204 | 2% | 7% |
| Corporate Banking Businesses | 256 | 240 | 222 | 7% | 15% |
| ANZ Investment Bank | 155 | 147 | 143 | 5% | 8% |
| Wealth Management | 80 | 69 | 58 | 16% | 38% |
| Small to Medium Business | 68 | 62 | 55 | 10% | 24% |
| Mortgages | 115 | 116 | 108 | -1% | 6% |
| Consumer Finance | 79 | 59 | 40 | 34% | 98% |
| Asset Finance | 49 | 48 | 45 | 2% | 9% |
| Group Treasury | 63 | 50 | 26 | 26% | 142% |
| Corporate Centre | (17) | (30) | (6) | -43% | 183% |
| NHB recovery and special provision for doubtful debts | (16) | - | - | n/a | n/a |
| | **1,050** | 975 | 895 | 8% | 17% |

1. *Refer definitions on page 86*

Further information on business segments and Corporate Centre is shown on pages 9 to 30 of the Consolidated Results and Dividend Announcement.

## 16. Derivative Financial Instruments

### Derivatives

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

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

| | 31 March 2002 | | | 30 September 2001 | | |
|---|---|---|---|---|---|---|
| | Notional Principal Amount $M | Credit Equivalent Amount $M | Fair Value $M | Notional Principal Amount $M | Credit Equivalent Amount $M | Fair Value $M |
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | **146,925** | **3,476** | **965** | 274,880 | 7,312 | 2,171 |
| Swap agreements | **32,035** | **2,319** | **(23)** | 34,507 | 3,519 | 959 |
| Options purchased | **9,991** | **572** | **409** | 13,586 | 1,068 | 834 |
| Options sold [1] | **13,728** | **n/a** | **(158)** | 13,481 | n/a | (614) |
| Other contracts | **2,896** | **434** | **16** | 3,776 | 580 | 363 |
| | **205,575** | **6,801** | **1,209** | 340,230 | 12,479 | 3,713 |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | **44,584** | **25** | **2** | 68,997 | 84 | 13 |
| Swap agreements | **240,901** | **3,121** | **(46)** | 278,152 | 3,814 | 519 |
| Futures contracts [2] | **37,691** | **n/a** | **(1)** | 97,825 | n/a | (9) |
| Options purchased | **10,211** | **94** | **57** | 8,067 | 65 | 76 |
| Options sold [1] | **10,333** | **n/a** | **(54)** | 11,766 | n/a | (89) |
| Other contracts | **375** | **66** | **(20)** | 40 | 4 | - |
| | **344,095** | **3,306** | **(62)** | 464,847 | 3,967 | 510 |
| | **549,670** | **10,107** | **1,147** | 805,077 | 16,446 | 4,223 |

1. *Options sold have no credit exposures as they represent obligations rather than assets*
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.*

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

## 16. Derivative Financial Instruments (continued)

### Market Risk

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

### The Value at Risk (VaR) measure

A key measure of market risk is Value at Risk ("VaR"). VaR is a statistical estimate of the likely daily loss, which is based on historical market movements. The confidence level is such that there is 97.5% probability that the loss will not exceed the Value at Risk estimate on any given day.

The Bank's standard VaR approach is historical simulation. The bank calculates VaR using historical changes in market rates and prices over the previous 500 business days.

It should be noted that because VaR is driven by actual historical observations, the methodology is not an estimate of the maximum loss that the Bank could experience from an extreme market event.

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

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

| | As at Mar 02 $M | Max for period Mar 02 $M | Min for period Mar 02 $M | Avg for period Mar 02 $M | As at Sep 01 $M | Max for period Sep 01 $M | Min for period Sep 01 $M | Avg for period Sep 01 $M |
|---|---|---|---|---|---|---|---|---|
| Value at risk at 97.5% confidence | | | | | | | | |
| Foreign exchange | **0.7** | **2.3** | **0.5** | **1.3** | 1.6 | 2.8 | 0.8 | 1.3 |
| Interest rate | **1.2** | **2.1** | **1.1** | **1.5** | 1.6 | 4.8 | 1.5 | 2.8 |
| Diversification benefit | **(0.6)** | **(0.5)** | **(0.3)** | **(0.4)** | (0.3) | (2.5) | (0.4) | (0.9) |
| **Total VaR** | **1.3** | **3.9** | **1.3** | **2.4** | 2.9 | 5.1 | 1.9 | 3.2 |

### Hedging

In addition to customer and trading activities, the Group uses, inter alia, derivatives to manage the risk associated with its balance sheet and future revenue streams.

