Australia and New Zealand Banking Group Limited

# 1997 Annual Report

# Who we are

**ANZ is Australia and New Zealand's international bank.**

In our home markets of Australia and New Zealand, we are a major financial institution providing the full range of banking and other financial services. We seek to differentiate ourselves from our competitors by the quality of our customer service, our professionalism, and our international capability.

Overseas, we have a significant presence in countries from the Middle East through South and East Asia to the Pacific–the region of greatest geographic and economic relevance to Australia and New Zealand. These businesses are complemented by wholesale and investment banking operations in the world's major financial centres.

# Our values

- We have a strong customer focus and build relationships based on integrity, superior service and mutual benefit.
- We strive for profit and sound growth.
- We work as a team to serve the best interests of the Group.
- We are relentless in pursuit of business innovation and improvement.
- We value and respect people and make decisions about people based on merit.
- We base recognition and reward on performance.
- We value open and honest communication.
- We are responsible, trustworthy and law-abiding in all we do.

# Contents



## Key Dates

| | |
|---|---|
| Books close for Final Dividend | **12 December 1997** |
| Annual General Meeting | **21 January 1998** |
| Payment of Final Dividend | **21 January 1998** |
| Announcement of Interim Results | **27 May 1998*** |
| Books close for Interim Dividend | **12 June 1998*** |
| Payment of Interim Dividend | **6 July 1998*** |
| Announcement of Final Results | **18 November 1998*** |

**tentative dates only*


Australia and New Zealand Banking Group Limited
ACN 005 357 522

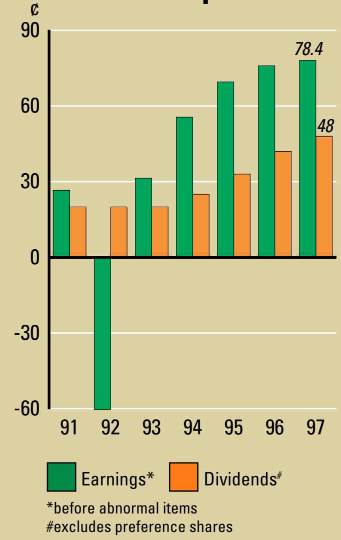

Unless otherwise stated, all amounts are expressed in Australian dollars

***ANZ Internet Home Page:*** **www.anz.com**

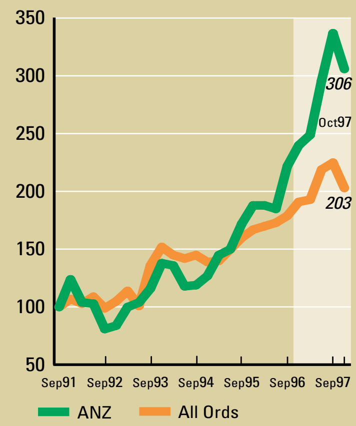
# 1997 Achievements

- **Underlying profit growth of 17%, well spread across Australia and international operations**
- **Annual dividend increased 14% to 48 cents, fully franked**
- **Asset growth of 8%**
- **Conservative provisioning**
- **Significant restructuring**
- **Named Australian "Bank of the Year"**
- **New branch in Beijing and branch in Jerusalem re-opened**

**Earnings* and Dividends# per Share**




**Sharemarket Accumulation Index**




# Our Commitment for the Future

## ANZ 2000

- Build a truly unique financial company
- Make dealing with ANZ an enjoyable customer experience
- Create an environment where people excel
- Deliver superior growth and financial performance
- Transform the way we do business

# ANZ at a Glance

## Group Profile

ANZ, with assets of A$138 billion, is amongst the world's top 100 banks and operates in 43 countries. The Group originated in the United Kingdom in 1835 when the Bank of Australasia was established by Royal Charter.

ANZ is Australia and New Zealand's international bank. In its home markets of Australia and New Zealand, ANZ is a major financial institution providing the full range of banking and other financial services.

Overseas, we have a significant presence in countries from the Middle East through South and East Asia to the Pacific– the region of greatest geographic and economic relevance to Australia and New Zealand. These businesses are complemented by wholesale and investment banking operations in the world's major financial centres.

**Underlying profit after tax in 1997 of $1,308m**
**An increase of 17%**

## Australia

ANZ is one of the "big four" Australian domestic banks providing a full range of retail and corporate financial services.

Within this spectrum, ANZ's relative strengths are in business banking, cards and international banking services.

Through wholly owned subsidiaries, ANZ offers complementary financial services - investment and insurance services through ANZ Funds Management; personal and corporate stockbroking services through ANZ Stockbroking and ANZ Securities Limited; and specialised leasing, motor vehicle and property finance services through Esanda Finance Corporation Limited, the largest finance company in Australia. Town & Country provides retail banking services in Western Australia.

**Underlying profit after tax in 1997 of $764m**
**An increase of 16%**

### Personal Banking

p14

- "Bank of the Year" award
- Branches - 868, down 202
- EFTPOS devices - 25,167, up 7,852
- Telephone banking - 875,000 registrations
- Lending transformation - 60% of mortgage applications processed within 24 hours
- Strong growth in cards - to 24% market share
- Interactive internet site launched
- Trial of Smart Cards
- PC Banking development

### Corporate & Investment Banking

p16

- Strong business lending growth
- Focus on risk adjusted profitability
- Esanda completes major transformation
  - staff numbers down 30%,
  - record new business writings exceeding $5 billion
- "Best Foreign Exchange Dealer" award
- ANZ Investment Bank leads largest Australian privatisation deal - Loy Yang A

### Funds Management & Private Banking

p18

- Strong growth
- $10 billion in funds under management
- Strategic alliance with Frank Russell company
- Peter Jonson appointed Managing Director of ANZ Funds Management

## New Zealand

ANZ is the oldest (1840) and the third largest bank in the country.

ANZ provides a complete range of products and services to the retail and business markets, and is known as New Zealand's international bank. PostBank was purchased in 1989.

The finance subsidiary (UDC Finance Limited) is New Zealand's largest finance company specialising in leasing and motor vehicle finance.

ANZ Securities (NZ) Limited provides wholesale broking services while ANZ Funds Management provides investment management services.

**Underlying profit after tax in 1997 of $165m**
**An increase of 20%**

- Branches - 198, down 61
- EFTPOS devices - 13,423, up 1,909
- Mobile sales force expanded
- Trial of supermarket and hyperstore branches
- Strong mortgage lending growth
- Internet site launched
- Trial of "Branch of the Future"
- Planning for move to new technology platform
- David Airey appointed Managing Director of ANZ New Zealand

- New Zealand's international bank
- Specialist property lending group established
- Offices opened in regional centres; Nelson and West Auckland
- UDC - strong growth in operating leases
- UDC & Esanda to integrate

- Strong growth, 17%
- Over $3 Billion in funds under management
- Ranked "Number 1" on investment performance
- Bonus Bonds re-launched

## International

ANZ has a network of specialist banking operations, principally trading as ANZ and ANZ Grindlays (purchased in 1984), providing trade finance and commercial banking services in 41 countries outside Australia and New Zealand, mainly throughout Greater Asia (pages 118 & 119 list ANZ's worldwide representation). In the emerging markets of South Asia and the Middle East, ANZ Grindlays has provided high quality retail banking services since 1846.

This network is complemented by an active presence in major global financial centres.

ANZ provides on-the-ground banking services to support the international activity of ANZ's customers worldwide.

**Underlying profit after tax in 1997 of $379m**
**An increase of 18%**

- Jerusalem branch re-opened
- Oman operations restructured
- Insurance launched in Vanuatu and PNG
- ATMs introduced in Fiji and PNG
- Credit cards expanded in India
- Credit cards launched in Pakistan and Bangladesh
- Commercial Banking System trial in Vanuatu completed

- Beijing branch licence approved
- Indian Arbitration result announced - successful, appeal pending
- ANZ Investment Bank executes major financing deals
- Strong business growth in South Asia, Middle East and Asia Pacific
- Expand asset based finance into Asia and Middle East

- "Number 1" Emerging Market Debt Fund
- Grindlays Private Bank expanded
- Global Private Banking integrated

# Chairman's Report

Australia and New Zealand Banking Group Limited
A.C.N. 005 357 522

ANZ

Level 32, 100 Queen Street, Melbourne, Vic 3000, Australia
G.P.O Box 537E, Melbourne, Vic 3001, Australia

Charles Goode
Chairman

Dear Shareholder

ANZ continues to perform well. In 1997 there was a 17% increase in underlying profit which was well spread across the Group. This was prior to making an additional transfer to the general provision and abnormal restructuring costs.

The decision to increase the general provision reflects our desire to be more consistent and conservative in our provisioning. The abnormal restructuring charge is necessary to allow us to achieve further reductions in costs under the ANZ Global Program.

The annual dividend was increased by 14% to 48 cents per share, fully franked. We said last year that there would be some limit on our franking capacity going forward as the proportion of Group profits earned offshore increases. This, together with the dividend increase and the costs associated with the restructuring underway to position ANZ for the future, does impact on our franking capacity. As a result dividends are not expected to be fully franked in 1998.

As well as being a year of significant achievement, 1997 has been a year of change including at Board level. Mr Don Mercer, who was Chief Executive Officer during the recovery in profits over the last five years retired at the end of September. An Executive Director, Mr Alister Maitland, and the Chief Financial Officer and Company Secretary, Mr David Craig, retired at the end of June after distinguished careers with the Bank spanning 34 and 41 years respectively. Sir Ronald Trotter, a non-executive director, retired in October after providing wise counsel to the Board over his ten years of service. We thank these gentlemen for their enormous contributions to the Bank and wish them all the best in their retirement.

The new Chief Executive Officer, Mr John McFarlane, started with the Bank on 1 October. He has 22 years of banking experience, and in particular, at senior levels in international banking. I look forward to introducing Mr McFarlane to shareholders at the Annual General Meeting in January.

There are many challenges ahead of us in our domestic markets and overseas, but there are also many opportunities. ANZ is well positioned to meet these by improving efficiency and growing the business, notably the international banking and funds management activities. We are confident of our ability to continue adding to shareholder value over the medium term.

Charles Goode.

Charles Goode
Chairman

# Chief Executive Officer's Review

ANZ is in good shape. We are well positioned to take advantage of the opportunities available to us and to meet our challenges head on. We have recently launched "ANZ 2000" (page 6), to ensure that we meet our customers' expectations into the 21st century, and deliver superior performance for our shareholders.

## Review of 1997

ANZ's performance in 1997 underlines the financial strength of the Group. We are a 'AA' bank, with assets of $138 billion, shareholders' funds of $6.9 billion and a comfortable Tier 1 capital ratio of 6.6%. Asset quality remains excellent and we are also carrying conservative provisions.

During 1997 underlying profit increased by 17%. Despite aggressive competition domestically, underlying profit in Australia grew by 16%, and in the rest of the world by 19%. Asset growth, increased fee income, and buoyant market-related earnings, all offset lower interest margins. Core cost increases were contained at 2%, as a result of a reduction in staff numbers in Australia and New Zealand mainly in retail banking and Esanda. A charge of $417 million before tax has been made this year, to cover current and future redundancy and related restructuring costs, including those arising from the ANZ Global program. Most of this has been treated as an abnormal item.

Assets quality remains sound. Non-accrual loans were reduced by 29% to $872 million, and specific provision charges fell by 26% to $86 million. Nevertheless, the directors decided to increase the general provision by $201 million, significantly higher than the Reserve Bank of Australia's guideline of 0.5% of growth in risk-weighted assets. This recognises that loan losses would normally be higher than current levels across the economic cycle. The total charge is based on the annual average debt charge implied in our portfolio risk management models, and is not linked to any need to provide against specific regions, industries or individual borrowers.

A discussion of the financial performance in 1997 is contained on pages 9 to 12, which I recommend to shareholders, with full details contained in the second half of this Report.

## Outlook

The Government has announced its acceptance of the majority of the key recommendations from *The Report of the Financial System Inquiry* which was released in March 1997. Legislation to facilitate the package of reforms is now being formulated. There will be further change in the financial services industry arising from this legislation and continued technological advance.

Domestic economic conditions in Australia and New Zealand appear to be improving, but competition in the finance industry will remain intense.

The recent unsettling events in financial markets in Asia will undoubtedly dampen growth prospects in the region in the near term. We have reviewed our exposures in the region and are satisfied there are no immediate concerns. We remain convinced of the long term growth prospects for the region, and are cautiously looking for opportunities to expand our operations.

*John McFarlane*
*Chief Executive Officer*

# ANZ 2000

## We have developed a clear vision for ANZ going forward which we call ANZ 2000.

### Build a truly unique financial company

ANZ is already unique. We are strong in our domestic markets and in the world's emerging markets. We are recognised as "Australia and New Zealand's international bank". Recently we expanded our funds management and investment banking activities. This foundation gives us the opportunity to create a truly unique international financial services company through organic growth and by acquisition.

### Make dealing with ANZ an enjoyable customer experience

On those rare occasions where we experience moments of memorable customer service dedication, how many of them have been in banking? This is the challenge facing all banks, particularly in Australia. We aim to meet this challenge. We are currently reorganising our branches into financial retail outlets. We are building our Private Banking, Priority Banking and Business Banking capabilities, to provide higher levels of service for our best customers. We are also investing in new marketing and customer service training for all of our front-line staff which will be launched early next year. We know we have some way to go, but we aim to make a real difference in this area.

### Create an environment where people excel

ANZ has talented people everywhere we operate. Our challenge is to create the environment and the opportunity for them to enjoy their work and to reach their potential. This is made more difficult when we are reducing costs. We are restricting external recruitment to ensure our people have the opportunity to move from areas of restructuring into growth segments. One exception is that we will increase substantially our recruitment of graduates. We are also launching a programme to identify people with high potential, and to channel them to the best opportunities. Our incentive programs have been changed to reward those who do deliver. We intend also to achieve a better balance of women and men in senior management.

### Deliver superior growth and financial performance

In our mature markets we are facing relatively low levels of growth, and certain emerging markets are experiencing economic uncertainty. At the same time, competition is reducing margins. This more difficult revenue environment places greater priority on cost management. Our current relatively high cost-income ratio gives us scope to improve productivity substantially, and to enable us to achieve superior earnings growth. The overall risk of our business needs to be controlled to ensure an acceptable level of earnings volatility. Whilst we are comfortable with the balance today, we will manage the growth of higher risk segments to within the overall growth rate of the group.

Our overall aim is to deliver superior earnings growth and maintain a high return on equity for shareholders. Our new performance management process which was launched this month will focus ongoing attention to achieving these objectives.

### Transform the way we do business

Banking in the 21st century will be different. To prepare ourselves, we need to radically restructure the way we do business today, to invest in new technologies to manage our business and to reach our customers. Recently we announced our reorganisation around global business lines. Under "ANZ Global", we are developing three major technology platforms to improve customer service and to lower product costs. Our "Branch of the Future" program is changing the face of branch banking; we are investing in telephone, direct and internet banking and card technologies. We also announced our strategic alliance with Frank Russell – a world leader in funds management. These and other new ventures will ensure that for ANZ, the best is yet to come.

# Going Global

ANZ, with representation in 43 countries, is the most international of the Australasian banks. We have a long tradition in Australia, New Zealand, the Pacific Islands and, through Grindlays, in South Asia and the Middle East. Our presence in East Asia, while more recent, has been expanded significantly over recent years. We are now radically altering our management approach to focus on global lines of business to improve efficiency and build a better platform for growth.

### Global Rationale

With the rapid development of information technology and the globalisation of financial markets, banking is changing. To capture the efficiency opportunities of our scale and establish a better platform for growth, we have radically altered our management approach. From October 1997 all businesses moved to global management and reporting. Previously they operated according to geographic areas with independent country management. ANZ is by no means unique in facing these issues. Other leading multinational companies, both within the finance sector and outside it, have made or are making similar changes.

The objective of moving to global business lines is to improve efficiency and build a better platform to support growth. This will achieve economies of scale and scope, minimise duplication of effort, develop and leverage the capabilities of our people and build common values and culture throughout the organisation. Inventing things once and applying them many times is the goal.

We are pleased with the success of our investment banking and capital markets activities which were combined last year to form the first global business unit. By managing activities on a functional rather than geographic basis, ANZ Investment Bank has been able to develop real expertise across geographic boundaries and mobilise quickly to respond to changing client and market needs.


*Managing Director John Sunderland, closest to TV screens (in Melbourne), uses video conference facilities to meet regularly with General Manager United Kingdom, Dr Holger van Paucker and Gordon Branson, Head of Structured and Project Finance (in London), and General Manager Americas, Roy Marsden (in New York).*

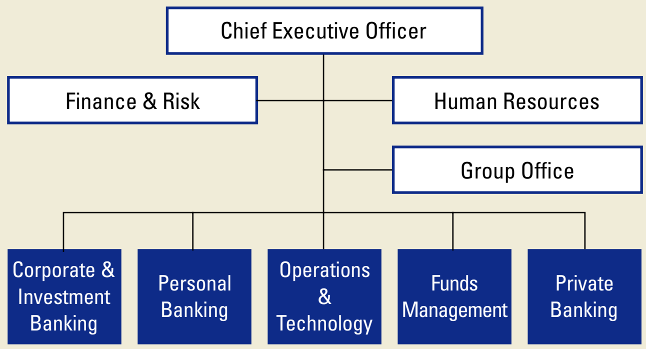
## The ANZ Global Program

With the assistance of specialists from the international finance consultancy, KPMG Barents, teams of ANZ staff have been working to re-design processes across almost all of of ANZ's activities.

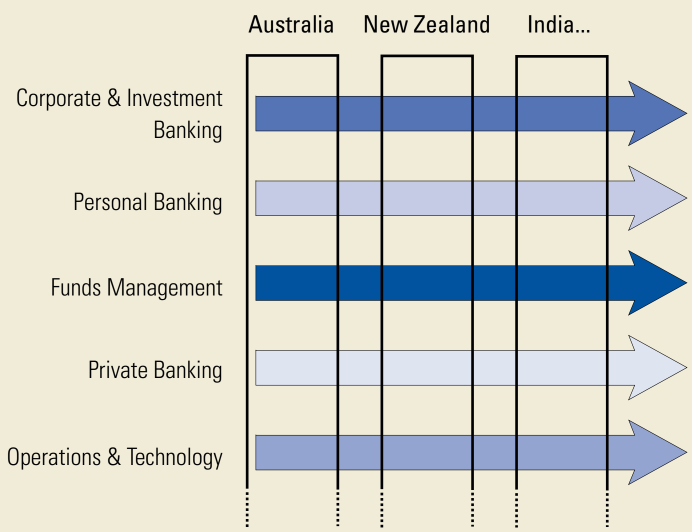
To ensure line management ownership of the changes, ANZ's management structure has been changed to reflect line of business focus. There are now the principal business activities of Personal Banking, Corporate & Investment Banking and Funds Management & Private Banking, and a single Operations and Technology support unit, whereas previously these functions were all part of country management.

## MANAGEMENT

### ANZ Global Organisation




### Global Management




There are some 38 individual programs within ANZ Global covering all aspects of the Group's activities. Fundamental to the overall program is increasing the consistency of approach across the Group and the consolidation of technology and support platforms.

We will be moving to a single banking technology platform in Australia and New Zealand (Hogan), a single global cards system, and a single system supporting banking outside Australia and New Zealand (the Commercial Banking System or CBS). New Zealand will move to the new platform during 1998, and Australia, which already operates on Hogan based systems, in 1999/ 2000. There will be significant efficiency savings through achieving scale operations and having fewer systems. Also, by standardising products and processes across countries, development and training costs will be reduced.

Customer service will also be enhanced by having consistent product and processes across all of ANZ's operations. Central to this is the project called "Branch of the Future", which is designed to improve efficiency and facilitate the development of a sales culture throughout the branch network. Branch layouts are being redesigned to be more "people friendly" for customers and staff. Sales and enquiry areas are being grouped together near the entrance, with separate private areas for detailed discussions with customers and the telling functions located towards the rear. The trial of the new model, which includes expanded use of modular furniture, is underway in Australia and New Zealand and will be implemented simultaneously in both countries. Application of the same model outside our domestic markets will follow.

Implementation of ANZ Global will involve significant restructuring. A provision for these costs was taken in the 1997 financial year.

# Review of 1997 Results

## Summary

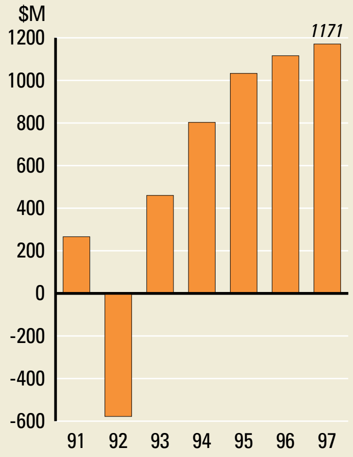
Australia and New Zealand Banking Group Limited recorded a 17% increase in underlying profit after tax to $1,308 million for the year ended 30 September 1997. This was prior to an additional transfer to the general provision of $137 million giving an operating profit after tax and before abnormal items of $1,171 million. Abnormal items were $147 million (after tax) leading to an operating profit after tax and abnormal items of $1,024 million. Dividends for the year were increased by 14% to 48 cents per share, fully franked.

Despite aggressive competition, underlying profit in Australia grew by 16%, and in the rest of the world by 19%. Asset growth, increased fee income, and buoyant market-related earnings, all offset lower interest margins.

Core cost increases were contained to 2%, as a result of a reduction in staff numbers in Australia and New Zealand, mainly in retail banking and Esanda. A charge of $417 million before tax has been made this year, to cover existing and committed redundancy and related restructuring costs, mainly arising from the ANZ Global program. Most of this has been treated as an abnormal item.

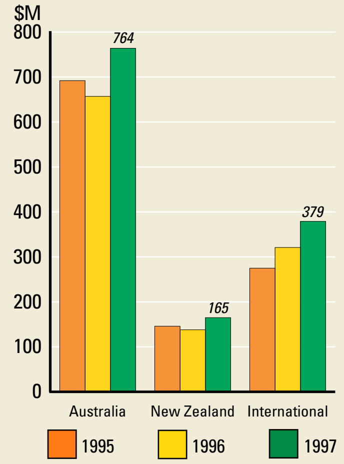
Non-accrual loans were reduced by 29% to $872 million, and specific provision charges fell by 26% to $86 million. Nevertheless, the directors decided to increase the general provision by $201 million, significantly higher than the Reserve Bank of Australia's guideline of 0.5% of growth in risk-weighted assets. This is in recognition that loan losses across the economic cycle would normally be higher than current levels. The total charge is based on the annual average debt charge implied in our portfolio risk management models, and is not linked to any need to provide against specific regions, industries or individual borrowers.

**Operating Profit***



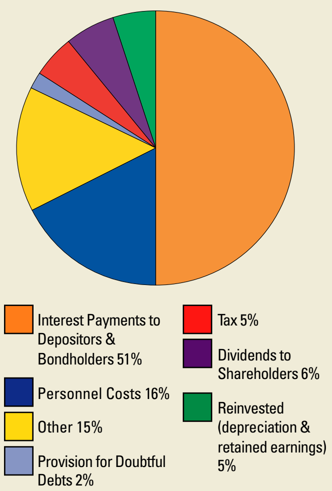

*before abnormal items

**Underlying Profit***

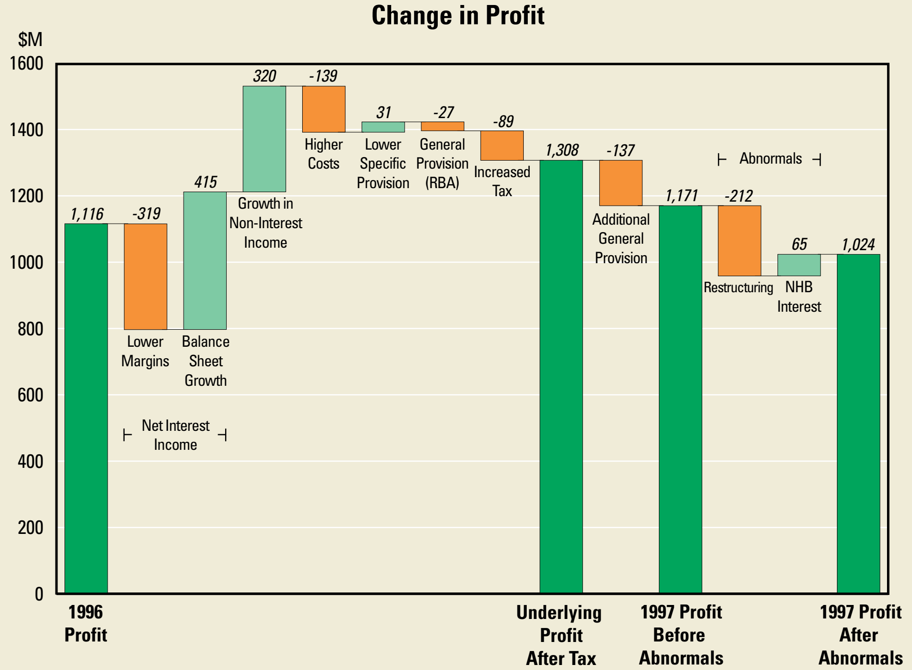



*Operating profit after tax before additional transfer to general provision of $137 million and abnormal items

**Distribution of Gross Income**




**Change in Profit**



# Review of 1997 Results

## Income

Net interest income grew by 3% as asset growth offset reduced margins in the domestic markets.

Competitive pressures in Australia and New Zealand led to the 19 point decline in gross interest spread. Lower levels of non-accrual loans and lower interest rates reduced the related funding costs. However, the lower interest rates also reduced the earning rate on non-interest bearing items, resulting in a 32 point reduction in overall margins.

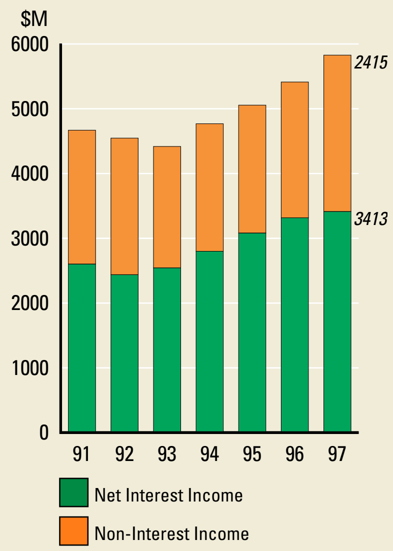
The reduction in margins was more than offset by strong growth in interest earning assets in International markets, particularly South Asia, Asia Pacific and the Middle East, the Investment Bank and business lending in Australia.

Non-interest income increased by 15%. Strong growth in our Cards business together with higher transaction and corporate advisory fees lifted fee income.

Foreign exchange continues to be a stable core business. Good trading performances in buoyant global markets led to the significant increase in trading, fee and other income. The Group's earnings from investment banking capital markets activities is sensitive to asset prices in the global financial markets. Profits before tax from these activities were $208 million in 1997 (1996: $100 million).

Strong growth in operating lease income and the profit on the sale of the Omani operation also lifted other income.

### Operating Income




## Operating Expenses

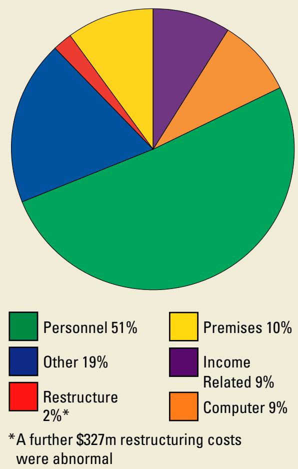
Core costs increased by only 2% (this excludes restructuring costs and Direct Income Related Costs which directly reflect the level of business activity in our Cards and Operating Lease businesses). Staff numbers in Australia and New Zealand declined as a result of branch closures and increased automation and centralisation of processes particularly in retail banking and Esanda, but there were higher overtime and temporary staff costs relating to these major change programs. Personnel costs grew by 8% as a result of increased salaries offsetting low staff numbers, higher performance related bonuses in our investment banking activities and higher overtime and temporary staff costs. The recruitment of relatively highly paid professional staff in the Investment Bank and the impact of high salary inflation in South Asia and Middle East also contributed to the increase in personnel expenses.

Premises costs fell due to branch closures in Australia and New Zealand while computer expenses were steady.

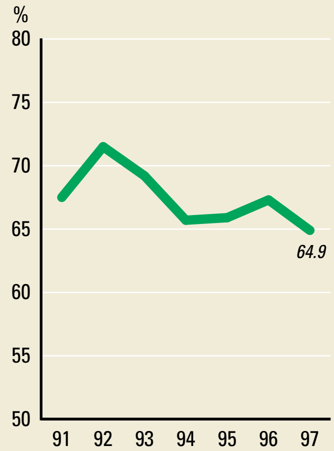
Other expenses fell reflecting a favourable non-lending loss experience both in Australia and overseas following the resolution of certain Indian scam related issues.

Expansion of our Cards and operating lease businesses drove the growth in direct income-related costs.

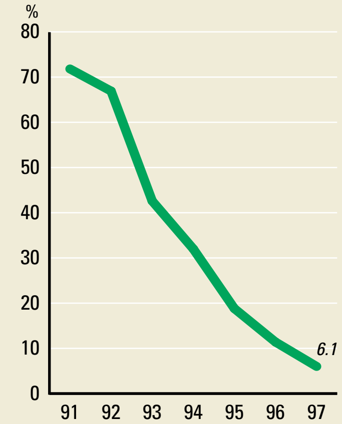
### Operating Expenses



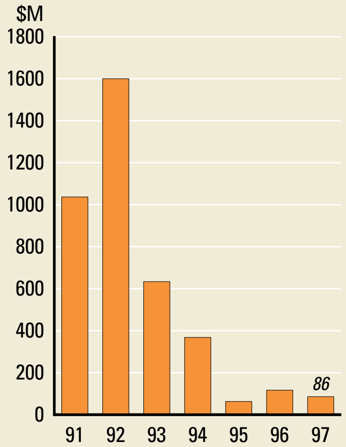

### Operating Expenses as % of Net Income



Net Non-Accrual Loans to Shareholders' Equity




Specific Provisions for Doubtful Debts




## Asset Quality

Gross non-accrual loans were reduced by $353 million to $872 million through asset realisations and reduced new non-accrual loans. Net non-accrual loans fell to $428 million and represent 6% of shareholders' equity at September 1997, down from 11% in 1996.

The specific provision charge fell by 26% to $86 million, reflecting continued good credit conditions and experience. New and increased provisions were slightly down while releases and recoveries were also favourable to last year. The Group remains well provided with the coverage ratio (specific provisions to gross non-accrual loans) now above 50%.

The general provision charge was $201 million, including an additional transfer of $137 million. The latter was in recognition that loan losses would normally be higher than current levels across the economic cycle. The total charge is based on the annual average provision implied in our portfolio risk management models and is not linked to any need to provide against specific regions, industries or individual borrowers. The general provision now stands at 0.9% of risk-weighted assets, well in excess of the Reserve Bank of Australia guideline of 0.5%.

## Income tax

The pre-abnormal tax expense increased by $89 million reflecting the higher earnings and an increase in the effective tax rate to 32.9% (1996: 30.3%) owing to the impact of the increased general provision charge more than offsetting the increased level of rebateable dividends.

## Abnormal Items

The Arbitrators of the long running dispute with the National Housing Bank of India ("NHB") handed down their award in the Group's favour on 29 March 1997. The NHB has repaid the deposit together with interest at 18% p.a. in accordance with the decision. Given its size, the $145 million interest receipt (before tax) is disclosed as an abnormal item. Subsequently, NHB filed documents with the relevant Court to challenge the award. ANZ is confident that the award will stand.

Cost reduction is a major priority for the Group. We are proceeding with the implementation of ANZ Global. The change programs resulted in a $417 million before tax restructuring charge. This amount covers both completed restructuring programs and those ANZ Global projects in train to which the Group is demonstrably committed. Of this charge, $327 million is abnormal.

# Review of 1997 Results

## Dividends

Dividends for the year have been increased by 14% to 48 cents per share, fully franked (from 42 cents in 1996). We foreshadowed last year that there would be some limit on our franking capacity going forward as the proportion of Group profits earned offshore increases. This, together with the dividend increase and the costs associated with the restructuring underway to position ANZ for the future, impact on our franking capacity. As a result we do not expect dividends in 1998 to be fully franked.

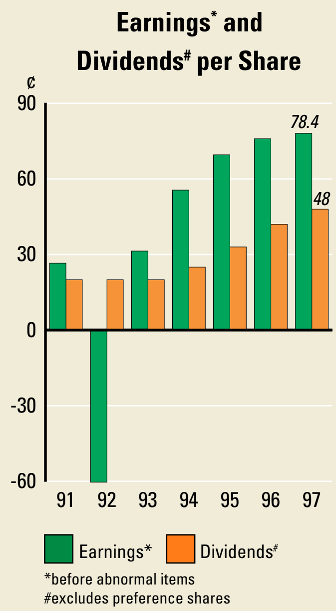
## Balance Sheet & Capital Adequacy

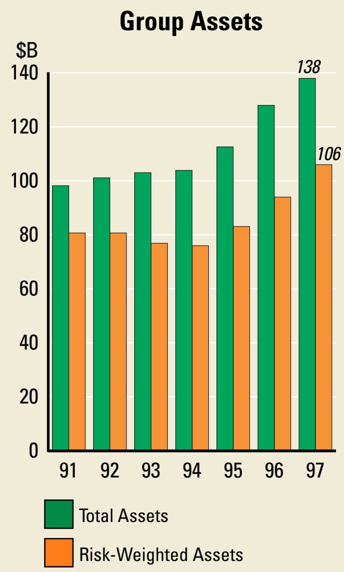
Total assets grew by 8% to $138 billion. Good lending growth was achieved, particularly in business lending in Australia, the Investment Bank and international markets (South Asia, Asia Pacific and the Middle East).

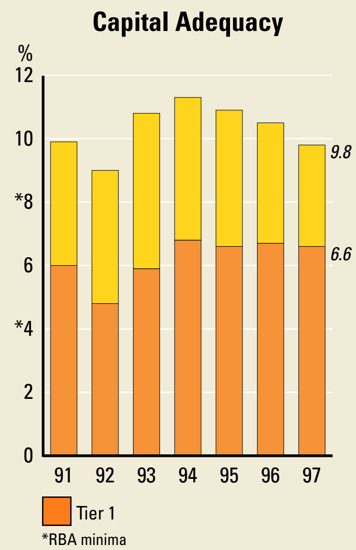
Funding for asset growth came from the wholesale market, as well as from increased retail and corporate deposits.

Total shareholders' equity increased to $7 billion and capital resources increased to $10 billion, after the redemption of some subordinated debt.

The Reserve Bank of Australia's guideline ratio of qualifying capital to risk-weighted assets is a minimum of 8.0%, of which Tier 1 capital must be at least 4.0%. The Group's capital adequacy ratio is 9.8%, with a Tier 1 ratio of 6.6%, down 0.1% from September 1996. Retained earnings and dividend reinvestment supported the 14% growth in risk-weighted assets achieved over the year. The Group seeks to maintain the Tier 1 ratio in the range of 6.5% to 7.0%.



# Eight Year Summary

| | 1997 $M | 1996 $M | 1995 $M | 1994 $M | 1993 $M | 1992 $M | 1991 $M | 1990 $M |
|---|---|---|---|---|---|---|---|---|
| **Profit and loss** | | | | | | | | |
| Net interest income | **3,413** | 3,317 | 3,081 | 2,800 | 2,543 | 2,438 | 2,602 | 2,475 |
| Other operating income | **2,415** | 2,096 | 1,975 | 1,969 | 1,875 | 2,109 | 2,067 | 1,765 |
| Operating expenses | **(3,783)** | (3,644) | (3,334) | (3,183) | (3,124) | (3,329) | (3,153) | (2,848) |
| Operating profit before tax, debt provisions and abnormal items | **2,045** | 1,769 | 1,722 | 1,586 | 1,294 | 1,218 | 1,516 | 1,392 |
| Provisions for doubtful debts – specific | **(86)** | (117) | (63) | (368) | (629) | (1,600) | (1,037) | (788) |
| – general | **(201)** | (37) | (111) | (13) | (5) | (337) | (16) | (5) |
| Operating profit(loss) before abnormal items | **1,758** | 1,615 | 1,548 | 1,205 | 660 | (719) | 463 | 599 |
| Income tax (expense)benefit | **(579)** | (490) | (505) | (395) | (193) | 146 | (193) | (186) |
| Outside equity interests | **(8)** | (9) | (10) | (7) | (7) | (5) | (4) | (1) |
| Operating profit(loss) after tax before abnormal items | **1,171** | 1,116 | 1,033 | 803 | 460 | (578) | 266 | 412 |
| Net abnormal (loss)profit | **(147)** | – | 19 | 19 | (213) | (1) | 1 | (191) |
| **Operating profit(loss) after income tax and outside equity interests** | **1,024** | 1,116 | 1,052 | 822 | 247 | (579) | 267 | 221 |
| **Balance Sheet** | | | | | | | | |
| Assets | **138,241** | 127,604 | 112,587 | 103,874 | 103,045 | 101,138 | 98,212 | 99,300 |
| Net assets | **6,993** | 6,336 | 5,747 | 5,504 | 5,133 | 4,591 | 5,018 | 4,323 |
| **Ratios (after abnormal items)** | | | | | | | | |
| Return on average shareholders' equity | **14.8%** | 18.3% | 17.9% | 15.6% | 5.0% | -11.4% | 5.8% | 5.4% |
| Return on average assets | **0.7%** | 0.9% | 0.9% | 0.8% | 0.2% | -0.6% | 0.3% | 0.2% |
| Capital adequacy – total | **9.8%** | 10.5% | 10.9% | 11.3% | 10.8% | 9.0% | 9.9% | 8.6% |
| **Share information (per fully paid share)** | | | | | | | | |
| Dividend – declared rate | **48.0¢** | 42.0¢ | 33.0¢ | 25.0¢ | 20.0¢ | 20.0¢ | 20.0¢ | 38.0¢ |
| Franked portion | **100%** | 79% | 18% | – | – | 50% | 100% | 100% |
| Earnings before abnormal items – basic | **78.4¢** | 76.3¢ | 68.5¢ | 54.5¢ | 30.8¢ | -60.1¢ | 26.7¢ | 45.0¢ |
| Earnings after abnormal items – basic | **68.6¢** | 76.3¢ | 69.9¢ | 55.9¢ | 13.5¢ | -60.2¢ | 26.9¢ | 24.2¢ |
| Net tangible assets | **$4.59** | $4.24 | $3.94 | $3.58 | $3.43 | $3.40 | $4.31 | $4.45 |
| Share price on ordinary shares – high | **$11.58** | $7.28 | $5.75 | $5.68 | $4.40 | $4.88 | $4.20 | $6.38 |
| – low | **$7.10** | $5.41 | $3.55 | $3.78 | $2.53 | $2.87 | $2.92 | $3.95 |
| **Number of fully paid ordinary shares on issue (millions)** | **1,508.6** | 1,478.1 | 1,446.0 | 1,353.6 | 1,308.2 | 1,054.5 | 1,019.3 | 971.1 |
| **Dividend reinvestment plan** | | | | | | | | |
| Share price – interim | **$9.77** | $5.59 | $4.40 | $3.78 | $3.42 | $3.58 | $3.42 | $4.35 |
| – final | **–** | $7.60 | $6.27 | $3.73 | $4.44 | $2.51 | $4.46 | $2.72 |
| **Other information** | | | | | | | | |
| Points of representation | **1,473** | 1,744 | 1,881 | 2,026 | 2,136 | 2,302 | 2,367 | 2,431 |
| Number of employees (full-time equivalents) | **35,926** | 39,721 | 39,240 | 39,642 | 40,277 | 43,977 | 46,261 | 48,182 |
| Number of shareholders | **132,450** | 121,847 | 114,829 | 121,070 | 115,000 | 112,036 | 101,188 | 92,606 |

# Personal Banking

ANZ, one of the big full service banks in Australia and New Zealand, is the dominant retail bank in several Pacific Islands, and ANZ Grindlays is one of the leading foreign retail banks in the emerging markets of South Asia.

## Retail Banking

In Australia and New Zealand ANZ has some 3 million and 1 million customers respectively. During 1997 ANZ was awarded Australian 'Bank of the Year' by Personal Investment Magazine.

During the year there was a strong growth in telephone banking in both markets. The National Teleservicing Centre in Melbourne is now handling the majority of telephone calls from metropolitan customers nationwide. Approximately 60% of these calls are now being handled automatically through telephone banking which provides 24 hour, 7 days a week service. In New Zealand it is the bill payment feature of 'Phone Direct' that is growing fastest.

The centralisation of credit assessments into the National Finance Centre has reduced both approval times for customers and costs. There has also been a complete re-engineering of the sales and credit processes for the small business customer to make greater use of automated procedures and focus effort more closely on the higher risk elements of the business. This system will be implemented in New Zealand in 1998.


*ANZ Phone Banking provides customers with flexible access to ANZ services 24 hours a day.*

The development of new delivery channels is epitomised in 'ANZ Direct'. Launched in 1996, 'ANZ Direct' provides, without the use of branches, very competitively priced home and car loans, a deposit product and a range of insurance and investment products. It is accessing a new market niche with up to 100% larger mortgages.

These developments, the expansion of the ATM and EFTPOS networks over recent years, and the new pricing regime for transaction accounts introduced in Australia in January 1997, have led to a significant reduction in branch withdrawals (30% in Australia in 1997 and 50% in New Zealand since 1995). With the number of customers visiting our branches to conduct transactions falling steadily there is no longer the need for as many branches. 20% of branches were closed last year in both countries. The trial of smaller in-store branches in supermarkets (and 'hyperstores' in New Zealand) reflect the changing role of branches away from transactions and toward sales and information.

At the same time as making these changes we have taken initiatives to grow the business including launching a business mortgage product, taking the opportunity of the official interest rate reduction in late May to gain price leadership in the mortgage market in Australia and launching a 'no fees' campaign in New Zealand.

Also to enhance our position in the premium market, private banking has been launched across Australia to provide premium service to high net worth customers. Priority banking will provide enhanced service levels to the next tier of customers.

Mortgage and small business lending in Australia, while slow in the first half of 1997, have picked up considerably later in the year, stabilising our market share. In New Zealand, strong growth in mortgage lending has continued with ANZ maintaining its 17.5% market share.

The global management of personal banking services will enable greater coordination and joint development of retail banking services. "Branch of the Future" involves the total redesign of branch procedures and layouts to drive efficiencies and free-up staff to focus on sales. It is currently being trialed in both New Zealand and Australia. The full roll-out of the concept to all branches is expected to take place during 1998. We will also be transferring the New Zealand core operating system to Hogan, on which the Australian system is based.

PC Banking is into the final stages of development and will enable a secure internet-based PC banking service for individuals. This will enable customers to use PCs to look up their account balances, transfer funds and pay bills.

ANZ also provides retail banking in the Pacific Islands, including Papua New Guinea, Fiji and Samoa, where we are a major provider of retail banking products such as cards, transaction accounts and home mortgages.

The rollout of the new banking platform across the network in the next few years will standardise products, improve efficiency and facilitate improved customer service.

## Cards

ANZ holds a strong market position in the cards market in Australia and New Zealand. In Australia the co-branded Telstra and Qantas/Telstra credit cards were very well received by customers. As a result, despite


*ANZ Grindlays offers retail banking services in the United Arab Emirates.*

strong competition, ANZ's market share has increased from 18% two years ago, to 24% today. Around 80% of customers taking these cards had no previous relationship with ANZ, providing an excellent opportunity to cross-sell other ANZ products.

Outside Australia and New Zealand, ANZ has card activities in 15 countries, all of which are now part of one business unit. In the near term we plan to replace the current multiple systems with one new system to support all activity.

During the year new cards and merchant acquiring facilities were launched in a number of countries including Pakistan, Bangladesh, and Nepal, supported by systems and infrastructure in Melbourne. Use of this same system also allowed the expansion of cards in India, with a doubling of cards on issue to over 150,000. These are markets of enormous growth potential. In 1998 we will be growing these businesses and expanding into new countries.

The development of Smart Card technology is well advanced. ANZ, together with the other major banks, has taken a shareholding in Mondex International. With experience in both the Visa Cash and MasterCard Cash trials, ANZ is well positioned for a market launch of the Mondex Electronic Purse in 1998.

# Corporate & Investment Banking

The provision of banking services to the business and corporate markets has been at the centre of the ANZ franchise in Australia and New Zealand for 150 years, with cross border international banking the basis of our international network. The restructuring of our investment banking activities (financial markets, structured and project finance on to a global basis) the first business unit to do so, has proven to be highly effective is the forerunner for change in other business units.

*Paul Henderson, Relationship Sales Consultant with Esanda, spends the majority of his days on the road visiting customers.*

### Business Banking

About 30% of all Australian and New Zealand corporates have a relationship with ANZ and the bank provides about $30 billion in lending to this business community. Growth of around 10% was achieved during 1997. The quality of the lending portfolio was improved through the shedding of high risk business and net non-accruals now amount to less than 0.5% of corporate banking lending assets. A management information system that provides risk adjusted customer profitability data to front line managers in Australia is a key driver of customer strategies, designed to develop medium term shareholder value.

Business Banking has conducted a major process improvement exercise focused on stripping out non-essential functions, simplifying technology infrastructure, streamlining credit processes and defining service standards by customer size and industry. This is allowing Relationship Managers to spend more time on developing new account relationships and also to extend and deepen relationships with existing customers. This process was assisted by the establishment of an expanded number of Business Centres, where Business Banking is co-located with International, Leasing, Treasury, Electronic Banking and Funds Management specialists, as well as Retail services, in geographic areas of significant business activity.

In order to meet the particular needs of customers, Business Banking has been segmented into Corporate and Middle Market, along with separate specialist industry lending teams, such as Commercial Property Development. This has been received in the market as a distinctive and professional financial service offering.

Process improvement is also being assisted by the rapid acceptance of electronic banking service by business customers, with well over half of target customers now using the ANZ service. The provision of international banking services is also greatly enhanced by electronic delivery. International Services itself underwent a major tranformation during the year to centralise and automate back office processing – to free up managers' time to help existing and new customers with their export and import finance and other international transactions.

### Asset Based Finance

Esanda is Australia's largest asset financier providing $9.5 billion of asset lending to some 290,000 customers nationwide. Esanda also, through issuing debentures, raised $5.3 billion medium term funding for the Group.

During 1997, Esanda underwent a major transformation program to streamline and automate its processes while maintaining service levels to its customers. This greatly improved efficiency and involved a 24% reduction in staffing levels.

Notwithstanding the impact on the business during the implementation of these changes, new business writings exceeded $5 billion for the first time – an improvement of 6.8% on 1996. Plans are well advanced to make the same process changes in UDC Finance, the largest asset financier in New Zealand. UDC Finance's strength and experience in operating lease business will be utilised to further develop the Australian operations.

Combined, Esanda and UDC Finance are one of the Asia Pacific region's largest asset finance businesses. The expertise in these companies will be used as the foundation for the expansion of the Group's asset finance business into overseas markets, particularly Asia, South Asia and the Pacific.

### International Commercial Banking

ANZ has a commercial banking presence in the region from the Middle East through South and East Asia to the Pacific. This is the region of greatest economic relevance to Australia and New Zealand. The commercial banking activities in these countries focus on providing international trade and investment services to companies from Australia and New Zealand, elsewhere in the international network, and local corporates.

The rollout of the new technology platform (the Commercial Banking System) continues. During the year it was successfully implemented in United Arab Emirates, Qatar and Bahrain. The Commercial Banking System, when fully implemented will provide the Bank with an International Core Processing System to replace the existing variety of systems and processes currently in place.

The international network differentiates ANZ from the competition. This provides leadership in trade finance which is a competitive advantage in the business market and uniquely positions ANZ as Australia and New Zealand's international bank.

### Investment Banking

ANZ Investment Bank was formed early in 1996 recognising the increasingly global nature of our largest corporate and institutional clients' service and product needs. By managing activities on a functional rather than geographic basis, ANZ Investment Bank is able to develop real expertise across geographic boundaries and to respond quickly to changing client and market needs.

There have been a number of notable achievements during the year which have demonstrated the strength of the integrated approach and the quality of ANZ's franchise among major corporations and institutions in Australia and Greater Asia.

ANZ Investment Bank secured major structured finance deals including the $4.7 billion privatisation of the Loy Yang A power station and coal mine. We led the US$300 million sovereign Eurobond issue for the Islamic Republic of Pakistan. We have also won a number of project finance advisory and arrangement roles from the Cable and Wireless telecom project in Vietnam to the Mangalore independent power project and Haldia petrochemicals project in India. ANZ Investment Bank also acted as advisor, underwrote an equity issue and provided long term funding for Village Roadshow's expansion in Europe and their acquisition of Austereo.

The quality of ANZ Investment Bank's operations has also been recognised in the receipt of a number of industry awards and rankings. These included a clean sweep of the Australian Business Review Weekly's foreign exchange service awards including Best Overall Service. Project Finance International magazine, in citing the Top 10 Project Finance Deals in Asia, included three deals in which ANZ Investment Bank had a lead arranger status, the only bank to be represented in such a way.

*ANZ Investment Bank secured major structured finance deals including the privatisation of the Loy Yang A power station and coal mine.*

# Funds Management & Private Banking

The Group manages $18 billion of investment funds for customers around the world. Funds Management is one of the fastest growing sectors of the finance industry. The focus is on providing retail investment and insurance services.

*Ross Chessari, General Manager Estate Planning & Management for ANZ Funds Management, provides advice to customer.*

### Australia and New Zealand

In our two principal domestic markets of Australia and New Zealand we have in excess of $10 billion and $3 billion of funds under management respectively. ANZ Funds Management provides retail funds management and insurance products through specialist investment advisers working with the branch network. Products include balanced and specialist investment funds, cash management accounts, insurance products, administration and advice services. In New Zealand there are also "Bonus Bonds".

In October 1997, ANZ Funds Management announced a strategic alliance with Frank Russell company, one of the world's leading asset consulting and investment management firms.

Under this alliance, customers will be offered access to world-class investments through the launch of a unique, personalised investment program. ANZ Funds Management will be able to focus on what it does best – providing quality financial planning services – while Russell will focus on managing the investments and selecting the appropriate fund managers.

Russell uses multi-style, multi-manager investment approval which has an impressive record of investment performance.

To enhance our position in the premium market, private banking has been launched across Australia to provide premium service to high net worth customers.

The New Zealand operation has recorded a very strong growth in funds under management (17%) on the back of outstanding investment performance. Both retail and wholesale funds increased significantly over the year. In New Zealand, ANZ Funds Management was 'Best International Equities Manager', and second for balanced funds, while also achieving the best investment performance with the balanced investment fund. Bonus Bonds – a capital guaranteed product where in lieu of interest, holders participate in weekly and monthly cash prize draws – has been relaunched and invested funds have grown to AUD$1.5 billion.

### International

Overseas, our funds management activities draw on our presence in the emerging economies. We have a very successful emerging market investment operation based in London. The success of our six managed emerging markets funds has won us a leading reputation in managing emerging market debt investment funds. Micropal has rated the ANZ flagship fund, EMLIP, the No. 1 emerging market debt fund over three years, and in 1997 Lipper Analytical Services – the leading fund analysts in the USA – rated ANZ Global Emerging Market Debt Fund as the best performing fund over a 12 month period.

Grindlays Private Bank provides full private banking and asset management services to high net worth individuals primarily from Asia and the Middle East through offices in London, Geneva, the Channel Islands and Singapore.

# Risk Management

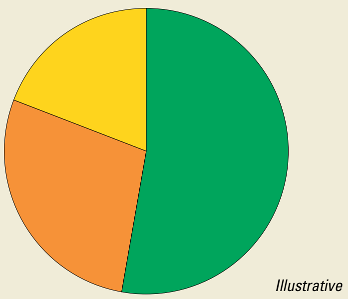
Good risk management is good banking. The identification and monitoring of risk is an essential part of the Bank's operations. Our objective is to make risk management a prime core competency of the organisation by continuous improvement of our systems and procedures to ensure risks are accurately identified and assessed.

ANZ manages risk through an approval and delegation of limits structure that starts with the Board of Directors and is administered by an independent department.

The Risk Management Committee of the Board approves and oversees the framework of risk standards, policies and processes for credit, market and operating risks. Delegations pass through Executive Committees to individual customer controllers and risk managers. Regular reports and compliance checks are presented back through the Risk Management Committee to the Board.

The Risk Management Department is the independent group which has responsibility for ensuring the cohesion and effectiveness of the Group's risk management framework. It oversees the activities of all areas involving risk policy and monitoring. The work of the department is subject to independent review and audit by both the internal and external auditors to ensure compliance with policies, procedures and industry/government regulations.

**Sources of Risk**




**Credit Risk**
Customers unable to meet contractual obligations

**Market Risk**
Potential loss due to fluctuations in interest or exchange rate markets

**Operating & Other Risk**

## Credit Risk

Credit risk is the potential financial loss resulting from the failure of customers to honour fully the terms of a loan or contract. Credit risk represents some 50% of Group risk exposures.

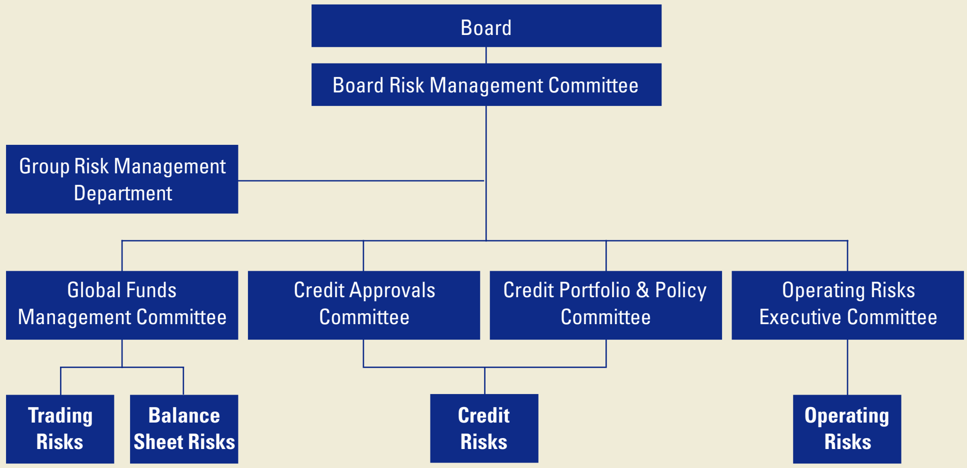
The Board establishes the framework of delegated authority limits for the approval of credit risk transactions. The largest transactions are approved by the Risk Management Committee.

That Committee also receives regular reports on asset quality issues, including portfolio composition, large customer exposures, and developments in credit management policy and processes.

The Credit Approvals Committee, involving senior executive management, makes decisions on transactions, portfolio strategy, policy and processes. Specialist credit and business areas have been established for the larger portfolios (e.g. real estate and agriculture), whilst a specialist group handles the effective management of problem loans.

At operational levels the loan approval process requires independent specialist credit officers to be involved in all major lending decisions, in conjunction with customer relationship managers. A sophisticated customer credit risk grading system is supported by objective risk measurement tools which aids in the assessment of default risk.

## Risk Management Framework




### Market Risk Management

Market risk is the potential risk to earnings resulting from changes in interest rates, currencies, equities and commodity prices. ANZ's approach starts with independence and segregation of operations, risk measurement and control.

The activities are guided by separate sets of policies approved by the Risk Management Committee of the Board. At the executive level, the Global Funds Management Committee is the most senior market and balance sheet management risk forum and is responsible for maintenance of the Board approved control framework. Its membership includes the Chief Executive Officer and it is chaired by the Executive Director.

The Market Risk Management Unit, as part of the Group Risk Management Department, has responsibility for co-ordination of policy and compliance for market risk and related credit and operating risks. This includes the co-ordination of the independent control of all market risk related activities within the specific business units. ANZ increasingly is integrating its approach to the management of credit and market risk and the monitoring of operating risk from trading activities.

### Trading Risk Management

Market risk activities include trading, distribution and underwriting, dealing in a wide range of financial products. Principal portfolios consist of capital markets securities, foreign exchange and money market products, derivatives, equities and commodities. ANZ's principal trading activities are well diversified, and now managed on a global product basis.

The key principles for control of market risk are "Value at Risk" measurement supplemented with volume and risk concentration limits. The "Value at Risk" limit framework is designed in three levels with an aggregate global market risk limit, global product limits and individual trading book limits. These are supported by daily mark to market profit accounting and advice of loss procedures.

Supporting the risk management framework, particularly for the Bank's major trading and geographically isolated business units, are Professional Standards Reviews. Market specialists conduct reviews of the trading activities to ensure high standards of professional conduct throughout all offices of the Group world-wide.

### Balance Sheet Risk Management

The balance sheet risk management process embraces the management of balance sheet interest rate risk, liquidity and foreign currency capital exposures. These risks are managed by a specialist Global Balance Sheet Management unit and are monitored by the Global Funds Management Committee.

Balance sheet interest rate risk management involves minimising fluctuations in net interest income that may occur over time as a result of changes in market interest rates.

A leading edge modelling system was installed in 1997 and is used to simulate the impact on earnings and market value of a large number of market scenarios and balance sheet structures. This enables management to quantify the risks and formulate strategies to manage current and future risk profiles.

The liquidity management process ensures that funds are available at all times to meet maturing obligations as they fall due. ANZ policy establishes daily liquidity management practices as well as scenario-based guidelines to monitor future liquidity flows under normal operating conditions and to cater for a worst case scenario arising from an unfounded, name-specific rumour.

Structural foreign exchange exposures are managed with the objective of ensuring that the ANZ capital ratio is not adversely impacted by changes in the value of the Group's foreign currency capital as a result of movements in exchange rates.

## Operating Risk

Operating Risk embraces those risks arising from day to day operational activities which may result in direct or indirect loss. Operating Risk may arise, for example, from failure to comply with internal policies, laws and regulations, from fraud and forgery or from breakdown in the availability, integrity and confidentiality of services, systems and information. Some operating risks are insurable and appropriate cover is taken. The majority are not insurable.

The objective of Operating Risk management is to ensure that risks are known, assessed and managed in a structured environment. ANZ does not expect to eliminate all risks, but to minimise exposure based on a sound risk/reward analysis in the context of an international financial institution.

Reporting to the Board's Risk Management Committee, the Operating Risk Executive Committee is responsible for the Operating Risk policy, methodology, reviewing and approving key practices and approving deviations from policy.

The Operating Risk methodology is based on the risk management standards issued by the Australian and New Zealand Standards bodies.

In addition to addressing today's risks, such as the Year 2000 issue and disaster recovery, there is also a forward looking responsibility, to ensure that risks associated with new business initiatives, delivery channels and technology are being properly addressed. ANZ also trains staff in operating risk management.

## Year 2000

ANZ, along with all other users of computer systems, faces the issue of the potential disruption to business that may eventuate with the date change from 1999 to 2000.

ANZ has a well established process for dealing with this threat. A project team, with dedicated staff assisted by external consultants, has been established to provide management and control across all Year 2000 compliance related work world-wide. All ANZ systems have been analysed and work is underway to develop, test and implement the necessary changes. Full systems testing for internal applications is scheduled to be completed by December 1998, and in conjunction with other organisations, full cross industry integration testing will take place during 1999.

The potential risk to the Group from vendors and customers not being adequately prepared to manage this issue is also receiving detailed attention.

# Group Executive

John McFarlane    Peter Hawkins    John Sunderland    Peter McMahon

John Ries    Peter Marriott    Peter Jonson

***JOHN McFARLANE***

*Chief Executive Officer*

John McFarlane joined ANZ in October 1997 as Chief Executive Officer. He was previously Executive Director of Standard Chartered plc and prior to that he spent 18 years with Citibank where he held a number of positions in corporate banking, treasury, investment banking, stockbroking, strategy, human resources and training.

***JOHN RIES***

*Executive Director*

John Ries joined ANZ in 1961 and has held senior management positions within the corporate banking and international banking divisions. In June 1988 he was appointed as Managing Director, ANZ Grindlays Bank, London. He returned to Melbourne in August 1990 to take up the position of Chief General Manager International Banking. In August 1992, John was appointed to the ANZ Board as Executive Director with responsibility for Australia. He currently has responsibility for the Group's Corporate and Investment banking activities.