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

| | 31 March 2002 | | | 30 September 2001 | | |
|---|---|---|---|---|---|---|
| | Notional Principal Amount $M | Credit Equiv. Amount $M | Fair Value $M | Notional Principal Amount $M | Credit Equiv. Amount $M | Fair Value $M |
| **Foreign exchange contracts** | | | | | | |
| Customer-related and trading purposes | **179,325** | **5,315** | **303** | 309,298 | 8,366 | 452 |
| Balance sheet hedging purposes | **26,250** | **1,486** | **906** | 30,932 | 4,113 | 3,261 |
| | **205,575** | **6,801** | **1,209** | 340,230 | 12,479 | 3,713 |
| **Interest rate contracts** | | | | | | |
| Customer-related and trading purposes | **306,226** | **3,013** | **(177)** | 426,746 | 3,395 | 270 |
| Balance sheet hedging purposes | **37,869** | **293** | **115** | 38,101 | 572 | 240 |
| | **344,095** | **3,306** | **(62)** | 464,847 | 3,967 | 510 |
| **Total** | **549,670** | **10,107** | **1,147** | 805,077 | 16,446 | 4,223 |

## 17. Contingent liabilities

### General

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

### Sale of Grindlays businesses

As part of the sale on 31 July 2000 of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries (the Grindlays businesses), to Standard Chartered Bank (SCB), ANZ provided warranties relating to those businesses. Where it is anticipated that payments are likely under these warranties, provisions have been made to cover the anticipated liability.

In addition ANZ provided SCB and/or Grindlays with certain indemnities. Those indemnities under which ANZ remains exposed as at 31 March 2002 are:

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

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

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

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

ANZ remains liable for other claims under the Indian Indemnity, including in relation to alleged non-compliance by Grindlays with Indian foreign exchange legislation. In 1991, certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. In making these transactions it would appear that the provisions of the Foreign Exchange Regulation Act 1973 were inadvertently not complied with. Grindlays on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities have served notices on Grindlays and certain of its officers in India that could lead to prosecutions and possible penalties. Grindlays has commenced proceedings in the courts contesting the validity of these notices.

### Tax audit

ANZ in Australia is being audited by the Australian Taxation Office (ATO) as part of normal ATO procedure. The Group has received various assessments that are being contested. Based on external advice, the Group expects that the subject of the assessments can be resolved within normal provisioning arrangements.

### Interbank Deposit Agreement

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

## 18. Notes to the Statement of Cash Flows

| | Half year Mar 02 Inflows (Outflows) $M | Half year Sep 01 Inflows (Outflows) $M | Half year Mar 01 Inflows (Outflows) $M |
|---|---|---|---|
| **Reconciliation of profit after income tax to net cash provided by operating activities** | | | |
| Profit after income tax | **1,050** | 975 | 895 |
| Adjustments to reconcile to net cash provided by operating activities | | | |
| Provision for doubtful debts | **551** | 290 | 241 |
| Depreciation and amortisation | **109** | 95 | 86 |
| Recovery from NHB litigation | **(248)** | - | - |
| Provision for restructuring and other provisions | **139** | 165 | 135 |
| Payments from provisions | **(239)** | (206) | (82) |
| (Profit) loss on property disposals | **(1)** | 2 | (3) |
| Decrease (increase) in interest receivable | **277** | 265 | (128) |
| (Decrease) increase in interest payable | **(307)** | (303) | 18 |
| (Increase) decrease in trading securities | **(363)** | (151) | (478) |
| (Increase) decrease in net tax assets | **(148)** | 86 | 2 |
| Other | **3** | (63) | 8 |
| **Net cash provided by operating activities** | **823** | 1,155 | 694 |
| **Reconciliation of cash and cash equivalents** | | | |
| Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows | | | |
| Liquid assets - less than 3 months | **4,900** | 5,504 | 2,834 |
| Due from other financial institutions - less than 3 months | **2,452** | 3,567 | 2,837 |
| | **7,352** | 9,071 | 5,671 |
| **Non-cash financing and investment activities** | | | |
| Share capital issues | | | |
| Dividend reinvestment plan | **46** | 43 | 43 |

## 19. Changes in composition of the Group

### Acquisition and disposal of controlled entities

There were no material controlled entities acquired or disposed of during the year.