***PETER HAWKINS***

*Global Head of Personal Banking*

Peter Hawkins joined ANZ in December 1971 and has had experience in most aspects of banking including treasury, corporate banking, retail banking, strategy and international banking. He was appointed to his present position in November 1997 after two and a half years as Chief General Manager Australian Retail Division and before that he was Managing Director ANZ Banking Group (New Zealand) Limited. Prior to that he was General Manager Asia Pacific.

***PETER MARRIOTT***

*Chief Financial Officer and Company Secretary*

Peter Marriott joined ANZ in February 1993 as General Manager, Group Accounting and was promoted to Group General Manager Credit/Risk Management in July 1995. He was appointed to his present position as Chief Financial Officer and Company Secretary in July 1997. Prior to joining ANZ, Peter was a partner in KPMG's Melbourne office.

***JOHN SUNDERLAND***

*Managing Director, ANZ Investment Bank*

John Sunderland joined ANZ in November 1996 to head the Group's global investment banking activities. He has responsibility for the various business activities undertaken by ANZ to support its large corporate and institutional customers around the globe. Prior to joining ANZ John held senior investment banking positions with BZW in London, New York and Hong Kong.

***PETER JONSON***

*Managing Director, ANZ Funds Management*

Dr Peter Jonson was appointed to ANZ's Group Executive in the position of Managing Director ANZ Funds Management in March 1997. Prior to joining ANZ he was Group Managing Director of Norwich Australia. He has also held senior positions with James Capel Australia Limited and the Reserve Bank of Australia.

***PETER McMAHON***

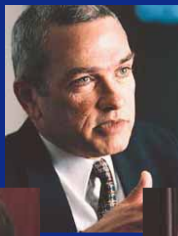
*Managing Director, Esanda Finance Corporation Limited*

Peter McMahon joined ANZ in July 1992 as General Manager Special Projects. In December 1992 he was appointed General Manager of the Asset Management Group and then Group General Manager Credit. Prior to joining ANZ he was Managing Director of Costain Australia. He was appointed to his current position of Managing Director Esanda Finance Corporation Limited in July 1995.

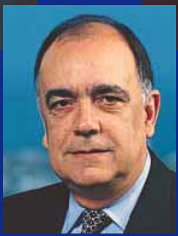

*Bob Edgar*


*David Airey*

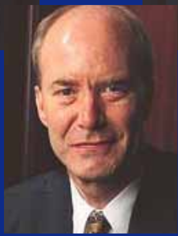

*John Winders*

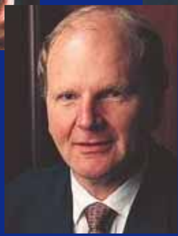

*Andrew Ward*


*Murray Horn*


*Charles Carbonaro*


*Grahame Miller*


*Dave Richardson*


*Peter Wilson*


*Elmer Funke Kupper*

### BOB EDGAR
*Managing Director,*
*Business Banking*

Dr Bob Edgar joined ANZ in December 1984 as Senior Economist and in 1986 he was appointed Chief Economist. Since then he held a number of executive positions before he was appointed to his present position in Business Banking in March 1995. Before joining ANZ Bob held senior positions with the Australian Bankers' Association and the Reserve Bank of Australia in Sydney.

### CHARLES CARBONARO
*Managing Director,*
*Global Cards Division*

Charles Carbonaro joined ANZ in January 1987 as a senior consultant in the Electronic Network Services Division. He was appointed General Manager-Cards in 1989 and was promoted to Chief General Manager-Australian Operations and Payments Division in 1992. He was appointed to his current position in Global Cards Division in December 1996. Before joining ANZ Charles was Chief General Manager at Resi-Statewide Building Society (now Bank of Melbourne).

### DAVID AIREY
*Managing Director, ANZ Banking Group (New Zealand) Ltd*

David Airey was appointed Managing Director, ANZ Banking Group (New Zealand) Limited in March 1997. Prior to this appointment he was Chief Executive Officer of the Bank of Melbourne from February 1993 to February 1997 and from January 1990 to December 1992 he was Managing Director of The Rural Bank based in Wellington.

### GRAHAME MILLER
*Managing Director,*
*International Network*

Grahame Miller joined ANZ in 1968. He has held a number of senior positions including General Manager Financial Markets, General Manager Global Treasury, Chief Manager/General Manager Hogan for Retail, Senior Manager Group Strategic Planning and Assistant Vice President Los Angeles. He was appointed to his current position as Managing Director, International Network in July 1997.

### JOHN WINDERS
*Group General Manager,*
*ANZ Global*

John Winders joined ANZ in 1969 and worked across a wide range of business and support areas and spent a number of years with ANZ overseas before leaving in 1985. He returned to ANZ in early 1994 and was appointed to the position of General Manager International Services. He currently heads the ANZ Global program in addition to his International Services role.

### DAVE RICHARDSON
*Group General Manager,*
*Information Technology*

Dave Richardson joined ANZ as General Manager Information Technology in Australia in March 1993. He was appointed Group General Manager, Corporate Development in 1996. This position was responsible for Strategic Planning, Economics, Public Affairs and Technology. He was appointed to his current role as head of global information technology in 1997. Dave Richardson has over 20 years experience in Information Technology and has held a variety of senior positions in Coles Myer, Ansett Australia and overseas.

### ANDREW WARD
*Head of Operations and Payments*

Mr Andrew Ward joined ANZ in February 1971. He has held a number of senior management positions including Administration Executive - Corporate Banking Australia, Zone Chief Manager - Melbourne North and West Zone, Assistant General Manager - Asset Management Group, General Manager Operations and Payment Services - ANZ Banking Group (New Zealand) Ltd, Acting Managing Director of ANZ Banking Group (New Zealand) Limited. He is responsible for the Group's Operations and Payments functions globally.

### PETER WILSON
*Group General Manager,*
*Human Resources and*
*Management Services*

Peter Wilson joined ANZ in October 1990 as Group General Manager, Strategic Planning and Economics. From 1992-95 he was General Manager, Asia Pacific, responsible for the Bank's operations in North Asia, South East Asia, Sri Lanka, Papua New Guinea and the Pacific Islands. Peter took up his current role as Group General Manager, Human Resources and Management Services in January 1996.

### MURRAY HORN
*Group General Manager,*
*Strategic Planning*

Dr Murray Horn was appointed to the position of General Manager Strategic Planning in September 1997. His responsibilities include overseeing the development of strategic planning as the Group strengthens its global lines of business. Prior to joining ANZ he had a distinguished career with the New Zealand Treasury, where he had been Secretary of the Treasury since 1993.

### ELMER FUNKE KUPPER
*Group General Manager,*
*Risk Management*

Elmer Funke Kupper joined ANZ in 1995 as General Manager, Portfolio Management within Group Credit/Risk Management. Prior to joining the Group he worked as a consultant for McKinsey & Company and later Mitchell Madison Group. In March 1997 he became team leader, Support and Business Management and Organisation Design for ANZ Global and has recently been appointed to the role of Group General Manager, Risk Management.

### Elizabeth Proust

Elizabeth Proust will join ANZ in January 1998 as Head of Group Human Resources. Until recently Ms Proust was Secretary of the Victorian Department of Premier and Cabinet. Previously she had held the positions of Chief Executive Officer of the City of Melbourne, Secretary of the Victorian Attorney-General's Department and Deputy Director General of the Department of Industry, Technology and Resources.

# Board of Directors

**MR C B GOODE** *(left)*

B Com (Hons) (Melb), MBA (Columbia University, New York), FCPA, FSIA

Chairman

Company Director.

Director since July 1991, appointed Chairman August 1995.

Director of CSR Limited, Pacific Dunlop Ltd, Queensland Investment Corporation, Woodside Petroleum Ltd, Mercury Asset Management Ltd and other companies.

Lives in Melbourne. Age 59.

**Mr J McFARLANE** OBE

MA, MBA, MSI, FHKIB, FRSA

Chief Executive Officer. Appointed Group Managing Director and Chief Executive Officer in October 1997. Former Group Executive Director, Standard Chartered plc (1993-1997), Head of Citibank, United Kingdom (1990-1993), Managing Director, Citicorp Investment Bank Ltd (1987-1990).

Lives in Melbourne. Age 50.

*(left to right)*

**DR B W SCOTT** AO

B Ec, MBA, DBA

Company Director.

Director since August 1985. Chairman of Management Frontiers Pty Ltd, W.D. Scott International Development Consultants Pty Ltd, Television Makers Pty Ltd and The Foundation for Development Co-operation Ltd. Director of Air Liquide Australia Ltd and the James N. Kirby Foundation Ltd. Australian member of the Board of Governors of the Asian Institute of Management and Chairman of the Australia-Korea Foundation. Former Chairman of the Australian Government's Trade Development Council (1984-1990). Former Federal President, Institute of Directors in Australia (1982-1986)

Lives in Sydney. Age 62.

**MR J K ELLIS**

MA (Oxon) FAIMM FTS

Chairman, The Broken Hill Proprietary Co Ltd.

Director since October 1995. Chairman of Sandvik Australia Pty Ltd and Chairman of the International Copper Association Ltd. Patron of the Australian-Korea Business Council. Board Member of the Museum of Contemporary Art.

Lives in Melbourne. Age 60.

**MR R B VAUGHAN** AO *(seated)*

Company Director.

Director since January 1988. Chairman of MIM Holdings Limited and Queensland Sugar Corporation Limited. Deputy Chairman of Commercial Union Assurance Limited and Transgrid. Chairman of the Federal Government's Trade Policy Advisory Council, APEC Committee and Sugar Industry Review Working Party, and Vice-President of the Australia Japan Business Co-operation Committee. President and Chairman of the Research Institute for Asia and the Pacific. Former Chairman and Chief Executive of Dalgety Farmers Limited and former Chairman of ICI Australia Limited.

Lives in Sydney. Age 69.

**MR C J HARPER**

CA (Scots)

Company Director.

Director since October 1976. Chairman of CSL Ltd. Former General Manager and Chief Executive of the merchant bank Australian United Corporation Ltd (1968-1976) and since then a professional non-executive director. Inaugural National Vice President of The Australian Institute of Company Directors.

Lives in Melbourne. Age 66.

*(left to right)*

### DR R S DEANE

PhD, B Com (Hons), FCA, FCIS, FNZIM

Chief Executive and Managing Director, Telecom New Zealand Limited.

Director since September 1994. Director of Fletcher Challenge Limited, IHC Mortgages Ltd, The Centre for Independent Studies Ltd and Institute of Policy Studies, Victoria University, Wellington. Formerly Chief Executive, Electricity Corporation of New Zealand Ltd, Chairman State Services Commission, Alternate Executive Director, International Monetary Fund and Deputy Governor, Reserve Bank of New Zealand.

Lives in Wellington, New Zealand. Age 56.

### MR J F RIES

B Bus, FCPA, FAIB

Executive Director.

Executive Director since August 1992. Thirty-seven years experience in banking with the Group including Managing Director, ANZ Grindlays Bank plc, London (1988-1990) and Chief General Manager, International Banking (1990-1992).

Lives in Melbourne. Age 53.

### MS M A JACKSON

MBA, B Econ, FCA

Company Director.

Director since March 1994. Chairman of Transport Accident Commission (Victoria). Director of The Broken Hill Proprietary Co Ltd, Pacific Dunlop Ltd, Qantas Airways Ltd and other companies. Fund Committee Member of The Walter and Eliza Hall Institute of Medical Research and Trustee of The Brain Imaging Research Foundation.

Lives in Melbourne. Age 44.

### MR J C DAHLSEN

LLB, MBA (Melb)

Solicitor and Company Director.

Director since May 1985. Consultant to and former Partner of the legal firm Corrs Chambers Westgarth. Chairman of Woolworths Ltd and Melbourne Business School Ltd, Director of Southern Cross Broadcasting (Australia) Ltd, Mining Project Investors Pty Ltd, The Smith Family, GS Private Equity Pty Limited and J. C. Dahlsen Pty Ltd Group. Former Chairman of The Herald and Weekly Times Ltd and Deputy Chairman Myer Emporium Ltd.

Lives in Melbourne. Age 62.

## Retired Directors

Three Directors retired during the year.

Mr Charles Goode in farewelling them said,

"We thank these gentlemen for their enormous contribution to the Bank and wish them all the best in their retirement".

**Sir Ronald Trotter**

Director

1988-1997

**Mr D P Mercer**

Chief Executive Officer & Executive Director

1992-1997

**Mr A T L Maitland**

Executive Director

1992-1997

# Corporate Governance

Good governance is essential for ANZ to carry out its business activities and meet the objectives of its shareholders, employees, customers and regulators around the world.

### Role of the Board of Directors

The Board of Directors is responsible to shareholders for the corporate governance of ANZ. The Board

- charts the direction of the Group by participating in the setting of objectives and strategy formulation and establishing policy guidelines
- monitors management's running of the business to ensure implementation is in accordance with the agreed framework.

Effective risk management is central to good banking. The Board and the Risk Management Committee approve and oversee the framework of risk standards, policies and processes. A detailed explanation of the Bank's Risk Management procedure is contained on pages 19 to 21 of this Report.

The Board, and particularly, Audit & Compliance Committee, liaises with the external auditors on accounting policies and practices and compliance issues.

### Composition of Board

To achieve its objectives, a well structured Board is necessary. Details of directors, their qualifications and experience are set out on pages 24 and 25.

The Board Nominations Committee identifies and nominates suitable candidates for consideration by the full Board. Although flexible, criteria include the individual's background, experience, and skills. Geographical considerations and availability to commit sufficient time to the Board's program are also considered.

To ensure the benefit of independent views, the Articles of Association of the Company state that there must be a majority of non-executive directors on the Board and that the role of Chairman cannot be held by an executive director, ensuring that the roles of Chairman and Chief Executive Officer are separate. Committees of the Board are chaired by non-executive directors and the Audit & Compliance Committee comprises only non-executive directors.

All non-executive directors are regarded as independent, having no substantial supplier customer relationship and no prior executive role in the Group. The Board has established a code of conduct in the event of a conflict of interest.

The Board currently has eight non-executive directors and two executive directors.

Both non-executive and executive directors (other than the Managing Director) are subject to re-appointment by shareholders on a rolling three year basis and must retire upon attaining the age of 70. Executive directors retire as directors on the termination of their employment with the Group. Their status after that date is a matter for the Board at the time.

In the interests of ensuring smooth succession and a reasonable range and turnover of skills, non-executive directors appointed since 1993 have agreed that they will not, in normal circumstances, serve as a Director beyond 15 years.

## Board Activities

The Board meets ten times a year. Committee meetings are held at regular intervals. Details of attendance are shown below.

The Board receives regular reports on performance and outlook, and reviews activities and strategies of the Bank and each division.

Directors participate in a programme of visits to operations and create opportunities to meet and discuss current issues with management and staff. The Board held its February 1997 meeting in India which allowed Directors to visit local banking operations, meet staff and customers and government representatives in India and also in neighbouring countries in which the Bank operates.

Whilst there is no restriction on the number of external Board or charitable committee appointments a director may have, they are required to seek Board approval before accepting appointment.

To assist in the exercise of their responsibilities, directors are entitled to seek independent professional advice. With the Chairman's prior approval the advice can be obtained at the Bank's expense and is to be made available to the whole Board.

Directors are required to hold at least 2,000 shares in the Company. Details of their holdings are shown on page 115. They must refrain from dealing in the Company's shares for their personal benefit except in three four week periods; following the announcement of half year and full year results, and the Annual General Meeting, and in each case the Chairman of the Board must be informed prior to any trading. The same restrictions are also imposed upon senior management and those staff in departments with access to market sensitive information, with the notification being required to the Chief Executive Officer.

The Articles of Association provide an indemnity to directors and employees for costs and liabilities incurred in the execution of duty. The External Auditor is not indemnified.

*continued overleaf...*

### Attendance of Board and Committee meetings for the period 1/10/96–30/9/97

| | Board | | Risk Management | | Audit & Compliance | | Personnel | | Executive App. & Remuneration | | Donations | | Board Nominations | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| C B Goode | 10 | 10 | 11 | 8 | 5 | 4 | 3 | 3 | 7 | 7 | 3 | 3 | 4 | 4 |
| J C Dahlsen | 10 | 10 | | | 5 | 5 | | | 7 | 6 | | | | |
| R S Deane[1] | 10 | 10 | 11 | 11 | | | 3 | 3 | 7 | 7 | | | | |
| J K Ellis | 10 | 10 | 11 | 11 | | | | | 7 | 7 | | | | |
| C J Harper | 10 | 10 | 11 | 11 | | | | | 7 | 6 | | | | |
| M A Jackson | 10 | 9 | 11 | 8 | | | | | 7 | 7 | | | | |
| A T L Maitland[2] | 7 | 7 | | | | | | | | | | | | |
| D P Mercer[3] | 10 | 10 | | | | | 3 | 3 | 7 | 6 | 3 | 3 | | |
| J F Ries | 10 | 10 | 11 | 11 | | | | | | | | | | |
| B W Scott | 10 | 10 | | | 5 | 5 | 3 | 3 | 7 | 7 | | | 4 | 4 |
| Sir Ronald Trotter[1,4] | 10 | 9 | | | 5 | 4 | | | 7 | 5 | | | | |
| R B Vaughan | 10 | 10 | | | 5 | 5 | | | 7 | 7 | | | 4 | 4 |

**Column A**–Indicates number of meetings held during the period the Director was a Member of the Board and/or Committee.
**Column B**–Indicates number of meetings attended during the period the Director was a Member of the Board and/or Committee.
The Executive Committee met three times during the year.
The Chairman is an ex officio member of all Board committees.
[1]*Resident of New Zealand* [2]*Mr Maitland retired 30/6/97* [3]*Mr Mercer retired 30/9/97* [4]*Sir Ronald Trotter retired 9/10/97*

## Committee Structure

The Board's function is to address issues in their broadest context. It is through the Board's committee structure that specific areas of detail are examined. There are six board committees, each with a defined Charter. These committees are charged with providing quality and independent advice to the Board as a whole. Details of the role of each committee is shown opposite.

Membership of the committees and attendance at committee meetings during the year is set out on page 27.

Directors have also participated in meetings of Committees of the Board (4 meetings during 1997) to sign accounts, to declare dividends and make allotments under the Company's various dividend reinvestment and employee share schemes.

The Board has the power to nominate Directors to form an Executive Committee of the Board at any time and delegate to that Committee general executive authority to deal with any matter relating to the company's affairs in circumstances where it is not possible to call a full Board meeting.

## Subsidiary Boards - Non-executive Directors

ANZ has a number of subsidiary companies, some of which have non-executive directors. The major subsidiaries in this regard are:

**ANZ Grindlays Bank Limited**
M A Jackson, B W Scott AO

**ANZ Banking Group (New Zealand) Limited**
J G Todd, F H Wilde

**Companies within ANZ Funds Management Group**
D P McDonald, C M William, L J Willett AO.

B W Scott and R B Vaughan, directors on the ANZ Board, are members of the boards of the main Australian Staff Superannuation and Pension companies.

### The Audit & Compliance Committee

*(Chairman - J C Dahlsen)*

**Reviews** the Group's accounting policies and practices; financial statements; due diligence processes in relation to capital raisings; and compliance with the Group's statutory responsibilities including those relating to Consumer Credit Legislation, Trade Practices Act and privacy issues. Monitors compliance with approved policies and controls; liaises with internal and external auditors. Approves audit plans and the audit fee of the external auditor.

### The Risk Management Committee

*(Chairman - C J Harper)*

**Supervises** all aspects of risk management. This includes approving and overseeing the setting of delegation policies, standards and reporting mechanisms for credit risk, trading risk, balance sheet risk and operating risk. **Monitors** the risks being assumed by the Group to ensure standards are being met. A full description of the Group's Risk Management procedures is contained on pages 19 to 21 of this report.

### Personnel Committee

*(Chairman - Dr B W Scott)*

**Reviews** and **advises** on executive remuneration policies. Has the responsibility of developing and monitoring the new senior executive remuneration scheme, which more closely aligns management remuneration to the generation of shareholder value.

### The Executive Appointment & Remuneration Committee

*(Chairman - C B Goode)*

**Approves** appointments and individual remuneration packages for the senior officers of the Group. The Committee obtains independent advice on the appropriateness of remuneration packages.

### The Board Nominations Committee

*(Chairman - C B Goode)*

**Reviews** the composition of the Board to ensure that it has the appropriate mix of expertise and experience. Recommends appointments to the Board where it is considered that the Board would benefit from the service of a new director with particular skills.

### The Donations Committee

*(Chairman - C B Goode)*

**Advises** on donations policy and considers requests for corporate contributions.

*Committee members shown on page 27.*

# Community Involvement

Our responsibility to shareholders, customers and staff extends to playing an active role in the communities in which we operate. This involvement covers many areas of community life from local sports activities and multicultural festivals to community welfare and the arts.

During 1997, ANZ has contributed to a wide range of initiatives in community welfare, medical research, education and cultural activities.

Fostering the talents of young people is an important contribution to the community's future. ANZ has built on its long running commitment to the arts by supporting young artistic talent through the ANZ Visual Arts Fellowship and the ANZ Music Fellowship.

### Food Bank

In Victoria and New South Wales we have provided support to Food Bank, a charity which works with welfare agencies to give assistance to more than 40,000 people in need each week through the provision of meals and food hampers. Our support included providing finance for a new vehicle to assist in delivering food.

Our focus in this area has also extended to supporting The Salvation Army's Family Support Services Network in Victoria which involves the distribution of food to people in need in rural areas.

### India's 50th Anniversary of Independence

ANZ has had a presence in India since 1854 and ANZ Grindlays has played an active part in supporting India's cultural heritage. In August 1997, India celebrated the 50th anniversary of its independence.

As part of the celebrations, ANZ Grindlays was involved in sponsoring the National Centre for Performing Arts' festival of dance and drama in Mumbai. Some of India's leading musicians, dancers and theatre artists performed in the Festival, in celebration of India's history and independence.

ANZ has also supported the establishment of a Chair in South Asian Economics at the Australian National University in Canberra. The Chair is dedicated to India's late Prime Minister, Rajiv Gandi and recognises the growing economic links between Australia and India.

### ANZ Foundation

During 1997, ANZ further encouraged staff involvement in the community through the ANZ Foundation. Formerly known as the ANZ Staff Foundation, the ANZ Foundation was relaunched in November 1996 to support the Australian community through staff donations and involvement.

The Bank provides financial support to the Foundation, and in 1997 over $90,000 of grants were made to charities such as the Australian Sport and Recreation Association for Persons with an Intellectual Disability (AUSRAPID), Youth Insearch and the Down Syndrome Assocation of Victoria.

The ANZ Foundation aims to fund projects which offer opportunities for staff to become involved by giving their time.


*Pictured with the new Food Bank truck are Peter Bearsley, ANZ's General Manager Charitable Trusts, and Glenn Ellam, General Manager Food Bank Victoria.*

*Background - Li Cunxin, Private Client Adviser with ANZ Stockbroking and one of the six principal male dancers with the Australian Ballet.*

# Business Environment

### Financial System Inquiry

In March 1997 the final report of the Australian Financial System Inquiry was presented to the Federal Treasurer. Rapid technological change and globalisation of the financial services industry since the deregulation of the first half of the 1980s prompted the Inquiry. The Report concluded that improvement in efficiency, choice and quality within the financial sector has occurred since the deregulation of the 1980s and recommended a package of 115 regulatory reforms to secure further improvements.

In early September, the Treasurer announced the Government's acceptance of the majority of the Report's recommendations. Implementation of the reform package to sharpen competition and ensure Australia has a world class regulatory structure able to accommodate the significant change that lies ahead, is scheduled to begin in 1998.

Key reforms are:

- establishment of a new regulatory framework.
  - The Reserve Bank of Australia (RBA) will retain responsibility for the stability of the financial system with a new Payments System Board within the RBA, will be responsible for payments system regulation.
  - A new regulatory body, the Australian Prudential Regulation Authority, will have prudential oversight of all deposit taking institutions, life and general insurance offices and superannuation funds.
  - A single agency, the Corporations and Financial Services Commission, will be responsible for the corporations law, market integrity and consumer protection roles of the Australian Securities Commission, the Insurance and Superannuation Commission and the Australian Payments System Council.
- Liberalisation of access to the payments system.

  While participation has until now been limited to banks and a small number of 'special service providers' offering clearing services to building societies and credit unions, new guidelines for access to payments clearing and settlement to be developed by the Payments System Board will allow access to non-banks.
- Increased flexibility in corporate structures.

  Banks will be permitted to restructure their operations under a more flexible non-operating holding company structure; mutual organisations will be permitted to hold a banking licence; and the principle of separating financial activities from non-financial activities within the one corporate group is to be relaxed, subject to prudential and other conditions being met.

### Political Donations

ANZ supports a vigorous multi-party democracy as the best guarantee of a market-oriented economy with strong private and commercial rights and freedoms. Accordingly, from time to time, we provide some level of support for the major parties in our home markets.

In Australia we provide details to the Australian Electoral Commission which are published on an annual basis.

In the year to 30 September 1997 in Australia, we donated $125,000 to the Liberal Party, $25,000 to the National Party and $20,000 to the Australian Labor Party.

In New Zealand, we donated NZ$10,000 to the National Party, NZ$5,000 to the Labour Party and NZ$5,000 to the Association of Consumers and TaxPayers.

# Events of 1997

### OCTOBER
- Interactive Internet Web site launched
- Omani operations restructured

### NOVEMBER
- 1996 profit of $1,116M
- "ANZ Money Saver Home Loan" introduced
- Home loan interest rates reduced

### DECEMBER
- Business index rate and business reference rate reduced
- Credit card interest rates reduced

### JANUARY
- Mr David Airey appointed Managing Director, ANZ New Zealand
- Launch of ANZ Phone Banking

### FEBRUARY
- Dr Peter Jonson appointed Managing Director, ANZ Funds Management
- $1 billion committed to small business sector
- Home loan rates reduced

### MARCH
- Indian arbitration ruling
- ANZ Direct home loans introduced

### APRIL
- Jerusalem branch re-opened
- Financial System Inquiry Report
- Approval granted to proceed with Beijing branch licence

### MAY
- Half Year profit of $646M
- Chief Executive Officer, Mr Don Mercer, retirement announced
- Home loan interest rates reduced
- CBS rolled out in United Arab Emirates

### JUNE
- ANZ Health Insurance launched
- ANZ No. 1 in foreign exchange
- CBS rolled out in Qatar
- ANZ wins Gold at Annual Report Awards
- ANZ New Zealand Funds Management wins industry awards

ANZ INVESTMENT BANK • GOLD • No1 IN FOREIGN EXCHANGE • 1997

### JULY
- ANZ "Bank of the Year"
- Emerging markets debt fund launched
- Home loan and business interest rates reduced
- CBS rolled out in Bahrain

PERSONAL INVESTMENT • GOLD • BANK OF THE YEAR AWARDS • 1997

### AUGUST
- Supermarket banking launched on the Gold Coast
- Credit card interest rates reduced


*Supermarket branch at Tweed Heads, New South Wales.*

### SEPTEMBER
- Mr John McFarlane appointed Chief Executive Officer
- Home loan rates reduced
- ANZ Beijing branch opened

*Charles Goode, Dai Ziang Long, Governor of the People's Bank of China, and John Howard, Prime Minister of Australia, cut the ribbon to mark the granting of ANZ's branch banking licence in Beijing.*

# Financial Highlights in Key Currencies

| Millions | 1997 AUD | 1997 USD[1] | 1997 GBP[1] | 1997 NZD[1] |
|---|---|---|---|---|
| **Profit and loss** | | | | |
| Net income | **5,828** | 4,475 | 2,736 | 6,522 |
| Operating expenses | **(3,783)** | (2,905) | (1,776) | (4,234) |
| Profit before tax and doubtful debts | **2,045** | 1,570 | 960 | 2,288 |
| Provisions for doubtful debts – specific | **(86)** | (66) | (40) | (96) |
| – general | **(201)** | (154) | (94) | (225) |
| Profit before tax and abnormal items | **1,758** | 1,350 | 826 | 1,967 |
| Income tax expense | **(579)** | (445) | (272) | (648) |
| Outside equity interests | **(8)** | (6) | (4) | (9) |
| Profit before abnormal items | **1,171** | 899 | 550 | 1,310 |
| Abnormal loss | **(147)** | (113) | (69) | (165) |
| **Profit after tax and abnormal items** | **1,024** | 786 | 481 | 1,145 |
| **Profit after tax by geographic segment** | | | | |
| Australia | **627** | 481 | 295 | 702 |
| New Zealand | **165** | 127 | 77 | 185 |
| UK & Europe | **112** | 86 | 53 | 125 |
| Asia Pacific | **95** | 73 | 45 | 106 |
| South Asia[2] | **82** | 63 | 38 | 92 |
| Americas | **36** | 28 | 17 | 40 |
| Middle East[3] | **54** | 41 | 25 | 60 |
| **Profit after tax and before abnormal items** | **1,171** | 899 | 550 | 1,310 |
| Abnormal items | **(147)** | (113) | (69) | (165) |
| **Profit after tax and abnormal items** | **1,024** | 786 | 481 | 1,145 |
| **Balance Sheet** | | | | |
| Assets | **138,241** | 99,492 | 61,724 | 155,826 |
| Liabilities | **131,248** | 94,459 | 58,602 | 147,943 |
| Shareholders' equity[4] | **6,993** | 5,033 | 3,122 | 7,883 |
| **Ratios** | | | | |
| Earnings per share – after abnormal items (basic) | **68.6¢** | 52.7¢ | 32.2p | 76.8¢ |
| Dividends per share – declared rate | **48.0¢** | 36.9¢ | 22.5p | 53.7¢ |
| Net tangible assets per share | **$4.59** | $3.30 | £2.05 | $5.17 |

[1] *USD, GBP and NZD amounts - profit and loss converted at average rates for financial year ended 30 September 1997 and balance sheet items at closing rates at 30 September 1997*

[2] *Includes Bangladesh, India and Nepal*

[3] *Includes Bahrain, Greece, Israel, Jordan, Oman, Pakistan, Qatar and United Arab Emirates*

[4] *Includes outside equity interests*

# 1997 Financial Statements

# Alphabetical Index

The directors present their report together with the accounts of the parent entity (the Company) and the consolidated accounts of the Economic entity (the Group) for the year ended 30 September 1997.

The information is provided in conformity with the Corporations Law.

### Activities

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

There has been no significant change in the nature of the principal activities of the Group during the financial year.

At 30 September 1997, the Group had 1,473 points of representation.

### Result

Consolidated operating profit after income tax and abnormal items attributable to members of the Company was $1,024 million. Further details are contained in the Chief Executive Officer's Review and the Review of 1997 Results on page 5 and pages 9 to 12 respectively of the 1997 Annual Report.

### Dividends

The directors propose payment of a final dividend of 26 cents per ordinary fully paid share, fully franked at 36%, to be formally declared on 15 December 1997 and to be paid on 21 January 1998. The proposed payment amounts to $392 million.

Since the end of the previous financial year, the following fully franked dividends on fully paid ordinary shares have been paid:

| Type | Cents per share | Amount before bonus option $m | Date of payment |
|---|---|---|---|
| Final | 24 | 355 | 15 January 1997 |
| Interim | 22 | 329 | 7 July 1997 |

The final dividend paid on 15 January 1997 was detailed in the directors' report dated 29 November 1996. Neither the interim dividend paid on 7 July 1997 nor the current proposed dividend have been mentioned in previous directors' reports.

### Review of Operations

A review of the operations of the Group during the financial year and the results of those operations are contained in the Chairman's Report, the Chief Executive Officer's Review, the Review of 1997 Results and the financial statements.

### State of Affairs

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

Net loans and advances increased by 11% from $75,901 million to $84,148 million, primarily from growth in International markets, particularly South Asia, Asia Pacific and the Middle East, and business lending in Australia.

Deposits and other borrowings increased by 12% from $79,709 million to $89,152 million.

The charge for provisions for doubtful debts increased by 86% to $287 million. New and increased specific provisions were $280 million and releases and recoveries totalled $194 million. The charge for the general provision increased from $37 million in 1996 to $201 million for 1997. This included an additional $137 million transfer. This transfer was based on the annual average provision implied in the Group's portfolio risk management models and is not linked to any need to provide against specific regions, industries or individual borrowers. Gross non-accrual loans fell to $872 million, or 1% of net loans and advances, from $1,225 million at 30 September 1996.

The Arbitrators of the long running dispute with the National Housing Bank of India ("NHB") handed down their award in the Group's favour on 29 March 1997. The NHB has repaid the deposit together with interest at 18% in accordance with the decision. Given its size, the $65 million interest receipt (after tax) is disclosed as an abnormal item. Subsequently, NHB filed documents with the relevant Court to challenge the award. The Group is confident that the award will stand.

Restructuring costs of $417 million before tax have been charged of which $327 million are shown as an abnormal item.

While the above matters are those considered to be significant changes, reviews of matters affecting the Group's state of affairs are also contained in the Chairman's Report, the Chief Executive Officer's Review, the Review of 1997 Results and the financial statements.

## Events since the End of the Financial Year

No matter or circumstance has arisen between 30 September 1997 and the date of this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

## Future Developments

Details of likely developments in the operations of the Group in subsequent financial years are contained in the Chairman's Report and the Chief Executive Officer's Review on pages 4 and 5 respectively of the 1997 Annual Report.

In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

## Rounding of Amounts

The Company is a company of the kind referred to in the Australian Securities Commission class order 97/1005, dated on 9 July 1997 pursuant to section 313(6) of the Corporations Law. As a result, amounts in this report and the accompanying financial statements have been rounded to the nearest million dollars except where otherwise indicated.

## Shareholdings

The directors' interests, beneficial and non-beneficial, in the shares of the Company are detailed on page 115 of the Shareholder Information section of the 1997 Annual Report.

The directors are not aware of any single beneficial interest of five per cent or more in the share capital of the Company.

## Share Options

ANZ Group Share Option Scheme

At the date of this report, there are 5,435,000 unexercised options over ordinary shares of $1 each at an exercise price of $5.34 per share. The options held by current employees cannot be exercised earlier than three years from the date of issue or later than 30 January 1999 and may only be exercised if the basic earnings per share of the Company (before abnormal items) for the relevant one of the financial years ending 30 September 1996, 1997 or 1998 are at least 50% over the equivalent figure for the 1993 financial year. 95,000 options were exercised and 95,000 shares issued since the end of the financial year, in accordance with the Rules of the Scheme.

In addition there are 1,400,837 unexercised options issued over ordinary shares of $1 each at an exercise price of $8.76 per share. The options held by current employees cannot be exercised earlier than three years or later than five years from the date of issue. 2,254 options were exercised by former employees and 2,254 shares issued since the end of the financial year, in accordance with the Rules of the Scheme.

The Company is of the kind referred to in class order 97/1011 issued by the Australian Securities Commission on 9 July 1997 under which the directors are relieved from the need to disclose the names of employees and relevant details in respect of options granted to those employees under the scheme. The directors have availed themselves of the relief granted under this class order.

The names of all persons who currently hold options granted under the schemes are entered in the register kept by the Company pursuant to section 216C of the Corporations Law and the register may be inspected free of charge.

No person entitled to exercise any option has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Further details on the ANZ Group Share Option Scheme are contained in note 42 to the financial statements and form part of this report.

Directors' Share and Option Purchase Scheme

At the date of this report, there are 50,000 unexercised options over ordinary shares of $1 each at an exercise price of $3.44 per share with an expiry date of 1 March 1998 or 90 days after cessation of a director's term of office, whichever is the earlier. No partly paid shares or options were issued under this Scheme since the end of the financial year.

Further details on the Directors' Share and Option Purchase Scheme are contained in note 42 to the financial statements and form part of this report. Details of directors' shareholdings interests are set out on page 115 of the Shareholder Information section of the 1997 Annual Report.

## Directors, their Qualifications and Experience

The Board includes eight non-executive directors who have a diversity of business and community experience and two directors with executive responsibilities who have extensive banking experience. The names, qualifications and experience of the directors who are in office at the date of this report are contained on pages 24 and 25 of the 1997 Annual Report.

Special responsibilities and attendance at meetings, are shown on pages 27 and 28 of the 1997 Annual Report.

## Directors' Benefits

No director has, during or since the end of the financial year, received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received, or due and receivable, by directors shown in the Company's financial statements for the financial year or the fixed salary of a full-time employee of the Company, or an entity controlled by the Company, or a body corporate that was related to the Company at a relevant time) because of a contract that the director, or a firm of which the director is a member, or an entity in which the director has a substantial financial interest, has made with the Company or an entity that the Company controlled, or a body corporate that was related to the Company, when the contract was made or when the director received, or became entitled to receive the benefit, with the exception of the following:

(a) subscription by a director and certain former directors for options to take up unissued shares under the ANZ Group Share Option Scheme, pursuant to approval by shareholders at the January 1997 Annual General Meeting;

(b) variable benefits payable under the Senior Executive Remuneration Scheme to which J F Ries became entitled after the end of the financial year;

(c) benefits which may have arisen from an agreement with a former executive director, A T L Maitland, relating to consulting services;

(d) an employment agreement between the Company and J McFarlane providing, inter alia, for a variable component of remuneration and for the Company seeking the approval of shareholders for the issue of options, and alternative arrangements if such options cannot be issued;

(e) retirement benefits paid to Sir Ronald Trotter pursuant to an agreement of the type referred to in Article 79(b), following his retirement on 9 October 1997; and

(f) benefits that may be deemed to have arisen because legal fees have been paid or are payable to Corrs Chamber Westgarth of which J C Dahlsen is a consultant.

Further details are set out in note 43 to the financial statements dealing with Related Party Disclosures.

## Directors' and Officers' Indemnity

Article 143 provides that to the extent permitted by the Corporations Law "every director, secretary or employee of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto". The Corporations Law prohibits a company from indemnifying directors, secretaries, executive officers and auditors for liabilities except for a liability to a party, other than the Company or a related body corporate, where the liability arises out of conduct involving good faith, and for costs and expenses incurred in defending proceedings in which the officer or auditor is successful. An indemnity for officers or employees who are not directors, secretaries or executive officers, is not expressly restricted by the Corporations Law.

In addition to its obligations under Article 143, it is the policy of the Company to:

(a) indemnify, in the same terms as Article 143, directors, secretaries and executive officers of related bodies corporate; and

(b) indemnify other employees of related bodies corporate for all liability incurred,

where they are acting in good faith in furtherance of the objectives of the Company and its related bodies corporate.

The directors, the secretaries of the Company, being P R Marriott, R T Jones and J E Clark, and a former secretary D T Craig, and executive officers of the Company have the benefit of the indemnity in Article 143.

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

Except for the above, during the financial year and since the end of it, no person has been indemnified nor has the Company or a related body corporate of the Company made an agreement for indemnifying any person who is or has been an officer or auditor of the Company or of a related body corporate.

Signed in accordance with a resolution of the directors.

**Charles Goode**
*Chairman*

**John McFarlane**
*Chief Executive Officer*

28 November 1997

| | | Consolidated | | | The Company | |
|---|---|---|---|---|---|---|
| | | **1997** | 1996 | 1995 | **1997** | 1996 |
| | Note | **$M** | $M | $M | **$M** | $M |
| Interest income | 2 | **9,431** | 9,286 | 8,310 | **6,045** | 5,974 |
| Interest expense | 3 | **(6,018)** | (5,969) | (5,229) | **(3,981)** | (4,037) |
| Net interest income | | **3,413** | 3,317 | 3,081 | **2,064** | 1,937 |
| Other operating income | 2 | **2,415** | 2,096 | 1,975 | **1,971** | 1,994 |
| Operating income | | **5,828** | 5,413 | 5,056 | **4,035** | 3,931 |
| Operating expenses | 3 | **(3,783)** | (3,644) | (3,334) | **(2,805)** | (2,574) |
| Operating profit before debt provisions and abnormal items | | **2,045** | 1,769 | 1,722 | **1,230** | 1,357 |
| Provisions for doubtful debts | 3 | **(287)** | (154) | (174) | **(221)** | (110) |
| **Operating profit before abnormal items** | | **1,758** | 1,615 | 1,548 | **1,009** | 1,247 |
| Abnormal loss | 5 | **(182)** | – | – | **(214)** | – |
| **Operating profit before tax** | | **1,576** | 1,615 | 1,548 | **795** | 1,247 |
| Income tax (expense) benefit | | | | | | |
| Operating profit | 6 | **(579)** | (490) | (505) | **(225)** | (224) |
| Abnormal loss | 5 | **35** | – | 19 | **77** | – |
| Income tax expense | 6 | **(544)** | (490) | (486) | **(148)** | (224) |
| Operating profit after income tax | | **1,032** | 1,125 | 1,062 | **647** | 1,023 |
| Outside equity interests | | **(8)** | (9) | (10) | **-** | – |
| **Operating profit after income tax attributable to members of the Company** | | **1,024** | 1,116 | 1,052 | **647** | 1,023 |
| Retained profits at start of year | | **1,583** | 1,106 | 585 | **781** | 317 |
| Total available for appropriation | | **2,607** | 2,222 | 1,637 | **1,428** | 1,340 |
| Transfers (to) from reserves | | **(82)** | (55) | (27) | **-** | 15 |
| Dividends provided for or paid | 7 | | | | | |
| Ordinary shares | | **(695)** | (584) | (424) | **(695)** | (574) |
| Preference shares | | **-** | – | (80) | **-** | – |
| **Retained profits at end of year** | | **1,830** | 1,583 | 1,106 | **733** | 781 |
| **Earnings per share (cents)** | 8 | | | | | |
| **Basic** | | | | | | |
| Before abnormal items | | **78.4** | 76.3 | 68.5 | **n/a** | n/a |
| After abnormal items | | **68.6** | 76.3 | 69.9 | **n/a** | n/a |
| **Diluted** | | | | | | |
| Before abnormal items | | **78.2** | 76.1 | 68.4 | **n/a** | n/a |
| After abnormal items | | **68.4** | 76.1 | 69.7 | **n/a** | n/a |

*The notes appearing on pages 45 to 102 form an integral part of these financial statements*
*n/a Not applicable*

# Australia and New Zealand Banking Group Limited and Controlled Entities

Balance Sheets as at 30 September 1997

| | Note | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid assets | 9 | **6,298** | 6,901 | **3,940** | 4,784 |
| Due from other financial institutions | 10 | **11,588** | 11,352 | **7,594** | 8,258 |
| Trading securities | 11 | **7,266** | 7,334 | **5,148** | 6,157 |
| Investment securities | 12 | **3,139** | 2,570 | **1,416** | 910 |
| Net loans and advances | 13 | **84,148** | 75,901 | **53,345** | 48,086 |
| Customers' liabilities for acceptances | 16 | **14,040** | 14,013 | **13,585** | 13,307 |
| Due from controlled entities | | **-** | – | **7,952** | 6,251 |
| Regulatory deposits | 17 | **1,206** | 1,163 | **638** | 612 |
| Shares in controlled entities and associates | 18 | **7** | 10 | **5,117** | 4,769 |
| Other assets | 19 | **8,490** | 6,340 | **6,437** | 4,196 |
| Premises and equipment | 20 | **2,059** | 2,020 | **459** | 480 |
| **Total assets** | | **138,241** | 127,604 | **105,631** | 97,810 |
| **Liabilities** | | | | | |
| Due to other financial institutions | 21 | **10,874** | 12,682 | **9,330** | 11,363 |
| Deposits and other borrowings | 22 | **89,152** | 79,709 | **56,848** | 50,443 |
| Liability for acceptances | | **14,040** | 14,013 | **13,585** | 13,307 |
| Due to controlled entities | | **-** | – | **4,921** | 4,310 |
| Income tax liability | 23 | **778** | 575 | **314** | 301 |
| Creditors and other liabilities | 24 | **9,807** | 7,471 | **7,532** | 5,551 |
| Provisions | 25 | **1,218** | 954 | **1,011** | 785 |
| Bonds and notes | 26 | **1,990** | 2,264 | **1,990** | 2,264 |
| Loan capital | 27 | **3,389** | 3,600 | **3,159** | 3,196 |
| **Total liabilities** | | **131,248** | 121,268 | **98,690** | 91,520 |
| **Net assets** | | **6,993** | 6,336 | **6,941** | 6,290 |
| **Shareholders' equity** | | | | | |
| Issued and paid-up capital | | **1,509** | 1,478 | **1,509** | 1,478 |
| Reserves | | **3,604** | 3,229 | **4,699** | 4,031 |
| Retained profits | | **1,830** | 1,583 | **733** | 781 |
| Share capital and reserves attributable to members of the Company | | **6,943** | 6,290 | **6,941** | 6,290 |
| Outside equity interests | 28 | **50** | 46 | **-** | – |
| **Total shareholders' equity and outside equity interests** | | **6,993** | 6,336 | **6,941** | 6,290 |
| Commitments | 36 | | | | |
| Derivative financial instruments | 37 | | | | |
| Contingent liabilities and credit related commitments | 38 | | | | |

*The notes appearing on pages 45 to 102 form an integral part of these financial statements*

## Statements of Changes in Shareholders' Equity for the year ended 30 September 1997

| | Consolidated | | | The Company | |
|---|---|---|---|---|---|
| | **1997 $M** | 1996 $M | 1995 $M | **1997 $M** | 1996 $M |
| **Authorised capital** | | | | | |
| 2,100,000,000 shares of $1 each | **2,100** | 2,100 | 2,100 | **2,100** | 2,100 |
| 1,000,000,000 preference shares of $0.01 each | **10** | 10 | 10 | **10** | 10 |
| Total authorised capital | **2,110** | 2,110 | 2,110 | **2,110** | 2,110 |
| **Issued and paid-up capital** | | | | | |
| Balance at start of year | **1,478** | 1,446 | 1,360 | **1,478** | 1,446 |
| Conversion of preference shares | **-** | – | (6) | **-** | – |
| Ordinary shares | | | | | |
| Shares issued on conversion of preference shares | **-** | – | 129 | **-** | – |
| Share buy-back | **-** | – | (100) | **-** | – |
| Dividend reinvestment plan[1] | **22** | 23 | 47 | **22** | 23 |
| Employee share purchase scheme[2] | **4** | 3 | 2 | **4** | 3 |
| Bonus share option plan[3] | **3** | 6 | 11 | **3** | 6 |
| Group share option scheme[4] | **2** | – | – | **2** | – |
| Senior officers' share purchase scheme[5] | **#** | # | 3 | **#** | # |
| Directors' share and option purchase scheme[6] | **#** | # | # | **#** | # |
| **Total issued and paid-up capital** | **1,509** | 1,478 | 1,446 | **1,509** | 1,478 |
| **Share premium reserve** | | | | | |
| Balance at start of year | **2,637** | 2,516 | 2,905 | **2,637** | 2,516 |
| Premium on issue of shares | **189** | 121 | 621 | **189** | 121 |
| Conversion of preference shares | **-** | – | (594) | **-** | – |
| Share buy-back | **-** | – | (416) | **-** | – |
| Total share premium reserve | **2,826** | 2,637 | 2,516 | **2,826** | 2,637 |
| **Asset revaluation reserve** | | | | | |
| Balance at start of year | **-** | – | – | **1,152** | 1,143 |
| Revaluation of investments in controlled entities | **-** | – | – | **441** | 24 |
| Transfer to retained profits | **-** | – | – | **-** | (15) |
| Total asset revaluation reserve | **-** | – | – | **1,593** | 1,152 |
| **Foreign currency translation reserve** | | | | | |
| Balance at start of year | **(183)** | (88) | (87) | **187** | 223 |
| Currency translation adjustments, net of hedges after tax | **104** | (95) | (1) | **38** | (36) |
| Total foreign currency translation reserve | **(79)** | (183) | (88) | **225** | 187 |
| **General reserve** | | | | | |
| Balance at start of year | **626** | 571 | 544 | **55** | 55 |
| Transfers from retained profits | **82** | 55 | 27 | **-** | – |
| Total general reserve | **708** | 626 | 571 | **55** | 55 |
| **Capital reserve** | **149** | 149 | 149 | **-** | – |
| **Total reserves** | **3,604** | 3,229 | 3,148 | **4,699** | 4,031 |

## Statements of Changes in Shareholders' Equity for the year ended 30 September 1997

| | | Consolidated | | | The Company | |
|---|---|---|---|---|---|---|
| | Note | **1997 $M** | 1996 $M | 1995 $M | **1997 $M** | 1996 $M |
| **Retained profits** | | | | | | |
| Balance at start of year | | **1,583** | 1,106 | 585 | **781** | 317 |
| Operating profit after income tax attributable to members of the Company | | **1,024** | 1,116 | 1,052 | **647** | 1,023 |
| Total available for appropriation | | **2,607** | 2,222 | 1,637 | **1,428** | 1,340 |
| Transfers (to) from reserves | | **(82)** | (55) | (27) | **-** | 15 |
| Dividends provided for or paid | 7 | | | | | |
| Ordinary shares | | **(695)** | (584) | (424) | **(695)** | (574) |
| Preference shares | | **-** | – | (80) | **-** | – |
| **Retained profits at end of year** | | **1,830** | 1,583 | 1,106 | **733** | 781 |
| **Total shareholders' equity attributable to members of the Company** | | **6,943** | 6,290 | 5,700 | **6,941** | 6,290 |

| | The Company | | |
|---|---|---|---|
| **Number of issued shares** | **1997** | 1996 | 1995 |
| Ordinary shares of $1 each fully paid | **1,508,550,854** | 1,478,089,641 | 1,446,047,877 |
| Ordinary shares of $1 each paid to 10 cents per share | **274,500** | 687,500 | 929,500 |
| **Total number of issued shares** | **1,508,825,354** | 1,478,777,141 | 1,446,977,377 |

*The notes appearing on pages 45 to 102 form an integral part of the financial statements*

*# Amounts less than $500,000*

*[1] Dividend reinvestment plan issues were*
*10,661,444 ordinary shares at $7.60 per share*
*10,132,948 ordinary shares at $9.77 per share*

*[2] Employee Share Purchase Scheme issues were*
*4,135,275 ordinary shares at $6.43 per share*

*[3] Bonus option plan issues were*
*1,617,564 ordinary shares at $7.60 per share*
*1,401,371 ordinary shares at $9.77 per share*

*[4] Group share option scheme issues were*
*2,040,000 ordinary shares at $5.34 per share*
*9,611 ordinary shares at $8.76 per share*

*[5] Senior officers' share purchase scheme*
*issue proceeds from conversion of partly paid to fully paid*
*3,000 ordinary shares at $3.42 per share*
*30,000 ordinary shares at $3.75 per share*
*3,000 ordinary shares at $4.55 per share*
*12,000 ordinary shares at $4.60 per share*
*3,000 ordinary shares at $4.68 per share*
*15,000 ordinary shares at $5.20 per share*
*10,000 ordinary shares at $5.26 per share*
*10,000 ordinary shares at $5.36 per share*
*10,000 ordinary shares at $5.42 per share*
*5,000 ordinary shares at $5.46 per share*
*10,000 ordinary shares at $5.56 per share*
*2,000 ordinary shares at $5.60 per share*
*10,000 ordinary shares at $5.62 per share*

*[6] Directors' share and option purchase scheme*
*issue of shares*
*50,000 ordinary shares at $3.44 per share (on exercise of options)*
*issue proceeds from conversion of partly paid to fully paid*
*140,000 ordinary shares at $3.75 per share*
*100,000 ordinary shares at $4.76 per share*
*50,000 ordinary shares at $5.46 per share*

*Total uncalled capital at 30 September 1997 was $1.3 million, comprising capital of $0.3 million and share premium of $1 million*

| | Note | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|---|
| | | Inflows/(Outflows) | | | Inflows/(Outflows) | |
| **Cash flows from operating activities** | | | | | | |
| Interest received | | **9,364** | 9,458 | 7,945 | **5,922** | 6,061 |
| Dividends received | | **327** | 111 | 4 | **581** | 516 |
| Fees and other income received | | **1,970** | 1,946 | 1,918 | **1,387** | 1,490 |
| Interest paid | | **(5,995)** | (6,136) | (4,864) | **(3,867)** | (4,101) |
| Personnel expenses paid | | **(2,155)** | (1,850) | (1,618) | **(1,347)** | (1,309) |
| Premises expenses paid | | **(315)** | (351) | (362) | **(296)** | (333) |
| Other operating expenses paid | | **(1,041)** | (1,134) | (1,118) | **(975)** | (755) |
| Income taxes paid | | **(426)** | (353) | (153) | **(198)** | (79) |
| Net decrease (increase) in trading securities | | **304** | (1,595) | (1,222) | **1,212** | (1,339) |
| **Net cash provided by operating activities** | 33(a) | **2,033** | 96 | 530 | **2,419** | 151 |
| **Cash flows from investing activities** | | | | | | |
| Net decrease (increase) | | | | | | |
| Due from other financial institutions | | **1,840** | (171) | (1,801) | **1,869** | (562) |
| Regulatory deposits | | **(14)** | (28) | (291) | **(26)** | (61) |
| Loans and advances | | **(7,447)** | (8,269) | (7,487) | **(4,570)** | (6,769) |
| Shares in controlled entities and associates | | **-** | - | (6) | **92** | 480 |
| Investment securities | | | | | | |
| Purchases | | **(3,140)** | (2,166) | (6,949) | **(1,060)** | (718) |
| Proceeds from sale or maturity | | **2,803** | 2,381 | 8,573 | **647** | 609 |
| Controlled entities and branches | 33(c) | | | | | |
| Purchased (net of cash acquired) | | **(11)** | 13 | (81) | **-** | (198) |
| Proceeds from sale (net of cash disposed) | | **41** | 14 | 14 | **-** | - |
| Premises and equipment | | | | | | |
| Purchases | | **(457)** | (412) | (361) | **(110)** | (202) |
| Proceeds from sale | | **110** | 104 | 69 | **10** | 5 |
| Other | | **982** | (954) | (44) | **392** | (1,832) |
| **Net cash used in investing activities** | | **(5,293)** | (9,488) | (8,364) | **(2,756)** | (9,248) |
| **Cash flows from financing activities** | | | | | | |
| Net (decrease) increase | | | | | | |
| Due to other financial institutions | | **(2,787)** | 2,094 | 520 | **(3,142)** | 2,395 |
| Deposits and other borrowings | | **7,861** | 10,109 | 6,080 | **5,330** | 7,959 |
| Due from/to controlled entities | | **-** | - | - | **(1,090)** | 929 |
| Creditors and other liabilities | | **425** | 879 | (186) | **296** | 653 |
| Bonds and notes | | | | | | |
| Issue proceeds | | **973** | 1,427 | 655 | **973** | 1,427 |
| Redemptions | | **(1,434)** | (655) | (578) | **(1,434)** | (655) |
| Loan capital | | | | | | |
| Issue proceeds | | **323** | 634 | 165 | **323** | 634 |
| Redemptions | | **(851)** | (110) | - | **(642)** | - |
| Decrease in outside equity interests | | **(3)** | (8) | (8) | **-** | - |
| Dividends paid | | **(478)** | (354) | (241) | **(478)** | (343) |
| Share capital issues | | **39** | 18 | 19 | **39** | 18 |
| Share buy-back | | **-** | - | (516) | **-** | - |
| **Net cash provided by financing activities** | | **4,068** | 14,034 | 5,910 | **175** | 13,017 |
| Net cash provided by operating activities | | **2,033** | 96 | 530 | **2,419** | 151 |
| Net cash used in investing activities | | **(5,293)** | (9,488) | (8,364) | **(2,756)** | (9,248) |
| Net cash provided by financing activities | | **4,068** | 14,034 | 5,910 | **175** | 13,017 |
| Net increase (decrease) in cash and cash equivalents | | **808** | 4,642 | (1,924) | **(162)** | 3,920 |
| Cash and cash equivalents at beginning of year | | **11,246** | 7,079 | 9,092 | **6,804** | 3,238 |
| Foreign currency translation on opening balances | | **402** | (475) | (89) | **351** | (354) |
| **Cash and cash equivalents at end of year** | 33(b) | **12,456** | 11,246 | 7,079 | **6,993** | 6,804 |

*The notes appearing on pages 45 to 102 form an integral part of these financial statements*

## 1: Accounting Policies

### (i) Bases of preparation

This general purpose financial report complies with the accounts provisions of the Banking Act, applicable Australian Accounting Standards, the accounts provisions of the Corporations Law and Urgent Issues Group Consensus Views. The accounting policies are consistent with those of the previous year except for the change disclosed in note (ii).

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

The financial report has been prepared in accordance with the historical cost convention as modified by the revaluation of certain properties, trading instruments and shares in controlled entities. The latter are revalued annually based on the net tangible assets of the entity.

The Company is a company of the kind referred to in the Australian Securities Commission class order 97/1005, dated 9 July 1997. Consequently, amounts in the financial report have been rounded to the nearest million dollars except where otherwise indicated.

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

### (ii) Change in accounting policy

Effective 1 October 1996, the Group adopted the equity method of accounting for associates. Shares in associates are stated in the consolidated balance sheet at cost plus the Group's share of post acquisition net assets. The Group's share of results of associates is included in the profit and loss account.

ASC Class Order 97/798 dated 5 June 1997 permitted the adoption of equity accounting.

As a result of the change in accounting policy, the carrying value of associates has increased by $2 million, and $2 million of profit after tax has been recognised.

### (iii) Consolidation

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

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

### (iv) Goodwill

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

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

### (v) Foreign currency

Revenues and expenses of overseas branches and controlled entities are translated at average exchange rates for the year, while assets and liabilities are translated at the mid-point rates of exchange ruling at balance date.

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

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

### (vi) Net loans and advances

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

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

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

Investments in leveraged leases are recorded at an amount equal to the investment participation, and income is taken to account on an actuarial basis over the term of each lease.

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

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

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

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

### (vii) Bad and doubtful debts

Specific provisions are maintained to cover identified doubtful debts.

General provisions are maintained for losses which, although not specifically identified, are known from experience to be inherent in any asset portfolio. The level of the general provision is determined having regard to economic conditions, the level of on and off-balance sheet assets and other general risk factors.

All known bad debts are written off in the year in which they are identified.

Provisions for doubtful debts are deducted from loans and advances in the balance sheet.

### (viii) Acceptances

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

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

### (ix) Trading securities

Securities held for trading purposes are recorded at market value. Unrealised gains and losses on revaluation are taken to the profit and loss account.

### (x) Investment securities

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

Premiums and discounts are capitalised and amortised from the date of purchase to maturity. Interest and dividend income is accrued.

Changes in market values of securities are not taken into account unless there is considered to be a permanent diminution in value.

### (xi) Repurchase agreements

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

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

### (xii) Derivative financial instruments

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

Trading derivatives comprising derivatives entered into for customer-related or proprietary reasons or for hedging the trading portfolio, are measured at fair value and all gains and losses are taken to the profit and loss account.

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

Derivatives designated, and effective, as hedges of underlying non-trading exposures are accounted for on the same basis as the underlying exposures.

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

Gains and losses on derivatives related to hedging exposures arising from anticipated transactions are deferred and recognised in the financial statements when the anticipated transaction occurs. These gains and losses are deferred only to the extent that there is an offsetting unrecognised (unrealised) gain or loss on the exposures being hedged. Deferred gains and losses are amortised over the expected term of the hedged exposure.

### (xiii) Premises and equipment

Premises and equipment (including computer equipment) are carried at cost less depreciation or amortisation, or at valuation. Any surplus on revaluation of a class of assets is credited directly to the asset revaluation reserve. Where a deficit arises, this is debited to the asset revaluation reserve to the extent of any previous revaluation surplus for that class, and the excess debited to the profit and loss account. Potential capital gains tax arising from revaluations is not taken into account as the Group has no current intention to dispose of the subject properties.

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

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight line method. Leasehold improvements are amortised on a straight line basis over the remaining period of each lease.

The carrying values of all non-current assets have been assessed and are not in excess of their recoverable amounts. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

### (xiv) Income tax

The Group adopts the liability method of tax effect accounting whereby income tax expense is calculated based on accounting profit adjusted for permanent differences. Permanent differences are items of revenue and expense which are recognised in the profit and loss account but are not part of taxable income. General provisions for doubtful debts are treated as permanent differences as the provisions do not relate to specific accounts for which a tax deduction would be available in the event of a loss.

Future tax benefits and deferred tax liabilities relating to timing differences and tax losses are carried forward at tax rates applicable to future periods. Future tax benefits relating to tax losses are only carried forward where realisation of the benefit is considered virtually certain.

Provision for Australian income tax is made where the earnings of overseas controlled entities are subjected to Australian tax under the attribution rules for the taxation of foreign sourced income. Otherwise, no provision is made for overseas withholding tax or Australian income tax which may arise on repatriation of earnings from overseas controlled entities, where it is expected these earnings will be retained by those entities to finance their ongoing business.