## 20. Associated entities and investments

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M |
|---|---|---|---|
| **Aggregate associated entities** | | | |
| Operating profit(loss) | **13** | 3 | (28) |
| Income tax (expense)benefit | **-** | - | - |
| Profit(loss) after income tax | **13** | 3 | (28) |

| | Contribution to Group pre-tax profit | | | Ownership interest held by Group | | |
|---|---|---|---|---|---|---|
| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M | As at Mar 02 % | As at Sep 01 % | As at Mar 01 % |
| **Investments** | | | | | | |
| E*Trade | **5** | 3 | (21) | **35** | 31 | 26 |

## 21. US GAAP reconciliation

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

The following are reconciliations of the profit from ordinary activities after income tax, equity and total assets, applying US GAAP instead of Australian GAAP.

| | Half year Mar 02 $M | Half year Sep 01 $M | Half year Mar 01 $M |
|---|---|---|---|
| **Operating profit after income tax according to Australian GAAP** | **1,050** | 975 | 895 |
| Items having the effect of increasing(decreasing) reported income: | | | |
| Employee share issue and options | **(43)** | (26) | (23) |
| Depreciation charged on the difference between revaluation amount and historical cost of buildings | **1** | 1 | 1 |
| Difference in gain or loss on disposal of properties revalued under historical cost | **4** | 14 | 3 |
| Deferred profit on sale and leaseback transactions | **(8)** | - | - |
| Amortisation of sale and leaseback gain over lease term | **12** | 11 | 12 |
| Amortisation of goodwill | **(12)** | (14) | (14) |
| Pension expense adjustment | **10** | 16 | 4 |
| Provisions | **-** | - | (361) |
| Effect of the initial application of SFAS 133 | **-** | - | 11 |
| Mark to market of non compliant derivative hedges (under SFAS 133) | **(124)** | 44 | 240 |
| Taxation on the above adjustments | **33** | (20) | 27 |
| **Net income according to US GAAP** | **923** | 1,001 | 795 |
| **Other comprehensive income** | | | |
| Currency translation adjustments, net of hedges after tax | **(142)** | (4) | 201 |
| Unrealised profit(loss) on available for sale securities | **2** | (1) | 16 |
| Effect of the initial application of SFAS 133 | **-** | - | (52) |
| Mark to market of cash flow hedges (under SFAS 133) | **29** | 10 | (76) |
| **Total comprehensive income according to US GAAP** | **812** | 1,006 | 884 |

## 21. US GAAP reconciliation (continued)

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Shareholders' equity according to Australian GAAP[1]** | **10,789** | 10,538 | 10,188 |
| Elimination of gross asset revaluation reserves | **(274)** | (287) | (327) |
| Unrealised profit on available for sale securities | **2** | - | 1 |
| Adjustment to accumulated depreciation on buildings revalued | **47** | 46 | 45 |
| Restoration of previously deducted goodwill | **692** | 692 | 692 |
| Accumulated amortisation and write-off of goodwill | **(517)** | (505) | (491) |
| Deferred profit on sale and leaseback transactions | **(17)** | (12) | (9) |
| Provision for dividend | **571** | 583 | 479 |
| Pension expense adjustment | **82** | 75 | 66 |
| Mark to market of derivative hedges (under SFAS 133) | **139** | 77 | 38 |
| **Shareholders' equity according to US GAAP** | **11,514** | 11,207 | 10,682 |

| | As at Mar 02 $M | As at Sep 01 $M | As at Mar 01 $M |
|---|---|---|---|
| **Total assets according to Australian GAAP** | **176,589** | 185,493 | 180,967 |
| Elimination of gross asset revaluation reserves | **(206)** | (210) | (224) |
| Unrealised profit(loss) on available for sale securities | **3** | (1) | 1 |
| Adjustment to accumulated depreciation on buildings revalued | **47** | 46 | 45 |
| Restoration of previously deducted goodwill | **692** | 692 | 692 |
| Accumulated amortisation and write-off of goodwill | **(517)** | (505) | (491) |
| Prepaid pension adjustment | **65** | 59 | 48 |
| Reclassification of deferred tax assets against deferred tax liabilities | **(532)** | (552) | (684) |
| Revaluation of hedges (under SFAS 133) | **123** | 552 | 363 |
| **Total assets according to US GAAP** | **176,264** | 185,574 | 180,717 |