### (xv) Life insurance business

The Group conducts life insurance business through ANZ Life Assurance Company Limited (ANZ Life). The Group's financial statements include its interest in the actuarially assessed surplus of ANZ Life's statutory funds for the year, after allowing for increases in policyholder reserves determined under the margin on services methodology. The net result for the year of $82 million (1996: $55 million) has been included in the profit and loss account and then transferred to the general reserve, until available for distribution under the requirements and restrictions of the Life Insurance Act 1995 and statutory accounting practices.

The Group's interest in the accumulated retained earnings of the life insurance statutory funds of $436 million (1996: $354 million), together with the net assets of the shareholders' funds of ANZ Life, are included within the balance sheet of the Group.

Due to the provisions of the Life Insurance Act 1995, the assets of the life insurance statutory funds attributable to policyholders of ANZ Life do not form part of the assets to which the Group is entitled and are therefore not consolidated.

### (xvi) Employee entitlements

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

### (xvii) Superannuation commitments

Contributions, which are determined on an actuarial basis, to superannuation schemes are charged to personnel expenses in the profit and loss account.

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

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

### (xviii) Leasing

Leases entered into by the Group as lessee are predominantly operating leases, and the operating lease payments are included in the profit and loss account in equal instalments over the lease term.

Assets relating to operating leases entered into by the Group as lessor are included within Premises and equipment with rental income and depreciation separately classified in income and expense.

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| **2: Income** | | | | | |
| Interest income | | | | | |
| From other financial institutions | **753** | 766 | 661 | **535** | 525 |
| On regulatory deposits | **13** | 25 | 43 | **6** | 14 |
| On trading and investment securities | **835** | 754 | 698 | **501** | 480 |
| On loans and advances | **7,284** | 7,320 | 6,502 | **4,286** | 4,381 |
| Dividends from redeemable preference share finance | **8** | 9 | 2 | **-** | - |
| Other | **538** | 412 | 404 | **374** | 216 |
| | **9,431** | 9,286 | 8,310 | **5,702** | 5,616 |
| From controlled entities | **-** | - | - | **343** | 358 |
| **Total interest income** | **9,431** | 9,286 | 8,310 | **6,045** | 5,974 |
| Other operating income | | | | | |
| (i) Fee income | | | | | |
| Lending | **570** | 550 | 537 | **458** | 440 |
| Other including commissions | **964** | 854 | 801 | **644** | 571 |
| | **1,534** | 1,404 | 1,338 | **1,102** | 1,011 |
| From controlled entities | **-** | - | - | **284** | 269 |
| Total fee income | **1,534** | 1,404 | 1,338 | **1,386** | 1,280 |
| (ii) Other income | | | | | |
| Foreign exchange earnings | **245** | 231 | 226 | **153** | 140 |
| Profit on trading instruments | **192** | 113 | 96 | **142** | 80 |
| Rental income | **35** | 36 | 33 | **27** | 28 |
| Operating lease income | **146** | 116 | 89 | **-** | - |
| Life insurance fund surplus | **94** | 55 | 52 | **-** | - |
| Development ventures | | | | | |
| Income | **10** | 6 | 13 | **-** | - |
| Diminution in value | **-** | 7 | 14 | **-** | 6 |
| Profit on sale of premises and equipment | **5** | 10 | 4 | **-** | 3 |
| Other[1] | **154** | 118 | 110 | **263** | 457 |
| Total other income | **881** | 692 | 637 | **585** | 714 |
| **Total other operating income** | **2,415** | 2,096 | 1,975 | **1,971** | 1,994 |
| Abnormal items (refer note 5) | **145** | - | - | **-** | - |
| Total income | **11,991** | 11,382 | 10,285 | **8,016** | 7,968 |

[1] *Includes dividend income of $327 million (1996: $111 million) for the Group and $581 million (1996: $516 million) for the Company. The Company's dividends include dividends received from controlled entities of $276 million (1996: $405 million)*

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| **3: Expenses** | | | | | |
| Interest expense | | | | | |
| To other financial institutions | **804** | 862 | 809 | **648** | 694 |
| On deposits | **3,838** | 3,826 | 3,271 | **2,464** | 2,498 |
| On borrowing corporations' debt | **512** | 520 | 490 | **-** | - |
| On commercial paper | **275** | 247 | 179 | **102** | 109 |
| On bonds and notes | **25** | 134 | 114 | **25** | 134 |
| On loan capital | **364** | 245 | 254 | **322** | 210 |
| Other | **200** | 135 | 112 | **170** | 107 |
| | **6,018** | 5,969 | 5,229 | **3,731** | 3,752 |
| To controlled entities | **-** | - | - | **250** | 285 |
| **Total interest expense** | **6,018** | 5,969 | 5,229 | **3,981** | 4,037 |

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| **3: Expenses (continued)** | | | | | |
| Provisions for doubtful debts (refer note 15) | | | | | |
| New and increased provisions | **280** | 292 | 293 | **161** | 201 |
| Provision releases | **(145)** | (129) | (178) | **(89)** | (87) |
| | **135** | 163 | 115 | **72** | 114 |
| Recoveries of amounts previously written off | **(49)** | (46) | (52) | **(31)** | (26) |
| **Specific provision** | **86** | 117 | 63 | **41** | 88 |
| **General provision** | **201** | 37 | 111 | **180** | 22 |
| **Total provisions for doubtful debts** | **287** | 154 | 174 | **221** | 110 |
| Operating expenses | | | | | |
| (i) Personnel | | | | | |
| Salaries and wages | **1,453** | 1,387 | 1,270 | **1,084** | 1,031 |
| Pension fund | **114** | 105 | 93 | **86** | 10 |
| Employee taxes | | | | | |
| Payroll | **76** | 73 | 64 | **73** | 70 |
| Fringe benefits tax | **46** | 53 | 48 | **40** | 48 |
| Provision for employee entitlements | **19** | 29 | 19 | **14** | 27 |
| Other | **241** | 158 | 116 | **184** | 122 |
| Total personnel expenses | **1,949** | 1,805 | 1,610 | **1,481** | 1,308 |
| (ii) Premises | | | | | |
| Rent | **189** | 204 | 207 | **145** | 144 |
| Depreciation of buildings and integrals | **31** | 31 | 31 | **6** | 4 |
| Amortisation of leasehold improvements | **16** | 13 | 16 | **8** | 7 |
| Other | **126** | 137 | 147 | **91** | 92 |
| | **362** | 385 | 401 | **250** | 247 |
| To controlled entities | **-** | – | – | **60** | 87 |
| Total premises expenses | **362** | 385 | 401 | **310** | 334 |
| (iii) Other | | | | | |
| Computer costs | | | | | |
| Depreciation | **98** | 97 | 86 | **63** | 64 |
| Other | **232** | 231 | 224 | **152** | 150 |
| Non-lending losses, frauds and forgeries | **2** | 55 | 79 | **1** | 44 |
| Remuneration of auditors (refer note 4) | **27** | 8 | 8 | **23** | 3 |
| Depreciation of furniture and equipment | **49** | 49 | 49 | **31** | 31 |
| Depreciation of motor vehicles | **3** | 3 | 5 | **2** | 2 |
| Loss on disposal of premises and equipment | **7** | 24 | 5 | **2** | 15 |
| Other | **627** | 635 | 588 | **488** | 430 |
| Total other expenses | **1,045** | 1,102 | 1,044 | **762** | 739 |
| Total core operating expenses | **3,356** | 3,292 | 3,055 | **2,553** | 2,381 |
| (iv) Direct income-related expenditure | | | | | |
| Brokerage and commissions | **49** | 61 | 67 | **25** | 22 |
| Interchange and card costs | **197** | 172 | 150 | **158** | 141 |
| Operating lease depreciation | **91** | 62 | 49 | **-** | – |
| Total direct income-related expenditure | **337** | 295 | 266 | **183** | 163 |
| (v) Restructuring[1] | **90** | 57 | 13 | **69** | 30 |
| **Total operating expenses** | **3,783** | 3,644 | 3,334 | **2,805** | 2,574 |
| Total expenses | **10,088** | 9,767 | 8,737 | **7,007** | 6,721 |

[1] *In addition, restructuring costs of $327 million have been treated as abnormal for the Group (Company: $214 million) in the 1997 financial year. Refer note 5*

| | Consolidated 1997 $'000 | 1996 $'000 | 1995 $'000 | The Company 1997 $'000 | 1996 $'000 |
|---|---|---|---|---|---|
| **4: Remuneration of Auditors** | | | | | |
| Amounts received and due and receivable | | | | | |
| Auditing the accounts | | | | | |
| By KPMG | **3,771** | 3,652 | 3,833 | **1,637** | 1,553 |
| By other Group auditors | **11** | 8 | 84 | **-** | – |
| | **3,782** | 3,660 | 3,917 | **1,637** | 1,553 |
| Other services | | | | | |
| By KPMG | | | | | |
| Audit related services[1] | **2,008** | 2,143 | 2,123 | **847** | 997 |
| Taxation | **90** | 1,037 | 1,201 | **48** | 402 |
| Accounting | **120** | 74 | 200 | **65** | 18 |
| Consulting[2] | **20,657** | 658 | 785 | **20,565** | 57 |
| By other Group auditors | **59** | 42 | 101 | **25** | 5 |
| | **22,934** | 3,954 | 4,410 | **21,550** | 1,479 |
| **Total remuneration of auditors** | **26,716** | 7,614 | 8,327 | **23,187** | 3,032 |

[1] *Audit related services are services other than those relating to the audit or review of the statutory financial statements of the Group. These services include prudential supervision reviews for central banks, prospectus reviews, trust audits and other audits required for local statutory purposes*

[2] *Includes fees of $20,326,000 in 1997 paid to KPMG Barents (a wholly owned entity of the USA practice of KPMG) for consultancy work in connection with the ANZ Global Project*

By virtue of an Australian Securities Commission class order dated 29 June 1992, the auditors of Australia and New Zealand Banking Group Limited and its related bodies corporate, KPMG, have been exempted from compliance with the requirements of Section 324(2) of the Corporations Law. The class order exemption applies in that partners and associates of KPMG not engaged on the audit of Australia and New Zealand Banking Group Limited and its related bodies corporate may be indebted to the Company, provided that such indebtedness arose upon ordinary commercial terms and conditions.

| | Consolidated 1997 $M | 1996 $M | 1995 $M | The Company 1997 $M | 1996 $M |
|---|---|---|---|---|---|
| **5: Abnormal Items** | | | | | |
| Profit before tax | | | | | |
| Interest on National Housing Bank deposit | **145** | – | – | **-** | – |
| | **145** | – | – | **-** | – |
| Loss before tax | | | | | |
| Restructuring costs | **327** | – | – | **214** | – |
| **Total abnormal loss before tax** | **(182)** | – | – | **(214)** | – |
| Income tax (expense) benefit applicable to | | | | | |
| Interest on National Housing Bank deposit | **(80)** | – | – | – | – |
| Restructuring costs | **115** | – | – | **77** | – |
| Restatement of net deferred tax balances to reflect the increase in the Australian corporate tax rate | **-** | – | 19 | **-** | – |
| **Total abnormal tax benefit** | **35** | – | 19 | **77** | – |
| Total abnormal (loss) profit after tax | **(147)** | – | 19 | **(137)** | – |

| | Consolidated 1997 $M | 1996 $M | 1995 $M | The Company 1997 $M | 1996 $M |
|---|---|---|---|---|---|
| **6: Income Tax Expense** | | | | | |
| Reconciliation of the prima facie income tax payable on operating profit and abnormal items with the income tax expense charged in the profit and loss account | | | | | |
| Operating profit before income tax and before abnormal items | **1,758** | 1,615 | 1,548 | **1,009** | 1,247 |
| Prima facie income tax at 36% (1996: 36%, 1995: 33%) | **632** | 581 | 511 | **363** | 449 |
| Tax effect of permanent differences | | | | | |
| Overseas tax rate differential | **14** | 1 | 18 | **7** | 6 |
| Other non-assessable income | **(25)** | (27) | (34) | **(6)** | (24) |
| Rebateable and non-assessable dividends | **(117)** | (41) | (4) | **(205)** | (184) |
| Non-allowable depreciation and amortisation | **3** | 4 | 3 | **3** | 3 |
| General provision for doubtful debts | **72** | 13 | 37 | **64** | 8 |
| Other | **10** | (19) | (10) | **10** | (15) |
| | **589** | 512 | 521 | **236** | 243 |
| Income tax over provided in prior years | **(10)** | (22) | (16) | **(11)** | (19) |
| Total income tax expense on operating profit before abnormal items | **579** | 490 | 505 | **225** | 224 |
| Abnormal loss before tax | **(182)** | – | – | **(214)** | – |
| Prima facie income tax at 36% (1996: 36%, 1995: 33%) | **(65)** | – | – | **(77)** | – |
| Tax effect of permanent differences | | | | | |
| Overseas tax rate differential | **30** | – | – | **-** | – |
| Restatement of net deferred tax balances (refer note 5) | **-** | – | (19) | **-** | – |
| Total income tax benefit on abnormal items | **(35)** | – | (19) | **(77)** | – |
| **Total income tax expense** | **544** | 490 | 486 | **148** | 224 |

| | Consolidated 1997 $M | 1996 $M | 1995 $M | The Company 1997 $M | 1996 $M |
|---|---|---|---|---|---|
| **7: Dividends** | | | | | |
| Ordinary dividends | | | | | |
| Interim dividend | **329** | 264 | 208 | **329** | 254 |
| Proposed final dividend | **392** | 355 | 260 | **392** | 355 |
| Bonus option plan adjustment (see over) | **(26)** | (35) | (44) | **(26)** | (35) |
| **Dividends on ordinary shares** | **695** | 584 | 424 | **695** | 574 |
| Preference dividends (13.25% per annum, unfranked) | | | | | |
| Dividend paid in January | **-** | – | 40 | **-** | – |
| Dividend paid in July | **-** | – | 40 | **-** | – |
| **Dividends on preference shares** | **-** | – | 80 | **-** | – |
| Total dividends | **695** | 584 | 504 | **695** | 574 |

A final dividend of 26 cents fully franked is proposed to be paid on each fully paid ordinary share (1996: final dividend of 24 cents per fully paid share, fully franked; 1995: final dividend of 18 cents per fully paid share, franked to 6 cents at 36%). Non-resident shareholders will be exempt from dividend withholding tax on the full dividend.

The 1997 interim dividend of 22 cents was fully franked (1996: interim dividend of 18 cents was franked to 9 cents; 1995: unfranked interim dividend of 15 cents per fully paid ordinary share).

## 7: Dividends (continued)

### Dividend Franking Account

The amount of franking credits available for the subsequent financial year is nil, after adjusting for franking credits that will arise from the payment of tax on Australian profits for the 1997 financial year, less franking credits which will be utilised in franking the proposed final dividend and franking credits that may be prevented from being distributed in the subsequent year.

### Restrictions which Limit the Payment of Dividends

There are presently no significant restrictions on the payment of dividends from controlled entities to the Company. Various capital adequacy, liquidity, statutory reserve and other prudential requirements must be observed by certain controlled entities and the impact on these requirements caused by the payment of cash dividends is monitored. In practice however, there are significant tax considerations associated with the receipt of dividends from controlled entities by a company. Payment of dividends from domestic controlled entities constitutes assessable income to a recipient Australian company. The recipient company is generally entitled to a rebate of tax otherwise payable on the assessable dividend. Should the recipient company's total assessable income be less than the dividend income, or it be in a tax loss position, the rebate will reduce or be eliminated. The Group therefore acts to preserve the availability of rebates by avoiding the payment of dividends by domestic controlled entities in this situation.

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

There are presently no restrictions on payment of dividends by the Company other than

(i) the share premium reserve is not available for distribution other than in the form of bonus issues (share dividends); and

(ii) reductions of shareholders' equity through payment of cash dividends is monitored having regard to the regulatory requirements to maintain a specified capital adequacy ratio. In particular, the Reserve Bank of Australia has advised Australian banks that a bank under its supervision must consult with it before declaring a dividend if the bank has incurred a loss, or proposes to pay dividends which exceed the level of profits earned.

### Bonus option plan

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

| | Declared dividend $M | Bonus options exercised $M | Amount paid $M |
|---|---|---|---|
| Final dividend 1996 | 355 | 12 | 343 |
| Interim dividend 1997 | 329 | 14 | 315 |
| | 684 | 26 | 658 |

| | Consolidated 1997 $M | 1996 $M | 1995 $M |
|---|---|---|---|
| **8: Earnings per Share** | | | |
| **Before abnormal items** | | | |
| **Basic** | | | |
| Operating profit after income tax attributable to shareholders of the Company | **1,024** | 1,116 | 1,052 |
| Abnormal items after tax | **147** | – | (19) |
| Operating profit after income tax before abnormal items | **1,171** | 1,116 | 1,033 |
| Preference share dividend | **-** | – | (80) |
| Total adjusted earnings | **1,171** | 1,116 | 953 |
| Weighted average number of ordinary shares (millions) | **1,492.9** | 1,462.3 | 1,390.3 |
| **Basic earnings per share (cents)** | **78.4** | 76.3 | 68.5 |
| **Diluted** | | | |
| Operating profit after income tax before abnormal items | **1,171** | 1,116 | 1,033 |
| Preference share dividend | **-** | – | (80) |
| Add: notional interest earned on capital raised from exercise of options | **2** | 2 | 1 |
| Total adjusted earnings | **1,173** | 1,118 | 954 |
| Weighted average number of ordinary shares (millions) | **1,492.9** | 1,462.3 | 1,390.3 |
| Add: potential dilution of options to ordinary shares | **7.2** | 7.6 | 5.0 |
| Total adjusted number of shares | **1,500.1** | 1,469.9 | 1,395.3 |
| **Diluted earnings per share (cents)** | **78.2** | 76.1 | 68.4 |
| **After abnormal items** | | | |
| **Basic** | | | |
| Operating profit after income tax attributable to shareholders of the Company | **1,024** | 1,116 | 1,052 |
| Preference share dividend | **-** | – | (80) |
| Total adjusted earnings | **1,024** | 1,116 | 972 |
| Weighted average number of ordinary shares (millions) | **1,492.9** | 1,462.3 | 1,390.3 |
| **Basic earnings per share (cents)** | **68.6** | 76.3 | 69.9 |
| **Diluted** | | | |
| Operating profit after income tax attributable to shareholders of the Company | **1,024** | 1,116 | 1,052 |
| Preference share dividend | **-** | – | (80) |
| Add: notional interest earned on capital raised from exercise of options | **2** | 2 | 1 |
| Total adjusted earnings | **1,026** | 1,118 | 973 |
| Weighted average number of ordinary shares (millions) | **1,492.9** | 1,462.3 | 1,390.3 |
| Add: potential dilution of options to ordinary shares | **7.2** | 7.6 | 5.0 |
| Total adjusted number of shares | **1,500.1** | 1,469.9 | 1,395.3 |
| **Diluted earnings per share (cents)** | **68.4** | 76.1 | 69.7 |

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **9: Liquid Assets** | | | | |
| **Australia** | | | | |
| Coins, notes and cash at bankers | **508** | 1,351 | **410** | 1,334 |
| Money at call | **189** | 25 | **133** | – |
| Other banks' certificates of deposit | **8** | 7 | **-** | – |
| Securities purchased under agreement to resell less than 90 days | **142** | 130 | **142** | 130 |
| Bills receivable and remittances in transit | **41** | 3 | **41** | 2 |
| | **888** | 1,516 | **726** | 1,466 |
| **Overseas** | | | | |
| Coins, notes and cash at bankers | **342** | 216 | **50** | 23 |
| Money at call | **622** | 687 | **85** | 145 |
| Other banks' certificates of deposit | **2,785** | 3,321 | **1,992** | 2,695 |
| Securities purchased under agreement to resell less than 90 days | **823** | 900 | **749** | 445 |
| Bills receivable and remittances in transit | **838** | 261 | **338** | 10 |
| | **5,410** | 5,385 | **3,214** | 3,318 |
| **Total liquid assets** | **6,298** | 6,901 | **3,940** | 4,784 |
| Maturity analysis based on original term to maturity at 30 September | | | | |
| Less than 90 days | **3,857** | 4,285 | **1,829** | 2,456 |
| More than 90 days | **2,441** | 2,616 | **2,111** | 2,328 |
| Total liquid assets | **6,298** | 6,901 | **3,940** | 4,784 |

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **10: Due from Other Financial Institutions** | | | | |
| Australia | **1,480** | 1,607 | **1,480** | 1,507 |
| Overseas | **10,108** | 9,745 | **6,114** | 6,751 |
| **Total due from other financial institutions** | **11,588** | 11,352 | **7,594** | 8,258 |
| Maturity analysis based on remaining term to maturity at 30 September | | | | |
| Overdraft | **2,154** | 6,961[1] | **1,597** | 4,348[1] |
| Less than 3 months | **7,495** | | **4,377** | |
| Between 3 months and 12 months | **1,786** | | **1,520** | |
| Between 1 year and 5 years | **82** | 4,391[1] | **48** | 3,910[1] |
| After 5 years | **71** | | **52** | |
| Total due from other financial institutions | **11,588** | 11,352 | **7,594** | 8,258 |

[1] *Maturity analysis at 30 September 1996 was based on original terms to maturity of less than 90 days and greater than 90 days*

## 11: Trading Securities

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

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **Listed – Australia** | | | | |
| Commonwealth securities | **75** | 1,496 | **75** | 1,496 |
| Local and semi-government securities | **20** | 10 | **20** | 10 |
| Other securities and equity investments | **622** | 91 | **350** | – |
| | **717** | 1,597 | **445** | 1,506 |
| **Listed – Overseas** | | | | |
| Indian government securities | **397** | 272 | **–** | – |
| Other securities and equity investments | **912** | 265 | **331** | 236 |
| | **1,309** | 537 | **331** | 236 |
| Total listed | **2,026** | 2,134 | **776** | 1,742 |
| **Unlisted – Australia** | | | | |
| Treasury notes and bills | **–** | 103 | **–** | 103 |
| Other government securities | **1,567** | 1,577 | **1,567** | 1,577 |
| ANZ accepted bills | **1,846** | 1,317 | **1,665** | 1,249 |
| Other securities and equity investments | **320** | 269 | **299** | 199 |
| | **3,733** | 3,266 | **3,531** | 3,128 |
| **Unlisted – Overseas** | | | | |
| Treasury notes and bills | **770** | 1,564 | **465** | 1,177 |
| Other government securities | **335** | 64 | **223** | 64 |
| Other securities and equity investments | **402** | 306 | **153** | 46 |
| | **1,507** | 1,934 | **841** | 1,287 |
| Total unlisted | **5,240** | 5,200 | **4,372** | 4,415 |
| **Total trading securities** | **7,266** | 7,334 | **5,148** | 6,157 |

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **12: Investment Securities** | | | | |
| Investment securities are allocated between Australia and Overseas based on the domicile of the issuer | | | | |
| **Listed - Australia** | | | | |
| Commonwealth securities | **-** | 4 | **-** | 4 |
| Local and semi-government securities | **58** | 46 | **58** | 46 |
| Other securities and equity investments | **462** | 297 | **451** | 286 |
| | **520** | 347 | **509** | 336 |
| **Listed - Overseas** | | | | |
| Indian government securities | **404** | 304 | **-** | 10 |
| Other government securities | **99** | 147 | **84** | 83 |
| Other securities and equity investments | **431** | 316 | **259** | 187 |
| | **934** | 767 | **343** | 280 |
| Total listed | **1,454** | 1,114 | **852** | 616 |
| **Unlisted - Australia** | | | | |
| Other securities and equity investments | **448** | 139 | **412** | 134 |
| **Unlisted - Overseas** | | | | |
| New Zealand government securities | **476** | 540 | **-** | 9 |
| Indian government securities | **2** | 32 | **-** | - |
| Other government securities | **646** | 576 | **151** | 146 |
| Other securities and equity investments | **113** | 169 | **1** | 5 |
| | **1,237** | 1,317 | **152** | 160 |
| Total unlisted | **1,685** | 1,456 | **564** | 294 |
| **Total investment securities** | **3,139** | 2,570 | **1,416** | 910 |
| **Market value information** | | | | |
| **Listed - Australia** | | | | |
| Commonwealth securities | **-** | 4 | **-** | 4 |
| Local and semi-government securities | **58** | 46 | **58** | 46 |
| Other securities and equity investments | **462** | 297 | **451** | 286 |
| | **520** | 347 | **509** | 336 |
| **Listed - Overseas** | | | | |
| Indian government securities | **424** | 300 | **-** | 10 |
| Other government securities | **100** | 149 | **84** | 83 |
| Other securities and equity investments | **431** | 316 | **259** | 187 |
| | **955** | 765 | **343** | 280 |
| Total market value of listed investment securities | **1,475** | 1,112 | **852** | 616 |
| **Unlisted - Australia** | | | | |
| Other securities and equity investments | **448** | 140 | **412** | 134 |
| **Unlisted - Overseas** | | | | |
| New Zealand government securities | **475** | 537 | **-** | 9 |
| Indian government securities | **2** | 32 | **-** | - |
| Other government securities | **635** | 575 | **151** | 145 |
| Other securities and equity investments | **114** | 171 | **1** | 6 |
| | **1,226** | 1,315 | **152** | 160 |
| Total market value of unlisted investment securities | **1,674** | 1,455 | **564** | 294 |
| Total market value of investment securities | **3,149** | 2,567 | **1,416** | 910 |

## 12: Investment Securities (continued)

### Investment Securities by Maturities and Yields

Based on remaining term to maturity at 30 September 1997

| At book value | Less than 3 months $M | Between 3 months and 12 months $M | Between 1 year and 5 years $M | Between 5 years and 10 years $M | After 10 years $M | No maturity specified $M | **Total $M** | Market Value $M |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Commonwealth securities | – | 90 | 304 | – | – | – | **394** | 394 |
| Local and semi-government securities | 44 | 18 | 11 | – | – | – | **73** | 73 |
| Other securities and equity investments | 309 | 145 | 11 | – | – | 36 | **501** | 501 |
| | 353 | 253 | 326 | – | – | 36 | **968** | 968 |
| **Overseas** | | | | | | | | |
| New Zealand government securities | 35 | 441 | – | – | – | – | **476** | 475 |
| US treasury and government securities | 17 | 14 | – | – | 7 | – | **38** | 37 |
| Indian government securities | 19 | 54 | 274 | 53 | 6 | – | **406** | 426 |
| Other government securities | 484 | 53 | 144 | 25 | 1 | – | **707** | 699 |
| Other securities and equity investments | 114 | 172 | 218 | 28 | 3 | 9 | **544** | 544 |
| | 669 | 734 | 636 | 106 | 17 | 9 | **2,171** | 2,181 |
| Total book value | 1,022 | 987 | 962 | 106 | 17 | 45 | **3,139** | n/a |
| Total market value | 1,012 | 988 | 977 | 108 | 17 | 47 | **n/a** | 3,149 |

| | Less than 1 year | Between 1 year and 5 years | Between 5 years and 10 years | After 10 years |
|---|---|---|---|---|
| **Weighted average yields[1]** | % | % | % | % |
| **Australia** | | | | |
| Commonwealth securities | 5.88 | 5.25 | – | – |
| Local and semi-government securities | 7.04 | 5.93 | – | – |
| Other securities and equity investments | 5.62 | 5.76 | – | – |
| **Overseas** | | | | |
| New Zealand government securities | 7.53 | – | – | – |
| US treasury and government securities | 5.19 | – | – | 6.99 |
| Indian government securities | 11.67 | 11.74 | 12.68 | 12.15 |
| Other government securities | 11.98 | 9.11 | 8.36 | 16.58 |
| Other securities and equity investments | 7.31 | 9.86 | 11.65 | 16.02 |

[1] *Based on effective yields for fixed interest and discounted securities and dividend yield for equity investments at 30 September 1997*

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **13: Net Loans and Advances** | | | | |
| Loans and advances are classified between Australia and Overseas based on the domicile of the lending point | | | | |
| **Australia** | | | | |
| Overdrafts | **2,877** | 3,358 | **2,877** | 3,352 |
| Credit card outstandings | **1,430** | 1,156 | **1,430** | 1,156 |
| Term loans – owner-occupied housing | **15,862** | 15,001 | **15,862** | 15,001 |
| Term loans – other | **26,880** | 23,026 | **24,556** | 20,583 |
| Lease finance (refer below) | **3,272** | 3,282 | **700** | 657 |
| Hire purchase | **5,958** | 5,803 | **-** | – |
| Commercial bills | **16** | 21 | **-** | – |
| Redeemable preference share finance | **20** | 20 | **-** | – |
| Other | **377** | 422 | **370** | 412 |
| | **56,692** | 52,089 | **45,795** | 41,161 |
| **Overseas** | | | | |
| Overdrafts | **3,070** | 2,699 | **702** | 587 |
| Credit card outstandings | **266** | 231 | **3** | 2 |
| Term loans – housing | **7,539** | 6,878 | **224** | 187 |
| Term loans – non-housing | **17,689** | 15,590 | **7,399** | 6,868 |
| Lease finance (refer below) | **74** | 68 | **32** | 22 |
| Hire purchase | **383** | 458 | **-** | – |
| Commercial bills | **786** | 568 | **184** | 189 |
| Redeemable preference share finance | **44** | 9 | **-** | – |
| Other | **376** | 329 | **54** | – |
| | **30,227** | 26,830 | **8,598** | 7,855 |
| Total gross loans and advances | **86,919** | 78,919 | **54,393** | 49,016 |
| Provisions for doubtful debts (refer note 15) | **(1,371)** | (1,218) | **(1,027)** | (884) |
| Income yet to mature | **(1,400)** | (1,800) | **(21)** | (46) |
| | **(2,771)** | (3,018) | **(1,048)** | (930) |
| **Total net loans and advances** | **84,148** | 75,901 | **53,345** | 48,086 |
| Lease finance consists of gross lease receivables | | | | |
| Current | **627** | 885 | **252** | 187 |
| Non-current | **2,719** | 2,465 | **480** | 492 |
| | **3,346** | 3,350 | **732** | 679 |