1. *Excluding outside equity interests*

## 22. Exchange rates

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

| | Balance Sheet | | | Profit and Loss Average | | |
|---|---|---|---|---|---|---|
| | As at Mar 02 | As at Sep 01 | As at Mar 01 | Half year Mar 02 | Half year Sep 01 | Half year Mar 01 |
| Great British pound | 0.3721 | 0.3331 | 0.3434 | 0.3589 | 0.3592 | 0.3662 |
| United States dollar | 0.5306 | 0.4903 | 0.4903 | 0.5151 | 0.5135 | 0.5326 |
| New Zealand dollar | 1.2122 | 1.2127 | 1.2136 | 1.2256 | 1.2317 | 1.2630 |

## 23. Significant events since balance date

On 10 April 2002, ANZ and ING Group announced the formation of a joint venture in funds management and life insurance in Australia and New Zealand. The joint venture, to be called ING Australia Limited, will be owned 51% by ING Group and 49% by ANZ. The funds management and life insurance operations of ANZ will be transferred to the joint venture on 30 April 2002.

### Contribution to profit of funds management businesses sold

| | Half year Mar 02 $M | Full year Sep 01 $M |
|---|---|---|
| Net interest income | **4** | 11 |
| Other operating income | **94** | 184 |
| Operating income | **98** | 195 |
| Operating expenses | **48** | 100 |
| **Profit before income tax** | **50** | 95 |
| Income tax expense | **25** | 50 |
| **Profit after tax** | **25** | 45 |

The profit after tax of the funds management businesses sold has been adjusted for higher commissions and trails (consistent with the arrangements in place with the joint venture), head office group charges, and normalised earnings on capital.

Certain of the operating expenses shown above are incurred on behalf of the funds management entities retained by ANZ. These expenses (approximately $10 million per annum) will continue to be incurred by ANZ.

Other than the above, there have been no significant events since 31 March 2002 to the date of this report.

## *DIRECTORS' DECLARATION AND APPENDIX 4B STATEMENT*

The directors of Australia and New Zealand Banking Group Limited declare that the financial statements and notes of the consolidated entity set out on pages 40 to 79 are in accordance with the Corporations Act 2001, including

(a) complying with applicable Australian Accounting Standards and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the financial position of the consolidated entity as at 31 March 2002 and of its performance as represented by the results of its operations and its cash flows, for the half year ended on that date; and

(c) in the directors' opinion at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) confirm that the financial statements and notes of the consolidated entity set out on pages 40 to 79 have been subject to a review; and

(e) confirm that Australia and New Zealand Banking Group Limited has a formally constituted Audit Committee.

Signed in accordance with a resolution of the directors.

**Charles Goode**
*Chairman*

**John McFarlane**
*Chief Executive Officer*

26 April 2002

## *AUDITORS' REVIEW REPORT*

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

**Scope**

We have reviewed the financial report of Australia and New Zealand Banking Group Limited for the half-year ended 31 March 2002, consisting of the consolidated statement of financial performance, consolidated statement of financial position, statement of changes in equity and consolidated statement of cash flows, accompanying notes and the directors' declaration set out on pages 40 to 80. 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 half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australia and New Zealand Banking Group Limited is not in accordance with:

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the consolidated entity's financial position as at 31 March 2002 and of its performance for the half-year ended on that date; and
  (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

**KPMG**
*Chartered Accountants*
*Melbourne*

**PS Nash**
*Partner*

26 April 2002

## *RISK MANAGEMENT*

**GROUP RISK**
Mark Lawrence

### ANZ's Risk Management Vision

Risk management at ANZ is directed to achieve strong risk control, resulting in no 'surprises' for management and the market and a distinctive risk management capability, which enables ANZ business units to meet their performance, growth and 'breakout' objectives.

The identification and effective management of risk is an essential part of banking. Overall, our risk capabilities are considered to be a strategic asset and a source of competitive advantage. Through effective use of technology and strong management focus, we seek to further strengthen the Group's risk capabilities and culture to ensure that ANZ remains at the forefront of risk management capability within the banking sector.

### Strategic Context

The overall strategy of an organisation fundamentally impacts the level of risk that it takes. Therefore, some of the most important decisions influencing the underlying risk of an organisation are those which determine the activities, businesses and regions in which the organisation engages. Those decisions and all risk management policies are approved by the Board, with the Board Risk Management Committee supervising implementation and adherence to policy.

In recent years, ANZ has made substantial changes to its strategy and activities in order to reduce risk and enhance the sustainability of earnings growth. Examples of these changes include:
- Sale of Grindlays businesses to Standard Chartered Bank.
- Restrictions on corporate balance sheet growth – focus on higher quality assets and fee income.
- Strong growth in the residential mortgage portfolio.
- Increased emphasis on lower risk Personal businesses.
- Reducing the risk profile of the remaining international businesses.
- Substantial reduction in single customer concentration limits.