## 13: Net Loans and Advances (continued)

### Maturity Distribution and Concentrations of Credit Risk

| Based on remaining term to maturity at 30 September 1997 | Overdraft $M | Less than 3 months $M | Between 3 months and 12 months $M | Between 1 year and 5 years $M | After 5 years $M | **Total $M** |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Agriculture, forestry, fishing and mining | 341 | 647 | 619 | 761 | 348 | **2,716** |
| Business service | 217 | 136 | 208 | 636 | 291 | **1,488** |
| Entertainment, leisure and tourism | 97 | 176 | 188 | 682 | 249 | **1,392** |
| Financial, investment and insurance | 102 | 434 | 123 | 3,283 | 55 | **3,997** |
| Government and official institutions | 1 | – | – | 29 | 38 | **68** |
| Lease finance | – | 331 | 320 | 2,588 | 33 | **3,272** |
| Manufacturing | 538 | 566 | 297 | 824 | 221 | **2,446** |
| Personal[1] | 361 | 1,729 | 491 | 2,995 | 653 | **6,229** |
| Real estate – construction | 192 | 127 | 208 | 600 | 89 | **1,216** |
| Real estate – mortgage[2] | 117 | 1,551 | 1,468 | 1,689 | 21,270 | **26,095** |
| Retail and wholesale trade | 718 | 1,593 | 403 | 921 | 740 | **4,375** |
| Other | 211 | 1,094 | 404 | 1,208 | 481 | **3,398** |
| **Overseas** | | | | | | |
| Agriculture, forestry, fishing and mining | 99 | 734 | 596 | 589 | 421 | **2,439** |
| Business service | 74 | 119 | 62 | 85 | 6 | **346** |
| Entertainment, leisure and tourism | 8 | 68 | 306 | 158 | 15 | **555** |
| Financial, investment and insurance | 118 | 1,701 | 818 | 328 | 224 | **3,189** |
| Government and official institutions | 54 | 198 | 192 | 125 | 87 | **656** |
| Lease finance | – | 19 | 12 | 29 | 13 | **73** |
| Manufacturing | 349 | 1,612 | 1,580 | 1,260 | 371 | **5,172** |
| Personal[1] | 935 | 480 | 409 | 656 | 372 | **2,852** |
| Real estate – construction | 29 | 359 | 119 | 325 | 68 | **900** |
| Real estate – mortgage[2] | 10 | 304 | 1,528 | 4,509 | 3,061 | **9,412** |
| Retail and wholesale trade | 139 | 550 | 619 | 492 | 51 | **1,851** |
| Other | 384 | 836 | 498 | 771 | 293 | **2,782** |
| Gross loans and advances | 5,094 | 15,364 | 11,468 | 25,543 | 29,450 | **86,919** |
| Specific provisions for doubtful debts | (453) | – | – | – | – | **(453)** |
| Income yet to mature | – | (72) | (139) | (1,168) | (21) | **(1,400)** |
| | (453) | (72) | (139) | (1,168) | (21) | **(1,853)** |
| Loans and advances net of specific provisions and income yet to mature | 4,641 | 15,292 | 11,329 | 24,375 | 29,429 | **85,066** |
| General provision | | | | | (918) | **(918)** |
| Net loans and advances | 4,641 | 15,292 | 11,329 | 24,375 | 28,511 | **84,148** |
| **Interest rate sensitivity** | | | | | | |
| Fixed interest rates[3] | 196 | 8,150 | 7,636 | 17,969 | 10,122 | **44,073** |
| Variable interest rates | 4,898 | 7,214 | 3,832 | 7,574 | 19,328 | **42,846** |
| | 5,094 | 15,364 | 11,468 | 25,543 | 29,450 | **86,919** |

[1] *Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances*

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

[3] *Housing loans and other loans that are capped for an initial period are treated as fixed interest rate loans and their maturities based on the principal repayments due over the term of the loan*

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **14: Impaired Assets** | | | | |
| **Summary of impaired assets** | | | | |
| Non-accrual loans | **872** | 1,225 | **545** | 835 |
| Restructured loans | **13** | 33 | **4** | 25 |
| Other real estate owned | **-** | - | **-** | - |
| Unproductive facilities | **75** | 82 | **21** | 22 |
| **Gross impaired assets** | **960** | 1,340 | **570** | 882 |
| Specific provisions | | | | |
| Non-accrual loans | **(444)** | (501) | **(295)** | (338) |
| Unproductive facilities | **(9)** | (8) | **(9)** | (7) |
| Net impaired assets | **507** | 831 | **266** | 537 |
| **Non-accrual loans** | | | | |
| Non-accrual loans | **872** | 1,225 | **545** | 835 |
| Specific provisions | **(444)** | (501) | **(295)** | (338) |
| Total net non-accrual loans | **428** | 724 | **250** | 497 |
| **Restructured loans** | | | | |
| For these loans interest and fees are recognised as income on an accruals basis | **13** | 33 | **4** | 25 |
| **Other real estate owned** | | | | |
| In the event of customer default, any loan security is held as mortgagee in possession and therefore the Group does not hold any other real estate owned assets | **-** | - | **-** | - |
| **Unproductive facilities** | | | | |
| Unproductive facilities | **75** | 82 | **21** | 22 |
| Specific provisions | **(9)** | (8) | **(9)** | (7) |
| Net unproductive facilities | **66** | 74 | **12** | 15 |
| **Accruing loans past due 90 days or more** | | | | |
| These amounts, comprising loans less than $100,000 or fully secured, are not classified as impaired assets and therefore are not included within the above summary | **243** | 212 | **180** | 174 |

## 14: Impaired Assets (continued)

Further analysis of non-accrual loans at 30 September 1997 and interest and/or other income received during the year under Reserve Bank of Australia guidelines is as follows

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Gross balance outstanding $M | Specific provision $M | Interest and/or other income received $M | Gross balance outstanding $M | Specific provision $M | Interest and/or other income received $M |
| **Non-accrual loans** | | | | | | |
| Without provisions | | | | | | |
| Australia | 89 | - | 13 | 64 | - | 12 |
| New Zealand | 35 | - | 2 | - | - | - |
| International markets | 39 | - | 1 | 29 | - | 1 |
| | 163 | - | 16 | 93 | - | 13 |
| With provisions and no, or partial performance[1] | | | | | | |
| Australia | 404 | 270 | 17 | 290 | 228 | 17 |
| New Zealand | 59 | 20 | 1 | - | - | - |
| International markets | 113 | 105 | 3 | 30 | 18 | 2 |
| | 576 | 395 | 21 | 320 | 246 | 19 |
| With provisions and full performance[1] | | | | | | |
| Australia | 132 | 49 | 11 | 132 | 49 | 11 |
| New Zealand | - | - | # | - | - | - |
| International markets | 1 | # | # | - | - | - |
| | 133 | 49 | 11 | 132 | 49 | 11 |
| Total non-accrual loans | 872 | 444 | 48 | 545 | 295 | 43 |

# *Amounts less than $500,000*

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

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

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

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 1997 $M | 1996 $M | 1997 $M | 1996 $M |
| **Gross interest and other income receivable on non-accrual loans and restructured loans** | | | | |
| Australia | 96 | 149 | 74 | 128 |
| New Zealand | 10 | 13 | - | - |
| International markets | 15 | 19 | 2 | 4 |
| Total gross interest and other income receivable on non-accrual loans and restructured loans | 121 | 181 | 76 | 132 |
| **Interest and other income received** | | | | |
| Australia | 42 | 69 | 41 | 69 |
| New Zealand | 3 | 4 | - | - |
| International markets | 5 | 8 | 2 | 3 |
| Total interest and other income received | 50 | 81 | 43 | 72 |
| **Net interest and other income forgone** | | | | |
| Australia | 54 | 80 | 33 | 59 |
| New Zealand | 7 | 9 | - | - |
| International markets | 10 | 11 | - | 1 |
| Total net interest and other income forgone | 71 | 100 | 33 | 60 |

## 15: Provisions for Doubtful Debts

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **Specific provision** | | | | |
| Balance at start of year | **509** | 702 | **345** | 454 |
| Adjustment for exchange rate fluctuations | **8** | (10) | **#** | (3) |
| Bad debts written off | **(199)** | (346) | **(113)** | (239) |
| Transfer from profit and loss account (refer note 3) | **135** | 163 | **72** | 114 |
| Acquired | **-** | - | **-** | 19 |
| Total specific provision | **453** | 509 | **304** | 345 |
| **General provision** | | | | |
| Balance at start of year | **709** | 678 | **539** | 504 |
| Adjustment for exchange rate fluctuations | **8** | (6) | **4** | (1) |
| Charge to profit and loss account (refer note 3) | **201** | 37 | **180** | 22 |
| Acquired | **-** | - | **-** | 14 |
| Total general provision | **918** | 709 | **723** | 539 |
| **Total provisions for doubtful debts** | **1,371** | 1,218 | **1,027** | 884 |
| **Ratios** | | | | |
| Provisions[1] as a % of total advances[2] | **%** | % | **%** | % |
| Specific | **0.4** | 0.5 | **0.4** | 0.5 |
| General | **0.9** | 0.8 | **1.1** | 0.8 |
| Provisions as a % of risk weighted assets | | | | |
| Specific | **0.4** | 0.5 | **0.4** | 0.5 |
| General | **0.9** | 0.8 | **0.8** | 0.7 |
| Bad debts written off as a % of total advances[2] | **0.2** | 0.4 | **0.2** | 0.4 |
| Specific provision charge as a % of total advances[2] | **0.1** | 0.1 | **0.1** | 0.1 |

*# Amounts less than $500,000*

[1] *Excludes provisions for unproductive facilities*

[2] *See definition on page 116*

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **16: Customers' Liabilities for Acceptances** | | | | |
| **Australia** | | | | |
| Agriculture, forestry, fishing and mining | **757** | 556 | **757** | 556 |
| Business service | **279** | 228 | **279** | 228 |
| Entertainment, leisure and tourism | **1,937** | 1,629 | **1,937** | 1,629 |
| Financial, investment and insurance | **791** | 1,054 | **791** | 1,054 |
| Government and official institutions | **3** | 8 | **3** | 8 |
| Manufacturing | **2,403** | 2,155 | **2,403** | 2,155 |
| Personal[1] | **204** | 343 | **204** | 343 |
| Real estate – construction | **104** | 111 | **104** | 111 |
| Real estate – mortgage[2] | **4,093** | 4,079 | **4,093** | 4,079 |
| Retail and wholesale trade | **1,730** | 1,904 | **1,730** | 1,904 |
| Other | **984** | 890 | **984** | 890 |
| | **13,285** | 12,957 | **13,285** | 12,957 |
| **Overseas** | | | | |
| Agriculture, forestry, fishing and mining | **11** | 24 | **–** | 5 |
| Business service | **45** | 94 | **12** | 51 |
| Entertainment, leisure and tourism | **14** | 1 | **–** | – |
| Financial, investment and insurance | **202** | 218 | **187** | 163 |
| Government and official institutions | **–** | – | **–** | – |
| Manufacturing | **301** | 311 | **19** | 42 |
| Personal[1] | **7** | 28 | **–** | – |
| Real estate – construction | **55** | 45 | **38** | 13 |
| Real estate – mortgage[2] | **–** | 6 | **–** | – |
| Retail and wholesale trade | **108** | 168 | **39** | 33 |
| Other | **12** | 161 | **5** | 43 |
| | **755** | 1,056 | **300** | 350 |
| **Total customers' liabilities for acceptances** | **14,040** | 14,013 | **13,585** | 13,307 |

[1] *Personal includes non-business acceptances to individuals through overdrafts, personal loans, credit cards and fully drawn advances*

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

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **17: Regulatory Deposits** | | | | |
| Reserve Bank of Australia | **572** | 551 | **572** | 551 |
| Overseas central banks | **634** | 612 | **66** | 61 |
| **Total regulatory deposits** | **1,206** | 1,163 | **638** | 612 |

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **18: Shares in Controlled Entities and Associates** | | | | |
| Refer notes 34 and 35 for details of controlled entities and associates. | | | | |
| **Controlled entities** | | | | |
| At directors' valuation 1996 | | | **-** | 4,768 |
| At directors' valuation 1997 | | | **5,116** | - |
| Total shares in controlled entities | | | **5,116** | 4,768 |
| **Associates** | | | | |
| Total shares in associates[1] | **7** | 10 | **1** | 1 |
| **Total shares in controlled entities and associates** | **7** | 10 | **5,117** | 4,769 |

**Acquisitions of controlled entities**

| | Date acquired | Interest acquired % | Consideration $M | Net tangible assets on acquisition $M | Goodwill $M |
|---|---|---|---|---|---|
| *Year ended 30 September 1997* | | | | | |
| Fleetlink Leasing Pty Ltd[2] | 3 Dec 1996 | 50 | 5 | 1 | 4 |
| Greyloch Investments Limited | 23 Jun 1997 | 100 | – | # | # |
| La Serigne Limited | 12 Feb 1997 | 100 | 4 | 4 | – |
| Repair Authorisation Centre (RAC) Pty Limited | 1 Dec 1996 | 100 | # | # | # |
| Truck Leasing Limited[3] | 31 Aug 1997 | 20 | 2 | # | 2 |
| | | | 11 | 5 | 6 |
| *Year ended 30 September 1996* | | | | | |
| Autofleet Pty Ltd[4] | 1 Jul 1996 | 50 | # | # | – |

**Disposals of controlled entities**

The entire interest in these entities was disposed of during the year

| | Profit on disposal $M | Net tangible assets on disposal $M |
|---|---|---|
| *Year ended 30 September 1997* | | |
| Valiant Heart Limited | – | – |
| *Year ended 30 September 1996* | | |
| Esanda Limited | – | – |
| Pukeko Holdings Limited | – | – |
| Pukeko Investments Limited | – | – |
| Pukeko Securities Limited[5] | – | – |

*# Amounts less than $500,000*

*[1] The Group has adopted equity accounting for the year ended 30 September 1997 (refer note 1(ii))*

*[2] During 1997, the remaining 50% interest in Fleetlink Leasing Pty Ltd was acquired by Esanda Finance Corporation Limited, bringing the total interest to 100%*

*[3] During 1997, the remaining 20% interest in Truck Leasing Limited was acquired by UDC Finance Limited, bringing the total interest to 100%*

*[4] During 1996, the remaining 50% interest in Autofleet Pty Ltd was acquired by Esanda Finance Corporation Limited, bringing the total interest to 100%*

*[5] Formerly ANZ Securities (New Zealand) Limited*

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **19: Other Assets** | | | | |
| Property held for resale | | | | |
| Cost of acquisition | **67** | 70 | **1** | 5 |
| Development expenses capitalised | **65** | 68 | **-** | 14 |
| Interest, rates and taxes capitalised | **3** | 3 | **-** | - |
| | **135** | 141 | **1** | 19 |
| Provision for diminution in value | **(11)** | (16) | **-** | (12) |
| | **124** | 125 | **1** | 7 |
| Accrued interest/prepaid discounts | **1,004** | 836 | **736** | 575 |
| Accrued commission | **57** | 39 | **35** | 32 |
| Prepaid expenses | **89** | 48 | **15** | 23 |
| Future income tax benefits (refer below) | **516** | 491 | **360** | 344 |
| Treasury instruments revaluations | **5,232** | 3,070 | **4,659** | 2,692 |
| Security settlements | **304** | 525 | **300** | 386 |
| National Housing Bank deposit (refer note 38) | **-** | 179 | **-** | - |
| Life insurance reserves (refer note 1[xv]) | **436** | 354 | **-** | - |
| Other | **728** | 673 | **331** | 137 |
| **Total other assets** | **8,490** | 6,340 | **6,437** | 4,196 |
| Future income tax benefits comprises | | | | |
| Provision for doubtful debts | **136** | 148 | **99** | 107 |
| Interest | **-** | 3 | **-** | - |
| Tax losses | **11** | 26 | **1** | 3 |
| Provision for employee entitlements | **90** | 80 | **68** | 68 |
| Provision for non-lending losses, frauds and forgeries | **39** | 54 | **34** | 43 |
| Provision for leased premises surplus to current requirements | **16** | 12 | **16** | 12 |
| Provision for diminution in development ventures | **1** | 8 | **1** | 4 |
| Development venture income | **21** | 22 | **1** | 4 |
| Treasury instruments | **-** | 11 | **-** | 11 |
| Leveraged leasing | **3** | 19 | **6** | 24 |
| Provision for restructuring costs | **97** | 4 | **58** | 4 |
| Other | **102** | 104 | **76** | 64 |
| | **516** | 491 | **360** | 344 |

Certain potential future income tax benefits within the Group have not been recognised as assets because recovery cannot be regarded as virtually certain. These potential benefits arise from tax losses and timing differences (benefits could amount to $19 million, 1996: $5 million) and from realised capital losses (benefits could amount to $141 million, 1996: $133 million).

These benefits will only be obtained if

(i) the relevant entities derive future assessable income of a nature and amount sufficient to enable the benefit of the taxation deductions to be realised;

(ii) the relevant entities continue to comply with the conditions for deductibility imposed by law; and

(iii) there are no changes in taxation legislation adversely affecting the benefit of the taxation deductions.

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **20: Premises and Equipment** | | | | |
| Freehold and leasehold land and buildings | | | | |
| At directors' valuation 1996 | **942** | 944 | **91** | 83 |
| At cost | **26** | 26 | **1** | 1 |
| Provision for depreciation | **(28)** | (20) | **(2)** | (1) |
| | **940** | 950 | **90** | 83 |
| Leasehold improvements | | | | |
| At cost | **146** | 121 | **82** | 61 |
| Provision for amortisation | **(83)** | (71) | **(47)** | (35) |
| | **63** | 50 | **35** | 26 |
| Furniture and equipment | | | | |
| At cost | **845** | 811 | **394** | 374 |
| Provision for depreciation | **(467)** | (429) | **(219)** | (210) |
| | **378** | 382 | **175** | 164 |
| Computer equipment | | | | |
| At cost | **734** | 668 | **459** | 416 |
| Provision for depreciation | **(491)** | (423) | **(308)** | (260) |
| | **243** | 245 | **151** | 156 |
| Motor vehicle operating lease assets | | | | |
| At cost | **555** | 430 | **-** | - |
| Provision for depreciation | **(141)** | (97) | **-** | - |
| | **414** | 333 | **-** | - |
| Capital works in progress | | | | |
| At cost | **21** | 60 | **8** | 51 |
| **Total premises and equipment** | **2,059** | 2,020 | **459** | 480 |

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

An officers' valuation undertaken during the financial year indicated that the estimated market value of premises exceeded the book value by $81 million. The excess has not been booked in the financial statements.

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **21: Due to Other Financial Institutions** | | | | |
| Australia | **910** | 717 | **910** | 717 |
| Overseas | **9,964** | 11,965 | **8,420** | 10,646 |
| **Total due to other financial institutions** | **10,874** | 12,682 | **9,330** | 11,363 |
| Maturity analysis based on remaining term to maturity at 30 September | | | | |
| At call | **1,041** | 893[1] | **878** | 745[1] |
| Less than 3 months | **8,031** | 7,917[1] | **6,714** | 6,998[1] |
| Between 3 months and 12 months | **1,786** | 3,872[1] | **1,722** | 3,620[1] |
| Between 1 year and 5 years | **16** | - | **16** | - |
| Total due to other financial institutions | **10,874** | 12,682 | **9,330** | 11,363 |

[1] *Maturity analysis at 30 September 1996 was based on original term to maturity and comprised at call, less than 90 days and greater than 90 days*

## 22: Deposits and Other Borrowings

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

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **Australia** | | | | |
| Certificates of deposit | **927** | 1,135 | **927** | 1,135 |
| Term deposits | **17,256** | 17,366 | **17,219** | 17,313 |
| Other deposits bearing interest | **21,175** | 17,612 | **21,175** | 17,612 |
| Deposits not bearing interest | **2,865** | 2,751 | **2,865** | 2,751 |
| Commercial paper | **3,023** | 2,341 | **1,942** | 1,394 |
| Borrowing corporations' debt | **5,350** | 5,286 | **-** | - |
| Securities sold under agreement to repurchase | **-** | 394 | **-** | 394 |
| Other unsecured borrowings | **196** | 20 | **196** | 20 |
| | **50,792** | 46,905 | **44,324** | 40,619 |
| **Overseas** | | | | |
| Certificates of deposit | **5,934** | 4,218 | **4,025** | 2,203 |
| Term deposits | **18,741** | 16,880 | **6,461** | 5,583 |
| Other deposits bearing interest | **6,994** | 5,837 | **869** | 547 |
| Deposits not bearing interest | **2,909** | 2,459 | **363** | 257 |
| Commercial paper | **1,808** | 946 | **-** | - |
| Borrowing corporations' debt | **1,158** | 1,199 | **-** | - |
| Securities sold under agreement to repurchase | **722** | 1,171 | **716** | 1,142 |
| Other secured borrowings | **94** | 94 | **90** | 92 |
| | **38,360** | 32,804 | **12,524** | 9,824 |
| **Total deposits and other borrowings** | **89,152** | 79,709 | **56,848** | 50,443 |
| Maturity analysis based on remaining term to maturity at 30 September [1] | | | | |
| At call | **33,262** | n/a | **25,025** | n/a |
| Less than 3 months | **38,911** | n/a | **25,122** | n/a |
| Between 3 months and 12 months | **12,049** | n/a | **5,743** | n/a |
| Between 1 year and 5 years | **4,335** | n/a | **958** | n/a |
| After 5 years | **595** | n/a | **-** | n/a |
| Total deposits and other borrowings | **89,152** | n/a | **56,848** | n/a |

[1] *Disclosure of comparative information not required in first year of adoption of Australian Accounting Standard AASB 1032 "Specific Disclosures by Financial Institutions"*

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **1997** | 1996 | **1997** | 1996 |
| | **$M** | $M | **$M** | $M |
| **23: Income Tax Liability** | | | | |
| **Australia** | | | | |
| Provision for income tax | **93** | 116 | **3** | 95 |
| Provision for deferred income tax (refer below) | **415** | 384 | **176** | 154 |
| | **508** | 500 | **179** | 249 |
| **Overseas** | | | | |
| Provision for income tax | **116** | 14 | **107** | 25 |
| Provision for deferred income tax (refer below) | **154** | 61 | **28** | 27 |
| | **270** | 75 | **135** | 52 |
| **Total income tax liability** | **778** | 575 | **314** | 301 |
| Provision for deferred income tax comprises | | | | |
| Lease finance | **201** | 204 | **29** | 33 |
| Depreciation | **38** | 33 | **9** | 8 |
| Investment income | **6** | 8 | **2** | 1 |
| Treasury instruments | **23** | – | **23** | – |
| Other | **301** | 200 | **141** | 139 |
| | **569** | 445 | **204** | 181 |
| **24: Creditors and Other Liabilities** | | | | |
| **Australia** | | | | |
| Creditors | **228** | 306 | **224** | 228 |
| Accrued interest and unearned discounts | **700** | 748 | **501** | 497 |
| Treasury instruments revaluations | **1,828** | 1,648 | **1,828** | 1,648 |
| Accrued charges | **92** | 93 | **80** | 88 |
| Security settlements | **–** | 170 | **–** | 170 |
| Other liabilities | **700** | 436 | **207** | 183 |
| | **3,548** | 3,401 | **2,840** | 2,814 |
| **Overseas** | | | | |
| Creditors | **456** | 164 | **90** | 13 |
| Accrued interest and unearned discounts | **752** | 647 | **452** | 312 |
| Treasury instruments revaluations | **4,285** | 2,249 | **3,640** | 1,890 |
| Accrued charges | **182** | 134 | **80** | 49 |
| Security settlements | **308** | 594 | **255** | 376 |
| Other liabilities | **276** | 282 | **175** | 97 |
| | **6,259** | 4,070 | **4,692** | 2,737 |
| **Total creditors and other liabilities** | **9,807** | 7,471 | **7,532** | 5,551 |
| **25: Provisions** | | | | |
| Employee entitlements | **262** | 272 | **197** | 211 |
| Dividends (refer note 7) | **392** | 355 | **392** | 355 |
| Non-lending losses, frauds and forgeries | **130** | 171 | **96** | 120 |
| Leased premises surplus to current requirements | **44** | 32 | **31** | 21 |
| Restructuring costs | **275** | – | **160** | – |
| Other | **115** | 124 | **135** | 78 |
| **Total provisions** | **1,218** | 954 | **1,011** | 785 |

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **26: Bonds and Notes** | | | | |
| USD medium term notes | **1,016** | 834 | **1,016** | 834 |
| GBP medium term notes | **22** | 89 | **22** | 89 |
| AUD medium term notes | **176** | 235 | **176** | 235 |
| JPY medium term notes | **184** | 257 | **184** | 257 |
| GBP 78m floating rate notes due 1997 | **175** | 154 | **175** | 154 |
| USD 250m floating rate notes due 1998 | **-** | 316 | **-** | 316 |
| USD 300m floating rate note due 1998 | **417** | 379 | **417** | 379 |
| **Total bonds and notes** | **1,990** | 2,264 | **1,990** | 2,264 |
| **Bonds and notes by currency** | | | | |
| USD United States dollars | **1,433** | 1,529 | **1,433** | 1,529 |
| GBP Great British pounds | **197** | 243 | **197** | 243 |
| JPY Japanese yen | **184** | 257 | **184** | 257 |
| AUD Australian dollars | **176** | 235 | **176** | 235 |
| | **1,990** | 2,264 | **1,990** | 2,264 |
| **Bonds and notes by maturity** | | | | |
| Maturity analysis based on remaining term to maturity at 30 September | | | | |
| Less than 3 months | **449** | 831[1] | **449** | 831[1] |
| Between 3 months and 12 months | **974** | | **974** | |
| Between 1 year and 5 years | **539** | 1,371[1] | **539** | 1,371[1] |
| After 5 years | **28** | 62[1] | **28** | 62[1] |
| | **1,990** | 2,264 | **1,990** | 2,264 |

[1] *Maturity analysis at 30 September 1996 was based on remaining term to maturity of less than 1 year, between 1 and 5 years and after 5 years*

| | | | Interest Rate % | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|---|---|
| **27: Loan Capital** | | | | | | | |
| **Perpetual subordinated notes** | | | | | | | |
| USD | 300m | floating rate notes | LIBOR[1] + 0.15 | **417** | 379 | **417** | 379 |
| USD | 258.7m | fixed rate notes | 9.125 | **359** | 327 | **359** | 327 |
| USD | 120m | floating rate notes | LIBOR + 0.80 | **-** | 152 | **-** | – |
| USD | 30m | floating rate notes | LIBOR + 0.80 | **-** | 38 | **-** | – |
| | | | | **776** | 896 | **776** | 706 |
| **Subordinated notes** | | | | | | | |
| LUX | 1,000m | fixed notes due 1998 | 9.375 | **38** | 40 | **38** | 40 |
| AUD | 48.8m | fixed notes due 1999 | 7.720 | **48** | 49 | **48** | 49 |
| JPY | 10,000m | fixed notes due 1999[2] | 7.430, 5.800 | **115** | 114 | **115** | 114 |
| USD | 30m | floating rate notes due 1999 | LIBOR + 0.46 | **42** | 38 | **42** | 38 |
| USD | 70m | floating rate notes due 1999 | LIBOR + 0.46 | **-** | 88 | **-** | 88 |
| USD | 200m | floating rate notes due 1999 | LIBOR + 0.50 | **-** | 253 | **-** | 253 |
| GBP | 22.7m | fixed notes due 2000 | 7.050 | **56** | 57 | **-** | – |
| AUD | 65m | floating rate notes due 2000 | BB[3] + 0.40 | **65** | 65 | **65** | 65 |
| AUD | 55.3m | floating rate notes due 2000[4] | BB + 0.40 | **55** | 55 | **55** | 55 |
| USD | 140m | floating rate notes due 2000 | LIBOR + 0.50 | **-** | 177 | **-** | 177 |
| USD | 70m | floating rate notes due 2000 | LIBOR + 0.625 | **-** | 88 | **-** | 88 |
| AUD | 58.2m | floating rate notes due 2001[5] | BB + 0.40 | **58** | 58 | **58** | 58 |
| GBP | 60m | fixed notes due 2001 | 12.625 | **134** | 119 | **134** | 119 |
| USD | 200m | floating rate notes due 2002 | LIBOR + 0.70 | **278** | 253 | **278** | 253 |
| USD | 250m | fixed rate notes due 2004 | 6.25 | **348** | 316 | **348** | 316 |
| USD | 125m | floating rate notes due 2005 | LIBOR + 0.45 | **174** | 157 | **-** | – |
| USD | 500m | fixed notes due 2006 | 7.55 | **695** | 632 | **695** | 632 |
| USD | 12.5m | floating rate notes due 2007 | LIBOR + 0.50 | **17** | 16 | **17** | 16 |
| JPY | 482m | floating rate notes due 2007 | LIBOR + 0.50 | **6** | 5 | **6** | 5 |
| USD | 250m | floating rate notes due 2007[6] | LIBOR + 0.25 | **347** | – | **347** | – |
| JPY | 568.8m | floating rate notes due 2008 | LIBOR + 0.55 | **7** | 6 | **7** | 6 |
| USD | 14.3m | floating rate notes due 2008 | LIBOR + 0.50 | **20** | 18 | **20** | 18 |
| USD | 79m | floating rate notes due 2008[7] | LIBOR + 1.03 | **110** | 100 | **110** | 100 |
| | | | | **2,613** | 2,704 | **2,383** | 2,490 |
| **Total loan capital** | | | | **3,389** | 3,600 | **3,159** | 3,196 |
| **Loan capital by currency** | | | | | | | |
| USD | United States dollars | | | **2,807** | 3,032 | **2,633** | 2,685 |
| AUD | Australian dollars | | | **226** | 227 | **226** | 227 |
| GBP | Great British pounds | | | **190** | 176 | **134** | 119 |
| JPY | Japanese yen | | | **128** | 125 | **128** | 125 |
| LUX | Luxembourg francs | | | **38** | 40 | **38** | 40 |
| | | | | **3,389** | 3,600 | **3,159** | 3,196 |
| **Loan capital by maturity** | | | | | | | |
| Maturity analysis based on remaining term to maturity at 30 September | | | | | | | |
| Between 3 months and 12 months | | | | **38** | – | **38** | – |
| Between 1 year and 5 years | | | | **573** | 1,025 | **517** | 968 |
| After 5 years | | | | **2,002** | 1,679 | **1,828** | 1,522 |
| Perpetual | | | | **776** | 896 | **776** | 706 |
| | | | | **3,389** | 3,600 | **3,159** | 3,196 |

*[1] LIBOR is an average of rates offered on loans to leading banks in the London inter-bank market*
*[2] Two equal tranches of notes were issued with different interest rates*
*[3] BB is the stated average of Bank Bill rates*
*[4] Prior to March 1995 the interest rate was 12.5% p.a.*
*[5] Prior to July 1996 the interest rate was 12.5% p.a.*
*[6] After February 2002 the interest rate is LIBOR+ 0.75%*
*[7] After January 2002 the interest rate is LIBOR+ 0.53%*

*Loan capital is subordinated in right of payment to the claims of depositors and all other creditors of the Company and its controlled entities which have issued the notes, and constitutes tier 2 capital as defined by the Reserve Bank of Australia for capital adequacy purposes*

| | Consolidated 1997 $M | 1996 $M |
|---|---|---|
| **28: Outside Equity Interests** | | |
| Issued and paid-up capital | **22** | 22 |
| Reserves | **16** | 14 |
| Retained profits | **12** | 10 |
| **Total outside equity interests** | **50** | 46 |

## 29: Average Balance Sheet and Related Interest

Averages used in the following table are predominantly daily averages. Interest income figures are presented on a tax-equivalent basis. Non-accrual loans are included under the interest earning asset category "Loans, advances and bills discounted".

| | 1997 Average balance $M | 1997 Interest $M | 1997 Average rate % | 1996 Average balance $M | 1996 Interest $M | 1996 Average rate % | 1995 Average balance $M | 1995 Interest $M | 1995 Average rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Interest earning assets** | | | | | | | | | |
| Due from other financial institutions | | | | | | | | | |
| Australia | **480** | **32** | **6.7** | 630 | 41 | 6.5 | 390 | 25 | 6.4 |
| New Zealand | **359** | **21** | **5.8** | 346 | 27 | 7.8 | 339 | 28 | 8.3 |
| International markets | **10,380** | **700** | **6.7** | 10,209 | 699 | 6.8 | 8,940 | 607 | 6.8 |
| Regulatory deposits with | | | | | | | | | |
| Reserve Bank of Australia | **556** | **5** | **0.9** | 535 | 13 | 2.4 | 491 | 30 | 6.1 |
| Investments in public securities | | | | | | | | | |
| Australia | **4,770** | **301** | **6.3** | 4,897 | 380 | 7.8 | 4,464 | 332 | 7.4 |
| New Zealand | **1,603** | **107** | **6.7** | 1,090 | 88 | 8.1 | 1,116 | 81 | 7.3 |
| International markets | **5,094** | **427** | **8.4** | 2,973 | 289 | 9.7 | 3,195 | 290 | 9.1 |
| Loans, advances and bills discounted | | | | | | | | | |
| Australia | **52,827** | **4,657** | **8.8** | 48,399 | 4,939 | 10.2 | 44,783 | 4,471 | 10.0 |
| New Zealand | **14,089** | **1,384** | **9.8** | 12,619 | 1,315 | 10.4 | 11,134 | 1,143 | 10.3 |
| International markets | **14,578** | **1,258** | **8.6** | 11,770 | 1,084 | 9.2 | 10,313 | 922 | 8.9 |
| Other assets | | | | | | | | | |
| Australia | **1,655** | **105** | **6.3** | 618 | 53 | 8.6 | 861 | 61 | 7.1 |
| New Zealand | **831** | **80** | **9.6** | 760 | 77 | 10.1 | 800 | 70 | 8.8 |
| International markets | **5,920** | **361** | **6.1** | 4,825 | 293 | 6.1 | 4,086 | 278 | 6.8 |
| | **113,142** | **9,438** | **8.3** | 99,671 | 9,298 | 9.3 | 90,912 | 8,338 | 9.2 |
| **Non-interest earning assets** | | | | | | | | | |
| Acceptances | | | | | | | | | |
| Australia | **13,248** | | | 12,581 | | | 11,521 | | |
| New Zealand | **244** | | | 597 | | | 672 | | |
| International markets | **556** | | | 462 | | | 586 | | |
| Premises and equipment | **1,975** | | | 2,027 | | | 1,982 | | |
| Other assets | **9,740** | | | 6,842 | | | 7,714 | | |
| Provisions for doubtful debts | | | | | | | | | |
| Australia | **(917)** | | | (1,002) | | | (1,163) | | |
| New Zealand | **(118)** | | | (118) | | | (96) | | |
| International markets | **(217)** | | | (238) | | | (300) | | |
| | **24,511** | | | 21,151 | | | 20,916 | | |
| **Total assets** | **137,653** | | | 120,822 | | | 111,828 | | |
| **Total assets** | | | | | | | | | |
| Australia | **77,604** | | | 70,917 | | | 66,095 | | |
| New Zealand | **18,395** | | | 16,212 | | | 14,924 | | |
| International markets | **41,654** | | | 33,693 | | | 30,809 | | |
| | **137,653** | | | 120,822 | | | 111,828 | | |
| % of total assets attributable to overseas activities | **43.6%** | | | 41.3% | | | 40.9% | | |

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

| | 1997 | | | 1996 | | | 1995 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average balance $M** | **Interest $M** | **Average rate %** | Average balance $M | Interest $M | Average rate % | Average balance $M | Interest $M | Average rate % |
| **Interest bearing liabilities** | | | | | | | | | |
| Time deposits | | | | | | | | | |
| Australia | **18,495** | **1,097** | **5.9** | 18,542 | 1,340 | 7.2 | 17,605 | 1,251 | 7.1 |
| New Zealand | **8,304** | **658** | **7.9** | 7,313 | 622 | 8.5 | 6,175 | 491 | 8.0 |
| International markets | **15,904** | **1,015** | **6.4** | 11,722 | 785 | 6.7 | 9,885 | 644 | 6.5 |
| Savings deposits | | | | | | | | | |
| Australia | **8,216** | **222** | **2.7** | 7,530 | 264 | 3.5 | 7,408 | 239 | 3.2 |
| New Zealand | **2,462** | **96** | **3.9** | 2,183 | 83 | 3.8 | 1,959 | 52 | 2.7 |
| International markets | **1,266** | **69** | **5.5** | 1,142 | 57 | 5.0 | 1,158 | 55 | 4.7 |
| Other demand deposits | | | | | | | | | |
| Australia | **11,237** | **518** | **4.6** | 8,683 | 520 | 6.0 | 7,207 | 408 | 5.7 |
| New Zealand | **1,789** | **122** | **6.8** | 1,534 | 121 | 7.9 | 1,395 | 103 | 7.4 |
| International markets | **1,009** | **41** | **4.1** | 810 | 35 | 4.3 | 628 | 30 | 4.8 |
| Due to other financial institutions | | | | | | | | | |
| Australia | **300** | **15** | **5.0** | 397 | 27 | 6.8 | 213 | 15 | 7.0 |
| New Zealand | **843** | **73** | **8.7** | 732 | 72 | 9.8 | 863 | 69 | 8.0 |
| International markets | **11,549** | **716** | **6.2** | 11,501 | 763 | 6.6 | 10,902 | 722 | 6.6 |
| Commercial paper | | | | | | | | | |
| Australia | **3,081** | **181** | **5.9** | 2,469 | 186 | 7.5 | 1,601 | 110 | 6.9 |
| International markets | **1,731** | **94** | **5.4** | 1,087 | 61 | 5.6 | 1,173 | 68 | 5.8 |
| Borrowing corporations' debt | | | | | | | | | |
| Australia | **5,326** | **409** | **7.7** | 5,081 | 420 | 8.3 | 4,915 | 402 | 8.2 |
| New Zealand | **1,237** | **103** | **8.3** | 1,167 | 99 | 8.5 | 1,137 | 87 | 7.7 |
| International markets | **-** | **-** | **-** | – | – | – | 2 | – | – |
| Loan capital, bonds and notes | | | | | | | | | |
| Australia | **4,998** | **313** | **6.3** | 4,246 | 322 | 7.6 | 4,060 | 314 | 7.7 |
| New Zealand | **530** | **35** | **6.6** | 186 | 19 | 10.2 | 120 | 17 | 14.2 |
| International markets | **653** | **41** | **6.3** | 621 | 37 | 6.0 | 605 | 38 | 6.3 |
| Other liabilities[1] | | | | | | | | | |
| Australia | **425** | **49** | **n/a** | 676 | 76 | n/a | 727 | 78 | n/a |
| New Zealand | **199** | **33** | **n/a** | – | 7 | n/a | – | 9 | n/a |
| International markets | **2,010** | **118** | **n/a** | 698 | 53 | n/a | 406 | 27 | n/a |
| | **101,564** | **6,018** | **5.9** | 88,320 | 5,969 | 6.8 | 80,144 | 5,229 | 6.5 |
| **Non-interest bearing liabilities** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Australia | **2,817** | | | 2,736 | | | 3,340 | | |
| New Zealand | **1,288** | | | 1,139 | | | 1,075 | | |
| International markets | **1,529** | | | 1,249 | | | 1,139 | | |
| Acceptances | | | | | | | | | |
| Australia | **13,248** | | | 12,581 | | | 11,521 | | |
| New Zealand | **244** | | | 597 | | | 672 | | |
| International markets | **556** | | | 462 | | | 586 | | |
| Other liabilities | **9,444** | | | 7,586 | | | 7,420 | | |
| | **29,126** | | | 26,350 | | | 25,753 | | |
| **Total liabilities** | **130,690** | | | 114,670 | | | 105,897 | | |
| **Total liabilities** | | | | | | | | | |
| Australia | **72,063** | | | 66,679 | | | 62,193 | | |
| New Zealand | **17,548** | | | 15,352 | | | 14,022 | | |
| International markets | **41,079** | | | 32,639 | | | 29,682 | | |
| | **130,690** | | | 114,670 | | | 105,897 | | |
| Shareholders' equity | **6,963** | | | 6,152 | | | 5,931 | | |
| **Total liabilities and shareholders' equity** | **137,653** | | | 120,822 | | | 111,828 | | |
| % of total liabilities attributable to overseas activities | **44.9%** | | | 41.9% | | | 41.3% | | |

[1] *Includes foreign exchange swap costs*

## 30: Interest Sensitivity Gap

The following table represents the interest rate sensitivity as at 30 September 1997 of the Group's assets, liabilities and off-balance sheet instruments repricing (that is, when interest rates applicable to each asset or liability can be changed) in the periods shown.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for gap positions. Major changes in gap positions can be made to adjust the profile as market outlooks change.

| | Less than 3 months $M | Between 3 months and 6 months $M | Between 6 months and 12 months $M | Between 1 year and 5 years $M | After 5 years $M | Not bearing interest $M | **Total $M** |
|---|---|---|---|---|---|---|---|
| Liquid assets and due from other financial institutions | 14,085 | 1,402 | 1,071 | 361 | 14 | 953 | **17,886** |
| Trading and investment securities | 6,533 | 1,073 | 587 | 1,172 | 539 | 501 | **10,405** |
| Net loans and advances | 53,015 | 7,602 | 8,285 | 14,726 | 1,019 | (499) | **84,148** |
| Other assets | 2,674 | 148 | 2 | 16 | 2 | 22,960 | **25,802** |
| Total assets | 76,307 | 10,225 | 9,945 | 16,275 | 1,574 | 23,915 | **138,241** |
| Certificates of deposit and term deposits | 34,611 | 3,409 | 3,368 | 1,454 | 15 | – | **42,857** |
| Other deposits | 26,207 | 523 | 212 | 1,223 | 5 | 5,774 | **33,944** |
| Other borrowings and due to other financial institutions | 13,151 | 4,023 | 2,962 | 2,196 | – | 893 | **23,225** |
| Other liabilities | 1,953 | 55 | 9 | 16 | – | 23,810 | **25,843** |
| Bond, notes and loan capital | 2,991 | 688 | – | 298 | 1,402 | – | **5,379** |
| Total liabilities | 78,913 | 8,698 | 6,551 | 5,187 | 1,422 | 30,477 | **131,248** |
| Shareholders' equity and outside equity interests | – | – | – | – | – | 6,993 | **6,993** |
| Off-balance sheet items affecting interest rate sensitivity | 3,382 | (1,447) | 275 | (1,035) | (1,175) | – | **-** |
| **Interest sensitivity gap** | | | | | | | |
| **– net** | 776 | 80 | 3,669 | 10,053 | (1,023) | (13,555) | **-** |
| **– cumulative** | 776 | 856 | 4,525 | 14,578 | 13,555 | – | **-** |

## 31: Net Fair Value of Financial Instruments

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

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

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

The fair values are based on relevant information available as at 30 September 1997. While judgement is used in obtaining the net fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The net fair value amounts have not been updated for the purposes of these financial statements since 30 September 1997, and therefore the net fair value of the financial instruments subsequent to 30 September 1997 may be different from the amounts reported.

| | Net fair value | | Carrying value | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| **Financial Assets** | $M | $M | $M | $M |
| Liquid assets | **6,298** | 6,906 | **6,298** | 6,901 |
| Due from other financial institutions | **11,588** | 11,356 | **11,588** | 11,353 |
| Trading securities | **7,266** | 7,334 | **7,266** | 7,334 |
| Investment securities and shares in associates | **3,156** | 2,577 | **3,146** | 2,580 |
| Loans and advances | **85,537** | 76,958 | **84,148** | 75,901 |
| Customers' liabilities for acceptances | **14,040** | 14,006 | **14,040** | 14,013 |
| Other financial assets | **7,665** | 5,731 | **7,761** | 5,609 |

**Liquid assets and Due from other financial institutions**

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

**Trading securities**

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

**Investment securities and shares in associates**

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

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

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

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

The difference between estimated net fair values of loans, advances and acceptances and carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination. The excess of net fair value of loans and advances over the carrying value is primarily a result of offsetting the general provision for doubtful debts against the carrying value and the effect of declining interest rates.

Finance lease receivables, with a carrying value of $2,694 million (1996: $2,880 million) and a net fair value of $2,722 million (1996: $2,864 million), are included in loans and advances.

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

**Other financial assets**

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

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

Properties held for resale, future income tax benefits and prepaid expenses are not considered financial assets.

| | Net fair value | | Carrying value | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| **Financial Liabilities** | $M | $M | $M | $M |
| Due to other financial institutions | **10,872** | 12,697 | **10,874** | 12,682 |
| Deposits and other borrowings | **89,277** | 79,724 | **89,152** | 79,709 |
| Liability for acceptances | **14,040** | 14,006 | **14,040** | 14,013 |
| Bonds and notes | **1,984** | 2,277 | **1,990** | 2,264 |
| Loan capital | **3,413** | 3,586 | **3,389** | 3,600 |
| Other financial liabilities | **9,457** | 7,160 | **9,471** | 7,115 |

**Due to other financial institutions**

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

**Deposits and other borrowings**

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

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

The net fair value of interest bearing deposits and other liabilities reflects declining interest rates during the year ended 30 September 1997.

**Bonds and notes and loan capital**

The aggregate net fair value of bonds and notes and loan capital at 30 September 1997 was calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the instrument was used.

**Other financial liabilities**

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

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

**Commitments and contingencies**

As outlined in note 38, the Group has various credit-related commitments. Based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, together with any changes in the creditworthiness of counterparties since origination of the commitments, their estimated replacement or net fair value is not material.

**Transaction costs**

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

## 32: Segment Analysis

The following analysis shows income, operating profit, total assets and risk weighted assets based on geographical locations and income, operating profit and total assets by industry segments.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| **Geographical** | $M | % | $M | % | $M | % |
| **Income**[1] | | | | | | |
| Australia | **6,534** | **55** | 6,623 | 58 | 6,145 | 60 |
| New Zealand | **2,020** | **17** | 1,886 | 16 | 1,657 | 16 |
| UK and Europe | **1,191** | **10** | 1,000 | 9 | 861 | 8 |
| Asia Pacific | **865** | **7** | 826 | 7 | 680 | 7 |
| South Asia | **657** | **5** | 435 | 4 | 339 | 3 |
| Americas | **364** | **3** | 325 | 3 | 317 | 3 |
| Middle East | **360** | **3** | 287 | 3 | 286 | 3 |
| | **11,991** | **100** | 11,382 | 100 | 10,285 | 100 |
| **Operating profit before income tax** | | | | | | |
| Australia | **892** | **51** | 886 | 55 | 903 | 58 |
| New Zealand | **233** | **13** | 203 | 13 | 204 | 13 |
| UK and Europe | **160** | **9** | 155 | 9 | 116 | 8 |
| Asia Pacific | **141** | **8** | 147 | 9 | 124 | 8 |
| South Asia | **166** | **9** | 81 | 5 | 57 | 4 |
| Americas | **63** | **4** | 64 | 4 | 60 | 4 |
| Middle East | **103** | **6** | 79 | 5 | 84 | 5 |
| | **1,758** | **100** | 1,615 | 100 | 1,548 | 100 |
| Abnormal items | | | | | | |
| Australia | **(240)** | **-** | – | – | – | – |
| New Zealand | **(61)** | **-** | – | – | – | – |
| UK and Europe | **(13)** | **-** | – | – | – | – |
| Asia Pacific | **(1)** | **-** | – | – | – | – |
| South Asia | **136** | **-** | – | – | – | – |
| America | **(1)** | **-** | – | – | – | – |
| Middle East | **(2)** | **-** | – | – | – | – |
| | **(182)** | **-** | – | – | – | – |
| | **1,576** | **-** | 1,615 | – | 1,548 | – |
| **Operating profit after income tax** | | | | | | |
| Australia | **627** | **54** | 657 | 59 | 612 | 59 |
| New Zealand | **165** | **14** | 138 | 12 | 146 | 14 |
| UK and Europe | **112** | **9** | 106 | 10 | 83 | 8 |
| Asia Pacific | **95** | **8** | 99 | 9 | 79 | 8 |
| South Asia | **82** | **7** | 36 | 3 | 27 | 3 |
| Americas | **36** | **3** | 38 | 3 | 39 | 4 |
| Middle East | **54** | **5** | 42 | 4 | 47 | 4 |
| | **1,171** | **100** | 1,116 | 100 | 1,033 | 100 |
| Abnormal items | | | | | | |
| Australia | **(155)** | **-** | – | – | 19 | – |
| New Zealand | **(41)** | **-** | – | – | – | – |
| UK and Europe | **(9)** | **-** | – | – | – | – |
| South Asia | **59** | **-** | – | – | – | – |
| Middle East | **(1)** | **-** | – | – | – | – |
| | **(147)** | **-** | – | – | 19 | – |
| | **1,024** | **-** | 1,116 | – | 1,052 | – |

## 32: Segment Analysis (continued)

| | Consolidated 1997 $M | 1997 % | 1996 $M | 1996 % | 1995 $M | 1995 % |
|---|---|---|---|---|---|---|
| **Total assets** | | | | | | |
| Australia | **80,321** | **58** | 75,110 | 59 | 67,594 | 60 |
| New Zealand | **18,831** | **14** | 17,463 | 13 | 15,310 | 13 |
| UK and Europe | **16,886** | **12** | 15,008 | 12 | 12,001 | 11 |
| Asia Pacific | **9,844** | **7** | 9,163 | 7 | 7,874 | 7 |
| South Asia | **3,959** | **3** | 3,333 | 3 | 3,306 | 3 |
| Americas | **4,611** | **3** | 4,723 | 4 | 3,666 | 3 |
| Middle East | **3,789** | **3** | 2,804 | 2 | 2,836 | 3 |
| | **138,241** | **100** | 127,604 | 100 | 112,587 | 100 |
| **Risk weighted assets** | | | | | | |
| Australia | **66,687** | **63** | 59,681 | 64 | 53,531 | 65 |
| New Zealand | **14,332** | **14** | 13,492 | 14 | 11,748 | 14 |
| UK and Europe | **8,471** | **8** | 6,220 | 7 | 5,238 | 6 |
| Asia Pacific | **6,489** | **6** | 5,358 | 6 | 4,766 | 6 |
| South Asia | **2,897** | **3** | 2,244 | 2 | 2,213 | 3 |
| Americas | **4,505** | **4** | 4,527 | 5 | 3,535 | 4 |
| Middle East | **2,766** | **2** | 1,995 | 2 | 2,045 | 2 |
| | **106,147** | **100** | 93,517 | 100 | 83,076 | 100 |
| **Industry** | | | | | | |
| **Income**[1] | | | | | | |
| General banking | **9,797** | **82** | 9,496 | 84 | 8,955 | 87 |
| Investment banking capital markets | **708** | **6** | 480 | 4 | n/a | n/a |
| Finance | **1,293** | **11** | 1,253 | 11 | 1,154 | 11 |
| Insurance and funds management | **193** | **1** | 153 | 1 | 176 | 2 |
| | **11,991** | **100** | 11,382 | 100 | 10,285 | 100 |
| **Operating profit before income tax** | | | | | | |
| General banking | **1,272** | **72** | 1,257 | 78 | 1,217 | 79 |
| Investment banking capital markets | **208** | **12** | 100 | 6 | n/a | n/a |
| Finance | **203** | **12** | 201 | 12 | 234 | 15 |
| Insurance and funds management | **75** | **4** | 57 | 4 | 97 | 6 |
| | **1,758** | **100** | 1,615 | 100 | 1,548 | 100 |
| Abnormal items | **(182)** | **-** | – | – | – | – |
| | **1,576** | **-** | 1,615 | – | 1,548 | – |
| **Operating profit after income tax** | | | | | | |
| General banking | **832** | **71** | 860 | 77 | 793 | 77 |
| Investment banking capital markets | **144** | **12** | 72 | 6 | n/a | n/a |
| Finance | **130** | **11** | 133 | 12 | 158 | 15 |
| Insurance and funds management | **65** | **6** | 51 | 5 | 82 | 8 |
| | **1,171** | **100** | 1,116 | 100 | 1,033 | 100 |
| Abnormal items | **(147)** | **-** | – | – | 19 | – |
| | **1,024** | **-** | 1,116 | – | 1,052 | – |
| **Total assets** | | | | | | |
| General banking | **120,319** | **87** | 112,169 | 88 | 102,120 | 91 |
| Investment banking capital markets | **6,353** | **5** | 4,549 | 4 | n/a | n/a |
| Finance | **11,258** | **8** | 10,639 | 8 | 9,997 | 9 |
| Insurance and funds management | **311** | **-** | 247 | – | 470 | – |
| | **138,241** | **100** | 127,604 | 100 | 112,587 | 100 |

[1] *Includes abnormal items*

*n/a Not applicable*

## 33: Notes to the Statements of Cash Flows

### a) Reconciliation of operating profit after income tax to net cash provided by operating activities

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| | Inflows (Outflows) | | | Inflows (Outflows) | |
| Operating profit after income tax | **1,024** | 1,116 | 1,052 | **647** | 1,023 |
| Adjustments to reconcile operating profit after income tax to net cash provided by operating activities | | | | | |
| Provisions for doubtful debts | **287** | 154 | 174 | **221** | 110 |
| Depreciation and amortisation | **288** | 255 | 236 | **110** | 108 |
| Provisions for employee entitlements and other | **560** | 189 | 201 | **386** | 81 |
| Payments from provisions | **(362)** | (194) | (190) | **(207)** | (49) |
| Loss on sale of premises and equipment | **2** | 14 | 1 | **1** | 12 |
| Provision for surplus lease space | **29** | (7) | 2 | **10** | (8) |
| (Profit) loss on sale of controlled entities and associates | **(10)** | 2 | – | **–** | – |
| Profit on sale of investment securities | **(2)** | – | – | **(1)** | – |
| Net decrease (increase) | | | | | |
| Trading securities | **304** | (1,595) | (1,222) | **1,212** | (1,339) |
| Interest receivable | **(127)** | 230 | (282) | **(126)** | 101 |
| Accrued income | **(18)** | 8 | 6 | **(3)** | 8 |
| Net debit tax balances | **162** | 137 | 333 | **28** | 145 |
| Amortisation of discounts/premiums included in interest income | **(85)** | (58) | (83) | **3** | (14) |
| Net increase (decrease) | | | | | |
| Interest payable | **23** | (167) | 364 | **114** | (64) |
| Accrued expenses | **47** | 62 | (2) | **23** | 44 |
| Amortisation of discounts/premiums included in interest expense | **–** | – | 1 | **–** | – |
| Other | **(89)** | (50) | (61) | **1** | (7) |
| Total adjustments | **1,009** | (1,020) | (522) | **1,772** | (872) |
| **Net cash provided by operating activities** | **2,033** | 96 | 530 | **2,419** | 151 |

### b) Reconciliation of cash and cash equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions with original term to maturity of less than 90 days.

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the balance sheets as follows

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| Liquid assets – less than 90 days | **3,857** | 4,285 | 2,824 | **1,829** | 2,456 |
| Due from other financial institutions – less than 90 days | **8,599** | 6,961 | 4,255 | **5,164** | 4,348 |
| | **12,456** | 11,246 | 7,079 | **6,993** | 6,804 |

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

### c) Acquisitions and disposals

Details of aggregate assets and liabilities of controlled entities and branches acquired, and disposed of, by the Group are as follows

| | Consolidated 1997 $M | Consolidated 1996 $M | Consolidated 1995 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|---|
| Fair value of net assets acquired | | | | | |
| Liquid assets | **2** | 13 | – | **–** | 10 |
| Due from other financial institutions | **–** | – | – | **–** | 1,672 |
| Net loans and advances | **–** | 2 | – | **–** | 42 |
| Other assets | **2** | 1 | 81 | **–** | 83 |
| Premises and equipment | **4** | – | – | **–** | 4 |
| Due to other financial institutions | **–** | – | – | **–** | (39) |
| Creditors and other liabilities | **(3)** | (1) | – | **–** | (16) |
| Deposits and other borrowings | **–** | – | – | **–** | (1,596) |
| Due to controlled entities | **–** | – | – | **–** | (7) |
| Income tax liability | **–** | (5) | – | **–** | (9) |
| Provisions | **–** | (10) | – | **–** | – |
| Fair value of net assets acquired | **5** | – | 81 | **–** | 144 |
| Goodwill on acquisition | **6** | – | – | **–** | 64 |
| Consideration paid | **11** | – | 81 | **–** | 208 |
| Cash acquired | **–** | (13) | – | **–** | (10) |
| Cash consideration paid (received) | **11** | (13) | 81 | **–** | 198 |
| Fair value of net assets disposed | | | | | |
| Liquid assets | **4** | – | – | **–** | – |
| Due from other financial institutions | **35** | – | – | **–** | – |
| Net loans and advances | **72** | – | – | **–** | – |
| Other assets | **20** | – | – | **–** | – |
| Premises and equipment | **1** | – | – | **–** | – |
| Due to other financial institutions | **(2)** | – | – | **–** | – |
| Creditors and other liabilities | **(13)** | – | – | **–** | – |
| Deposits and other borrowings | **(104)** | – | – | **–** | – |
| Provisions | **1** | – | – | **–** | – |
| Fair value of net assets disposed | **14** | – | – | **–** | – |
| Net profit on disposal | **10** | – | – | **–** | – |
| Consideration received/receivable | **24** | – | – | **–** | – |
| Deferred settlements | **17** | 14 | 14 | **–** | – |
| Cash consideration received | **41** | 14 | 14 | **–** | – |
| **d) Non-cash financing and investing activities** | | | | | |
| Share capital issues | | | | | |
| Dividend reinvestment plan | **180** | 135 | 192 | **180** | 135 |
| Bonus option plan | **3** | 6 | 11 | **3** | 6 |

| **e) Financing arrangements** | 1997 Available $M | 1997 Unused $M | 1996 Available $M | 1996 Unused $M |
|---|---|---|---|---|
| Financing arrangements which are available under normal financial arrangements | | | | |
| Credit standby arrangements | | | | |
| Commercial bills acceptance discount lines | **100** | **100** | 100 | 100 |
| Standby lines | **2,719** | **2,057** | 1,955 | 1,854 |
| Other financing arrangements | | | | |
| Overdrafts and other financing arrangements | **1,065** | **452** | 457 | 449 |
| Total finance available | **3,884** | **2,609** | 2,512 | 2,403 |