These changes have been accompanied by significant enhancement of the Group's internal risk management systems and processes and more open, transparent disclosure of risk.

### Three Key Areas of Risk:

**1. Credit Risk**

The potential financial loss resulting from the failure of a counterparty to honour fully the terms of a loan or contract.
- Policy controls aimed at developing and maintaining a well diversified credit portfolio are supervised by the Risk Management Committee. During the year the Group's peak exposure limits to all categories of corporate customers were reduced to support this objective.
- Major lending decisions require sign-off from an independent credit risk function as well as the business unit. Larger transactions require approval by the Credit and Trading Risk Committee of management and, for the largest transactions, the Risk Management Committee.
- The Group has continued to rebalance its lending portfolio towards lower risk consumer lending, particularly mortgages. This trend has been supported by the introduction of advanced behavioural and other credit scoring technology in Personal businesses.

## 2. Market Risk

Risk to earnings arising from movements in interest and exchange rates and bond, equity and commodity prices.

- The Group Asset and Liability Committee oversees the Group's balance sheet risk – trading risk is monitored by the Credit and Trading Risk Committee. Further oversight is provided by the Risk Management Committee.
- There have been no significant structural changes to the Group's market risk exposures over the last six months. Market risk continues to be managed within conservative bounds.

## 3. Operating Risk

Operating risk arises from the potential breakdown of day-to-day processes.

- ANZ has implemented an advanced operational risk measurement and management capability, with the Group's operational risk economic capital framework acknowledged as an example of leading practice globally.
- The Operating Risk Executive Committee is responsible for development and oversight of operating risk policies.
- A prime responsibility of Business Units is to ensure compliance with policies, regulations and laws.
- Key focus areas continue to include fraud prevention, payments risk management and remote banking security.

## *SUPPLEMENTARY FINANCIAL INFORMATION (Country Exposures)*

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

Both local currency and cross border exposures are included.

Trade finance is captured at 100% of face value.

All cross border exposure is recorded on the basis of the Country where the asset is booked.

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

Treasury unfunded exposure includes Foreign Exchange and Interest Rate contracts (forwards, options and swaps). The exposure is calculated using a conservative "mark to market plus potential exposure" methodology. This methodology calculates the market value of a contract and adds a factor for the potential change in value from the valuation date to maturity. The mark to market of off balance sheet exposures is netted by counterparty where the Group holds a valid legally enforceable netting agreement with that counterparty.

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

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

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

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

## *SUPPLEMENTARY FINANCIAL INFORMATION (Country Exposures)*

## Product disclosure by selected regions

As at 31 March 2002 in USD millions (net exposures)

| | CROSS BORDER RISK & LOCAL CURRENCY RISK | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Countries | Trade | Treasury On Balance Sheet | Treasury Off Balance Sheet | Performance Bonds | Financial Guarantees Securing Regional Lending in Countries not detailed | Term Lending MNC's | Term Lending XBR | Term Lending LCY | Underwriting & Project Risk | Securities Investment at Market Value | Total | Movement from Sep 01 increase (decrease) |
| ASIA | | | | | | | | | | | | |
| Brunei | 1 | | | | | | | | | | 1 | 1 |
| China | 236 | | 5 | 3 | 52 | 79 | 59 | 62 | 31 | | 527 | 19 |
| Hong Kong | 80 | 53 | 233 | 57 | 105 | 78 | 97 | 167 | | | 870 | (99) |
| Indonesia | 98 | | 2 | 9 | 2 | 12 | 34 | 70 | 77 | | 304 | 59 |
| Japan | 9 | 20 | 283 | 77 | 134 | 89 | 69 | 23 | | | 704 | (96) |
| Laos | | | | | | | | | 1 | | 1 | 0 |
| Macau | | | 1 | | | | | | | | 1 | (4) |
| Malaysia | 111 | | 2 | | 16 | | | | 32 | | 161 | 7 |
| Philippines | 47 | 61 | 1 | 1 | 1 | 10 | 88 | 22 | 25 | | 256 | (39) |
| Singapore | 129 | 40 | 328 | 13 | 46 | 188 | 147 | 31 | | | 922 | (341) |
| South Korea | 747 | 3 | 4 | | 14 | | 6 | 1 | | | 775 | 18 |
| Taiwan | 163 | 1 | 16 | 21 | 11 | | 18 | 172 | | | 402 | (60) |
| Thailand | 7 | | 1 | | 2 | | 19 | | 11 | | 40 | 3 |
| Vietnam | 48 | | | 4 | | | 26 | 60 | | | 138 | (38) |
| Total | 1,676 | 178 | 876 | 185 | 383 | 456 | 563 | 608 | 177 | | 5,102 | (570) |
| SOUTH ASIA | | | | | | | | | | | | |
| Bangladesh | 31 | | 28 | | | | | | 17 | | 76 | (9) |
| India | 50 | 3 | 13 | 1 | 4 | | 124 | | 127 | 16 | 338 | 55 |
| Nepal | 1 | | | | | | | | | | 1 | 1 |
| Sri Lanka | 1 | | 8 | 4 | | | | | | | 13 | (4) |
| Total | 83 | 3 | 49 | 5 | 4 | | 124 | | 144 | 16 | 428 | 43 |
| LATIN AMERICA | | | | | | | | | | | | |
| Argentina | 9 | | | | | | 9 | | 22 | | 40 | (88) |
| Brazil | 120 | | 6 | | | | 4 | | 47 | | 177 | (115) |
| Chile | 47 | | | | | | 65 | | 58 | | 170 | 15 |
| Colombia | | | | | | | 5 | | | | 5 | 0 |
| Mexico | 32 | | 3 | | | | 24 | | 81 | | 140 | (14) |
| Peru | | | | | | | | | 17 | | 17 | 0 |
| Uruguay | 2 | | | | | | | | | | 2 | 2 |
| Venezuela | | | | | | | 1 | | 51 | | 52 | 0 |
| Total | 210 | | 9 | | | | 108 | | 276 | | 603 | (200) |
| MIDDLE EAST | | | | | | | | | | | | |
| Bahrain | | | 1 | | | | 5 | | | | 6 | (16) |
| Eygpt | 2 | | | | | | | | | | 2 | (21) |
| Greece | | | | | 3 | | 22 | | | | 25 | (6) |
| Iran | 68 | | | | | | | | | | 68 | 36 |
| Israel | 2 | | 10 | 11 | 54 | | | | | | 77 | (24) |
| Kuwait | 25 | | | | | | | | | | 25 | 6 |
| Oman | 5 | | 14 | 18 | | | | | | | 37 | (43) |
| Pakistan | 42 | | 33 | | | | | | | | 75 | (63) |
| Qatar | 3 | | 11 | 4 | | | | | | | 18 | (42) |
| Saudi Arabia | 31 | | 4 | | 9 | | 5 | | | | 49 | (117) |
| U.A.E. | 174 | | 5 | | 13 | | 14 | | | | 206 | (119) |
| Political Risk Insurance First Loss[1] | | | | | | | | | 40 | | 40 | 40 |
| Total | 352 | | 78 | 33 | 79 | | 46 | | 40 | | 628 | (369) |
| EASTERN EUROPE | | | | | | | | | | | | |
| Hungary | 1 | | | | | | | | | | 1 | 0 |
| Total | 1 | | | | | | | | | | 1 | 0 |
| Total Countries externally rated A or better | | | | | | | | | | | 3,956 | 4 |
| | | | | | | | | | | | 59% | - |
| Total countries externally rated below A | | | | | | | | | | | 2,806 | (1,100) |
| | | | | | | | | | | | 41% | - |
| Total all countries | | | | | | | | | | | 6,762 | (1,096) |

[1] *Middle East project exposure is USD518 million however ANZ has Political Risk Insurance. ANZ is liable for the first loss of USD40 million.*

## *DEFINITIONS*

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

**Equity standardisation** Economic Value Added (EVA™) principles are in use throughout the Group, whereby risk adjusted capital is allocated and charged against business units. Equity standardised profit is determined by eliminating the impact of earnings on each business unit's book capital and attributing earnings on the business unit's risk adjusted capital. This enhances comparability of business unit performance. Geographic results are not equity standardised.

**Impaired assets** are loans or other credit facilities where there is reasonable doubt about the collectability of interest, fees (past and future) or principal outstanding, or where concessional terms have been provided because of the financial difficulties of the customer.

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

**Net interest average margin** is net interest income as a percentage of average interest earning assets. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

**Net interest spread** is the average interest rate received on interest earning assets less the average interest rate paid on interest bearing liabilities. Non-assessable interest income is grossed up to the equivalent before tax amount for the purpose of these calculations.

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

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

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

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

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

**Unproductive facilities** comprise facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, guarantees to third parties, undrawn facilities to which the Group is irrevocably committed and market related exposures) where the customer status is non-accrual.

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