## 34: Controlled Entities

All controlled entities are 100% owned unless otherwise noted.
The material controlled entities of the Group are

| | Incorporated in | Book value 1997 $M | Book value 1996 $M | Contribution to the consolidated result 1997 $M | Contribution to the consolidated result 1996 $M | Nature of Business |
|---|---|---|---|---|---|---|
| **Australia and New Zealand Banking Group Limited** | | | | **371** | 557 | Banking |
| **A.F.T. Investors Services Limited** | Australia | **6** | 6 | **#** | # | Holding Company |
| **ANZ Adelaide Group Limited** [3] | Australia | **52** | 63 | **(11)** | 3 | Property Owner |
| **ANZ Bank (Guernsey) Limited** * | Guernsey | **33** | 27 | **3** | 3 | Banking |
| **ANZ Capital Hedging Limited** | Australia | **7** | 52 | **(6)** | 8 | Capital Hedging |
| **ANZ (Delaware) Inc.*** | USA | **–** | – | **–** | – | Finance |
| **ANZ Executors & Trustee Company Limited** | Australia | **54** | 41 | **13** | 9 | Trustee/Nominee |
| **ANZ Finance (Far East) Limited** | Australia | **22** | 22 | **#** | # | Property Owner |
| **ANZ Funds Pty Ltd** | Australia | **3,765** | 3,327 | **2** | 21 | Holding Company |
| ANZ Grindlays International Limited * | Hong Kong | **#** | # | **(3)** | # | Holding Company |
| ANZ Asia Pacific Holdings Ltd * | Hong Kong | **78** | 71 | **1** | 1 | Holding Company |
| ANZ Bank (Vanuatu) Limited * | Vanuatu | **#** | # | **3** | 3 | Banking |
| La Serigne Limited * | Vanuatu | **4** | – | **–** | – | Property Owner |
| ANZ International Private Limited * | Singapore | **715** | 715 | **1** | (2) | Holding Company |
| ANZCOVER Insurance Pte Ltd * | Singapore | **75** | 75 | **9** | 15 | Insurance |
| ANZ Holdings (New Zealand) Limited * | New Zealand | **202** | 203 | **(11)** | (12) | Holding Company |
| ANZ Banking Group (New Zealand) Limited * | New Zealand | **356** | 355 | **59** | 60 | Banking |
| Bage Investments Limited * | New Zealand | **222** | 221 | **12** | 13 | Investment |
| Endeavour Investments (NZ) Limited * | New Zealand | **847** | 843 | **47** | 47 | Holding Company |
| Greyloch Investments Limited * | New Zealand | **106** | – | **1** | – | Finance |
| UDC Group Holdings Limited * | New Zealand | **66** | 66 | **–** | – | Holding Company |
| UDC Finance Limited * | New Zealand | **54** | 54 | **18** | 22 | Finance |
| Mutual Leasing Limited * | New Zealand | **16** | 16 | **(3)** | 5 | Lease Finance |
| Truck Leasing Limited * | New Zealand | **4** | 2 | **(1)** | # | Leasing |
| UDC Leasing Limited * | New Zealand | **16** | 16 | **2** | 2 | Lease Finance |
| National Mutual Permanent Building Society* | New Zealand | **12** | 12 | **#** | # | Building Society |
| ANZ Singapore Limited * | Singapore | **12** | 11 | **6** | 6 | Merchant Banking |
| Bank of Western Samoa * [4] | Samoa | **18** | 18 | **3** | 3 | Banking |
| LFD Limited | Australia | **204** | 204 | **21** | 23 | Finance |
| GNPL Limited | Australia | **11** | 11 | **–** | # | Non-operative |
| RFDL Limited | Australia | **1** | 1 | **(6)** | 8 | Finance |
| Minerva Holdings Limited * | England | **82** | 82 | **5** | # | Holding Company |
| ANZ Grindlays Export Finance Limited * | England | **49** | 43 | **1** | 2 | Export Finance |
| Town & Country Land Holdings Limited | Australia | **115** | 115 | **2** | (1) | Property Development |
| ANZ Lenders Mortgage Insurance Pty Limited | Australia | **9** | 9 | **5** | 2 | Mortgage Insurance |
| Town & Country Housing Trust | Australia | **43** | 46 | **#** | # | Property Investment |
| **ANZ General Insurance Pty Limited** | Australia | **3** | 3 | **#** | # | General Insurance |
| **ANZ Grindlays Jersey Holdings Limited** * | Jersey | **164** | 130 | **–** | – | Holding Company |
| ANZ Grindlays Bank (Jersey) Limited * | Jersey | **58** | 51 | **15** | 17 | Banking |
| **ANZ Grindlays Holdings Limited** | Australia | **1,101** | 841 | **–** | 1 | Holding Company |
| ANZ Grindlays Bank Limited | Australia | **204** | 204 | **204** | 94 | Banking |
| Grindlays Bahrain Bank B.S.C. [5] | Bahrain | **16** | 14 | **2** | 2 | Banking |
| Grindlays Modaraba Management (Private) Limited | Pakistan | **#** | # | **–** | – | Fund Management |
| Nepal Grindlays Bank Limited * | Nepal | **12** | 10 | **3** | 3 | Banking |
| **A.N.Z. Holdings Limited** | Australia | **128** | 128 | **#** | # | Property owner |
| **ANZ Investment Holdings Limited** | Australia | **54** | 44 | **1** | # | Investment |
| 530 Collins Street Property Trust | Australia | **397** | 397 | **7** | 18 | Investment Activities |
| **A.N.Z. Investments Limited** | Australia | **17** | 16 | **1** | # | Investment |
| **ANZ Life Assurance Company Limited** | Australia | **436** | 354 | **82** | 55 | Life Assurance |
| **ANZ Managed Investments Limited** | Australia | **85** | 70 | **15** | 11 | Investment Services |
| **A.N.Z. Properties (Australia) Limited** | Australia | **21** | 21 | **#** | (1) | Property Owner |
| **ANZ Securities (Holdings) Limited** | Australia | **33** | 47 | **1** | (1) | Holding Company |
| ANZ Securities (Corporate) Limited | Australia | **1** | 1 | **(12)** | # | Corporate Advisory |
| ANZ Securities Limited | Australia | **6** | 6 | **3** | 6 | Administration |
| **Australia and New Zealand Banking Group (PNG) Limited** * | Papua New Guinea | **33** | 27 | **17** | 13 | Banking |
| **Bellinz Pty Ltd** | Australia | **25** | – | **#** | – | Investment |

## 34: Controlled Entities (continued)

| | Incorporated in | Book value 1997 $M | Book value 1996 $M | Contribution to the consolidated result 1997 $M | Contribution to the consolidated result 1996 $M | Nature of Business |
|---|---|---|---|---|---|---|
| **Esanda Finance Corporation Limited** | Australia | **865** | 937 | **86** | 95 | General Finance |
| Finance Corporation of Australia Limited | Australia | **75** | 75 | **(2)** | 3 | Real Estate Finance |
| Mercantile Credits Limited | Australia | **9** | 9 | **(1)** | (2) | General Finance |
| Alliance Holdings Limited | Australia | **119** | 119 | **-** | 1 | Holding Company |
| Fleet Partners Pty Limited [6] | Australia | **#** | # | **2** | - | Fleet Management |
| Repair Authorisation Centre (RAC) Pty Limited | Australia | **#** | - | **-** | - | Fleet Maintenance |
| Fleetlink Leasing Pty Limited | Australia | **5** | 1 | **-** | - | Lease Finance |
| **NMRB Limited** | Australia | **445** | 420 | **#** | 2 | Holding Company |
| ANZ Capel Court Limited | Australia | **57** | 57 | **21** | 5 | Investment Banking |
| NMRSB Limited | Australia | **132** | 132 | **#** | # | Holding Company |
| **PT ANZ Panin Bank ★** | Indonesia | **40** | 41 | **8** | 8 | Banking |
| Contributions of above entities to the Group result after income tax and abnormal items | | | | **997** | 1,128 | |
| Adjustment for controlled entities sold/liquidated | | | | **#** | # | |
| Adjustments on consolidation | | | | **#** | # | |
| Contribution of non-material controlled entities | | | | **25** | (12) | |
| Equity accounting profit (notes 1(ii) and 35) | | | | **2** | - | |
| **Consolidated operating profit after income tax** | | | | **1,024** | 1,116 | |

★ *Audited by overseas KPMG firms*

\# *Amounts less than $500,000*

[1] *The above controlled entities are 100% owned with the exception of Australia and New Zealand Banking Group (PNG) Limited (93%), Grindlays Bahrain Bank B.S.C. (40%), Nepal Grindlays Bank Limited (50%), PT ANZ Panin Bank (85%) and Town & Country Housing Trust (93%)*

[2] *Outside equity interests hold ordinary shares or units in the controlled entities listed above as follows:*
- *Australia and New Zealand Banking Group (PNG) Limited - 371,507 PGK1 shares (7%)*
- *Grindlays Bahrain Bank B.S.C. - 3,600,000 BHD1 shares (60%)*
- *Nepal Grindlays Bank Limited - 750,000 NPR 100 shares (50%)*
- *PT ANZ Panin Bank - 7,500 IDR1m shares (15%)*
- *Town & Country Housing Trust - 2,435,931 $1 units (7%)*

[3] *ANZ Adelaide Group Limited owns 100% of the issued ordinary shares of Penplaza Investments Pty Limited but does not control that company as it does not have substantially all the risks and benefits incidental to ownership or control*

[4] *Subsequent to 30 September 1997, Bank of Western Samoa was renamed ANZ Bank (Samoa) Limited*

[5] *ANZ Grindlays Bank Limited controls Grindlays Bahrain Bank B.S.C. due to the existence of an agreement whereby ANZ Grindlays Bank Limited provides management and other technical services giving the capacity to dominate decision making*

[6] *Formerly Autofleet Pty Limited*

[7] *The following controlled entities were audited by firms other than KPMG*
- *Clive Street Nominees Private Limited*
- *Grindlays Bahrain Bank B.S.C.*
- *Grindlays International (Cayman Islands) Limited*
- *Grindlays Modaraba Management (Private) Limited*
- *Grindlays Services of Pakistan (Private) Limited*

## 35: Associates

Significant associates of the Group are

| | Incorporated in | Interest % | Book value 1997 $M | Book value 1996 $M | Balance date | Contribution to the consolidated result 1997 $M | Principal activity |
|---|---|---|---|---|---|---|---|
| Sime Merchant Bankers Berhad[1] | Malaysia | 26.5 | **6** | 4 | 31 Jan | **2** | Merchant Bank |
| Other associates | | | **1** | - | | **-** | |
| Associates disposed of or reclassified as controlled entities during the current year [2] | | | **-** | 6 | | **-** | |
| **Total shares in associates** | | | **7** | 10 | | **2** | |

[1] *Formerly Asian International Merchant Bankers Berhad. The investment is held by ANZ Grindlays Bank Limited*

[2] *The investment held by UDC Finance Limited in Amalgamated Finance Limited was disposed of during the year*

| | Consolidated 1997 $M | Consolidated 1996 $M | The Company 1997 $M | The Company 1996 $M |
|---|---|---|---|---|
| **36: Commitments** | | | | |
| **Capital expenditure** | | | | |
| Contracts for outstanding capital expenditure | | | | |
| Not later than 1 year | **56** | 43 | **27** | 9 |
| Total capital expenditure commitments | **56** | 43 | **27** | 9 |
| **Lease rentals** | | | | |
| Future rentals in respect of leases | | | | |
| Land and buildings | | | | |
| Not later than 1 year | **139** | 143 | **110** | 114 |
| Later than 1 year but not later than 2 years | **130** | 131 | **106** | 107 |
| Later than 2 years but not later than 5 years | **219** | 251 | **168** | 204 |
| Later than 5 years | **444** | 475 | **398** | 472 |
| | **932** | 1,000 | **782** | 897 |
| Furniture and equipment | | | | |
| Not later than 1 year | **5** | 4 | **1** | – |
| Later than 1 year but not later than 2 years | **3** | 3 | **1** | – |
| Later than 2 years but not later than 5 years | **3** | 1 | **–** | 1 |
| | **11** | 8 | **2** | 1 |
| Total lease rental commitments | **943** | 1,008 | **784** | 898 |
| **Total commitments** | **999** | 1,051 | **811** | 907 |

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

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

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

## 37: Derivative Financial Instruments (continued)

### Credit risk

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

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

The gross replacement cost is the cost of replacing those financial instruments with a positive market value to the Group. It represents the potential credit loss had all counterparties defaulted on the reporting date and any collateral become worthless. There is no allowance for netting arrangements.

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

| Consolidated | **Notional principal amount 1997 $M** | **Gross replacement cost 1997 $M** | **Credit equivalent amount 1997 $M** | Notional principal amount 1996 $M | Gross replacement cost 1996 $M | Credit equivalent amount 1996 $M |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts** | | | | | | |
| Spot and forward contracts | **202,885** | **3,547** | **5,404** | 159,243 | 1,487 | 2,916 |
| Swap agreements | **10,810** | **321** | **678** | 5,872 | 127 | 355 |
| Options purchased | **11,537** | **182** | **325** | 5,637 | 47 | 111 |
| Options sold[1] | **11,033** | **n/a** | **n/a** | 5,385 | n/a | n/a |
| | **236,265** | **4,050** | **6,407** | 176,137 | 1,661 | 3,382 |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | **66,719** | **37** | **122** | 95,994 | 65 | 137 |
| Swap agreements | **193,092** | **2,030** | **2,465** | 148,495 | 1,256 | 1,567 |
| Futures contracts[2] | **125,942** | **n/a** | **n/a** | 87,864 | n/a | n/a |
| Options purchased | **13,548** | **27** | **38** | 4,001 | 8 | 15 |
| Options sold[1] | **20,899** | **n/a** | **n/a** | 3,632 | n/a | n/a |
| Other contracts | **944** | **3** | **13** | 248 | 3 | 4 |
| | **421,144** | **2,097** | **2,638** | 340,234 | 1,332 | 1,723 |
| | **657,409** | **6,147** | **9,045** | 516,371 | 2,993 | 5,105 |

[1] *Options sold have no credit exposure, as they represent obligations rather than assets*

[2] *Replacement costs have not been included as there is minimal credit risk associated with exchange traded futures where the clearing house is the counterparty*

## 37: Derivative Financial Instruments (continued)

The maturity structure of derivative activity is a primary component of potential credit exposure. The table below shows the remaining maturity profile by class of derivatives based on notional principal amounts.

| Consolidated | Remaining life | | | |
|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | Greater than 5 years | Total |
| At 30 September 1997 | $M | $M | $M | $M |
| **Foreign exchange contracts** | | | | |
| Spot and forward contracts | **200,173** | **2,680** | **32** | **202,885** |
| Swap agreements | **4,575** | **4,757** | **1,478** | **10,810** |
| Options purchased | **11,195** | **342** | **-** | **11,537** |
| Options sold | **10,492** | **541** | **-** | **11,033** |
| | **226,435** | **8,320** | **1,510** | **236,265** |
| **Interest rate contracts** | | | | |
| Forward rate agreements | **49,731** | **16,988** | **-** | **66,719** |
| Swap agreements | **105,900** | **75,440** | **11,752** | **193,092** |
| Futures contracts | **97,043** | **27,479** | **1,420** | **125,942** |
| Options purchased | **9,613** | **2,034** | **1,901** | **13,548** |
| Options sold | **14,413** | **2,202** | **4,284** | **20,899** |
| Other contracts | **918** | **26** | **-** | **944** |
| | **277,618** | **124,169** | **19,357** | **421,144** |
| **Total** | **504,053** | **132,489** | **20,867** | **657,409** |
| **At 30 September 1996** | | | | |
| **Foreign exchange contracts** | | | | |
| Spot and forward contracts | 157,429 | 1,800 | 14 | 159,243 |
| Swap agreements | 1,645 | 3,921 | 306 | 5,872 |
| Options purchased | 5,454 | 183 | - | 5,637 |
| Options sold | 5,239 | 146 | - | 5,385 |
| | 169,767 | 6,050 | 320 | 176,137 |
| **Interest rate contracts** | | | | |
| Forward rate agreements | 81,573 | 14,421 | - | 95,994 |
| Swap agreements | 86,096 | 58,518 | 3,881 | 148,495 |
| Futures contracts | 64,403 | 22,926 | 535 | 87,864 |
| Options purchased | 2,576 | 1,293 | 132 | 4,001 |
| Options sold | 2,269 | 1,230 | 133 | 3,632 |
| Other contracts | 228 | 19 | 1 | 248 |
| | 237,145 | 98,407 | 4,682 | 340,234 |
| **Total** | 406,912 | 104,457 | 5,002 | 516,371 |

## 37: Derivative Financial Instruments (continued)

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

The following table shows the concentrations of credit risk, by class of counterparty and by geographic location, measured by credit equivalent amount. In excess of 78% of the Group's exposures are with counterparties which are either Australian banks or banks based in other OECD countries.

| Consolidated | Credit equivalent | |
|---|---|---|
| | **1997** | 1996 |
| **Class of Counterparty** | **$M** | $M |
| Commonwealth and OECD governments | **55** | 60 |
| Australian and OECD banks | **7,062** | 4,200 |
| Corporations, non-OECD banks and others | **1,928** | 845 |
| | **9,045** | 5,105 |

| | Credit equivalent | |
|---|---|---|
| | **1997** | 1996 |
| **Geographic location** | **$M** | $M |
| Australia | **4,007** | 1,959 |
| New Zealand | **601** | 486 |
| International markets | **4,437** | 2,660 |
| | **9,045** | 5,105 |

### Market risk

The market risk of derivatives arises from the potential for changes in value due to movements in interest and foreign exchange rates.

The Group calculates value at risk based on historical models of movements in interest rates and exchange rates, and using a 97.5% confidence level that the adverse movements will not exceed the value at risk. If value at risk is estimated to be $1 million, then based on historical analysis over 500 working days there is approximately one chance in 40 of seeing an adverse movement in excess of $1 million within the current trading day, on the basis of the opening position. Reflecting the nature of its trading activities, the Group monitors its value at risk by reference to close-to-close (overnight) risk levels.

Below are the Group's aggregate value at risk figures covering both physical and derivatives trading positions for its principal treasury trading centres. The increase in value at risk is due to the inclusion of the Group's Capital Markets activities within the value at risk regime. Previously, the risks associated with these activities were managed as credit risks within the Group's credit systems and controls.

| | **As at 30 Sep 97** | **Maximum 1997** | **Average 1997** | As at 30 Sep 96 | Maximum 1996 | Average 1996 |
|---|---|---|---|---|---|---|
| **Consolidated** | **$M** | **$M** | **$M** | $M | $M | $M |
| Value at risk at 97.5% confidence | | | | | | |
| Foreign exchange | **4** | **4** | **3** | 2 | 5 | 2 |
| Interest rate | **19** | **23** | **18** | 10 | 13 | 6 |

## 37: Derivative Financial Instruments (continued)

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

| Consolidated | **Fair value as at 30 Sep 1997 $M** | **Average fair value 1997 $M** | Fair value as at 30 Sep 1996 $M | Average fair value 1996 $M |
|---|---|---|---|---|
| **Foreign exchange contracts** | | | | |
| Spot and forward contracts | | | | |
| Gross unrealised gains | **3,579** | **2,301** | 1,510 | 1,515 |
| Gross unrealised losses | **(3,503)** | **(2,450)** | (1,778) | (1,736) |
| Swap agreements | | | | |
| Gross unrealised gains | **321** | **198** | 127 | 88 |
| Gross unrealised losses | **(274)** | **(273)** | (343) | (325) |
| Options purchased | **182** | **102** | 47 | 66 |
| Options sold | **(138)** | **(31)** | (73) | (104) |
| | **167** | **(153)** | (510) | (496) |
| **Interest rate contracts** | | | | |
| Forward rate agreements | | | | |
| Gross unrealised gains | **37** | **48** | 65 | 5 |
| Gross unrealised losses | **(46)** | **(48)** | (71) | (23) |
| Swap agreements | | | | |
| Gross unrealised gains | **2,030** | **1,558** | 1,256 | 1,174 |
| Gross unrealised losses | **(2,741)** | **(2,111)** | (1,579) | (1,385) |
| Futures contracts | | | | |
| Gross unrealised gains | **8** | **28** | 6 | 12 |
| Gross unrealised losses | **(9)** | **(46)** | (26) | (30) |
| Options purchased | **37** | **25** | 8 | 7 |
| Options sold | **(30)** | **(10)** | - | (7) |
| Other contracts | | | | |
| Gross unrealised gains | **3** | **-** | 3 | 2 |
| Gross unrealised losses | **(11)** | **(1)** | - | - |
| | **(722)** | **(557)** | (338) | (245) |
| **Total** | **(555)** | **(710)** | (848) | (741) |

The fair values of derivatives vary over time depending on movements in interest and exchange rates and the trading or hedging strategies used. The negative fair value as at 30 September 1997 does not represent the profitability from such transactions. It arises from contracts that have generated net positive cash flows (on which interest is being earned) since their inception but which are expected to generate negative cash flows over their remaining term.

## 37: Derivative Financial Instruments (continued)

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

The table below shows the notional principal amount, gross replacement cost and fair value of derivatives held by the Group, split between those entered into for customer-related and trading purposes, and those entered into for balance sheet hedging purposes.

| Consolidated | **Notional principal amount 1997 $M** | **Gross replacement cost 1997 $M** | **Fair value 1997 $M** | Notional principal amount 1996 $M | Gross replacement cost 1996 $M | Fair value 1996 $M |
|---|---|---|---|---|---|---|
| **Foreign exchange contracts** | | | | | | |
| Customer-related and trading purposes | **220,761** | **3,864** | **214** | 165,861 | 1,587 | (323) |
| Balance sheet hedging purposes | **15,504** | **186** | **(47)** | 10,276 | 74 | (187) |
| | **236,265** | **4,050** | **167** | 176,137 | 1,661 | (510) |
| **Interest rate contracts** | | | | | | |
| Customer-related and trading purposes | **400,942** | **1,801** | **(790)** | 317,122 | 1,102 | (396) |
| Balance sheet hedging purposes | **20,202** | **296** | **68** | 23,112 | 230 | 58 |
| | **421,144** | **2,097** | **(722)** | 340,234 | 1,332 | (338) |
| **Total** | **657,409** | **6,147** | **(555)** | 516,371 | 2,993 | (848) |

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

| Consolidated | **Balance sheet hedging contracts at 30 Sep 1997 $M** | Balance sheet hedging contracts at 30 Sep 1996 $M |
|---|---|---|
| **Expected recognition in income** | | |
| Within one year | **39** | 19 |
| One to two years | **(24)** | (16) |
| Two to five years | **45** | 39 |
| Greater than five years | **22** | (20) |
| | **82** | 22 |

## 38: Contingent Liabilities and Credit Related Commitments

### Credit related commitments

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

| | Consolidated | | The Company | | Controlled Entities | |
|---|---|---|---|---|---|---|
| | **1997 Contract amount $M** | 1996 Contract amount $M | **1997 Contract amount $M** | 1996 Contract amount $M | **1997 Contract amount $M** | 1996 Contract amount $M |
| Undrawn facilities | **38,614** | 30,014 | **27,555** | 21,592 | **11,059** | 8,422 |
| Underwriting facilities | **679** | 361 | **408** | 82 | **271** | 279 |
| Securities lending | **-** | 590 | **-** | 590 | **-** | - |
| | **39,293** | 30,965 | **27,963** | 22,264 | **11,330** | 8,701 |

### Contingent liabilities

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

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

| | Consolidated | | The Company | | Controlled Entities | |
|---|---|---|---|---|---|---|
| | **1997 Contract amount $M** | 1996 Contract amount $M | **1997 Contract amount $M** | 1996 Contract amount $M | **1997 Contract amount $M** | 1996 Contract amount $M |
| Guarantees | **2,776** | 2,149 | **2,250** | 1,431 | **526** | 718 |
| Standby letters of credit | **917** | 355 | **867** | 319 | **50** | 36 |
| Bill endorsements | **18** | 29 | **10** | 25 | **8** | 4 |
| Documentary letters of credit | **1,927** | 1,349 | **1,123** | 608 | **804** | 741 |
| Performance related contingents | **7,761** | 6,614 | **6,368** | 5,328 | **1,393** | 1,286 |
| Other | **1,069** | 828 | **797** | 631 | **272** | 197 |
| **Total contingent liabilities** | **14,468** | 11,324 | **11,415** | 8,342 | **3,053** | 2,982 |

The details and estimated maximum amount of contingent liabilities classified according to the party from whom the contingent liability could arise are set out below.

### The Company

In accordance with the clearing arrangements set out in the Australian Payments Clearing Association Limited (APCA) Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System and the High Value Clearing System, the Company has a commitment to provide liquidity support to these clearing streams in the event of a failure to settle by a member institution; for the latter clearing stream, the obligation arises only in limited circumstances.

### Controlled entities

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

(ii) Pursuant to class order 95/1530 dated 10 November 1995, relief was granted during the year to a number of wholly owned controlled entities from the Corporations Law requirements for preparation, audit, and publication of financial statements. The entities to which relief was granted are

- A.F.T. Investors Services Limited
- A.N.Z. Holdings Limited
- A.N.Z. Properties (Australia) Limited
- ANZ Adelaide Group Limited
- ANZ Capital Hedging Limited
- ANZ Finance (Far East) Limited
- ANZ Funds Pty Ltd
- ANZ Grindlays Holdings Limited
- ANZ Investment Holdings Limited
- A.N.Z. Nominees Limited
- Australian Fixed Trusts Limited
- E.S.&A. Holdings Limited
- E.S.&A. Properties (Australia) Limited
- NMRB Limited
- NMRSB Limited

It is the condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee.

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

A Deed of Cross Guarantee under the class order was lodged and approved by the Australian Securities Commission. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Law. The Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. At 30 September 1997 the controlled entities which are parties to the Deed had external aggregate assets of $2,393 million (1996: $2,721 million); external aggregate liabilities of $473 million (1996: $747 million); and their operating (loss) profit after tax and abnormal items for the year was $(9) million (1996: $418 million). A Deed of Revocation was executed during the year for the following companies which were party to the Deed of Cross Guarantee. These companies are small proprietary companies which are not required by the Corporations Law to prepare accounts.

Ecomel Pty Limited
Elgeba Pty Limited
NMRB Insurance (Agents) Pty Limited
Dinias Pty Limited
Weelya Pty Limited
A.F.T. Property Management Pty Limited
A.F.T. Property Services Pty Limited
Analed Pty Limited
ANZ Business Licensing Pty Limited
ANZ Leasing (ACT) Pty Limited
ANZ Leasing (NSW) Pty Limited
ANZ Leasing (NT) Pty Limited
ANZ Leasing (VIC) Pty Limited
ANZ Leasing Pty Limited
ANZ Payment Services Pty Limited
Eriel Pty Limited
FCA Finance Pty Limited

(iii) Pursuant to class order 95/1530 dated 10 November 1995, relief was granted during the year to Capel Court Management Limited, a wholly owned controlled entity, from the Corporations Law requirements for preparation, audit and publication of accounts. It is the condition of the class order that ANZ Capel Court Limited and its controlled entity enter into a Deed of Cross Guarantee.
A Deed of Cross Guarantee under the class orders was lodged and approved by the Australian Securities Commission. The effect of the Deed is that ANZ Capel Court Limited guarantees to each creditor payment in full of any debt in the event of winding up its controlled entity under certain provisions of the Corporations Law. ANZ Capel Court Limited will only be liable in the event that after six months any creditor has not been paid in full. The controlled entity has also given a similar guarantee in the event that ANZ Capel Court Limited is wound up. At 30 September 1997 ANZ Capel Court Limited and its controlled entity which is party to the Deed had external aggregate assets of $348 million (1996: $358 million); external aggregate liabilities of $151 million (1996: $163 million); and their operating profit after tax and abnormal items for the year was $21 million (1996: $6 million). A Deed of Revocation was executed during the year for Capel Court International Investments Pty Limited which was a party to the Deed of Cross Guarantee. This company is a small proprietary company which is not required by the Corporations Law to prepare accounts.

(iv) The Company has guaranteed payment on maturity of the principal and accrued interest of commercial paper notes issued by ANZ (Delaware) Inc. of $1,822 million (1996: $956 million).

(v) The Company is party to an underpinning agreement with ANZ Grindlays Bank Limited whereby the Company undertakes to assume risk in relation to credit facilities extended by ANZ Grindlays Bank Limited to certain individual customers which exceed 25% of ANZ Grindlays Bank Limited's capital base.

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

(vii) The Company has guaranteed, on a subordinated basis, the issue of $174 million Subordinated Floating Rate Notes issued by ANZ Banking Group (New Zealand) Ltd.

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

**General**

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

**India – National Housing Bank**

In 1992 the branch of ANZ Grindlays Bank Limited in India (the Bank) received a claim, aggregating approximately Indian Rupees 5.06 billion ($194 million) from the National Housing Bank (NHB) in that country. The claim arose out of certain cheques drawn by NHB in favour of the Bank, the proceeds of which were credited into the account of one of the customers of the Bank.

On 29 March 1997, pursuant to an Arbitration Agreement entered into on 4 November 1992, the Arbitrators made an award on this dispute in favour of the Bank. NHB has paid to the Bank the principal and interest due under the award. Subsequently, NHB filed documents with the relevant Court to challenge the award. ANZ is confident that the award will stand.

**India – Foreign Exchange Regulation Act**

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts to convertible Rupee accounts maintained with the Bank in India. In making these transactions it would appear that the provisions of the Foreign Exchange Regulation Act 1973 were inadvertently not complied with. The Bank, on its own initiative, brought these transactions to the attention of the Reserve Bank of India.

The Indian authorities have served preliminary notices on the Bank and certain of its officers in India which could lead to proceedings and possible penalties. The Group's lawyers in India have prepared responses to these notices, and the Group considers that the outcome will have no material adverse effect on the financial statements.

## 39: Superannuation Commitments

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

| | | | Contribution levels | |
|---|---|---|---|---|
| Country | Scheme | Scheme type | Employee | Employer |
| Australia | ANZGROUP (Australia) Staff Pension Scheme[1] | Defined Benefit Scheme | nil | Balance of cost |
| Australia | ANZ Australian Staff Superannuation Scheme[2] | Defined Contribution Scheme | | |
| | | Contributory | 2.5% min | Balance of cost[3] |
| | | or | | |
| | | Section A | optional | 7% of salary |
| New Zealand | ANZGROUP (New Zealand) Staff Superannuation Scheme[1, 2] | Defined Benefit Scheme | 5.5% | Balance of cost |
| | | or | | |
| | | Defined Contribution Scheme | 2.5% min | Balance of cost[4] |
| England | ANZ UK Staff Pension Scheme[1] | Defined Benefit Scheme | nil | Balance of cost |

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

[1] *These schemes provide for pension benefits*

[2] *These schemes provide for lump sum benefits*

[3] *As recommended by the actuary, not to exceed 7.25% of members' superannuation salaries for the financial year ended 30 September 1998*

[4] *7.5% of superannuation salaries*

## 39: Superannuation Commitments (continued)

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

| **1997** Scheme | Employer's contribution $M | Accrued benefits $M | Net market value of assets held by scheme $M | (Deficiency)excess of net market value of assets over accrued benefits $M | Vested benefits $M |
|---|---|---|---|---|---|
| ANZGROUP (Australia) Staff Pension Scheme[1] | 4 | 59 | 46 | (13) | 59 |
| ANZ UK Staff Pension Scheme[1] | – | 558 | 715 | 157 | 522 |

| **1996** Scheme | Employer's contribution $M | Accrued benefits $M | Net market value of assets held by scheme $M | (Deficiency)excess of net market value of assets over accrued benefits $M | Vested benefits $M |
|---|---|---|---|---|---|
| ANZGROUP (Australia) Staff Pension Scheme[2] | 5 | 64 | 44 | (20) | 64 |
| ANZ UK Staff Pension Scheme[3] | – | 459 | 584 | 125 | 429 |

[1] *Amounts were measured at 31 December 1996*
[2] *Amounts were measured at 30 September 1996*
[3] *Amounts were measured at 31 December 1995*

## 40: Fiduciary Activities

The Group conducts investment management and other fiduciary activities as trustee or manager for investment funds and trusts, including superannuation and approved deposit funds, equity trusts, property trusts and deceased estates. These funds have not been consolidated as the Company does not have direct or indirect control of the funds.

Where the Company or its controlled entities incur liabilities in respect of these operations as trustee, a right of indemnity exists against the assets of the applicable funds or trusts. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Company or its controlled entities will be required to settle the liabilities, the liabilities are not included in the financial statements.

The aggregate amounts of funds concerned are as follows

| | **1997 $M** | 1996 $M |
|---|---|---|
| Funds managed | **13,478** | 11,312 |
| Trusteeships | **4,411** | 2,142 |
| | **17,889** | 13,454 |

## 41: Exchange Rates

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

| | **1997** | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | **Closing** | **Average** | Closing | Average | Closing | Average |
| Great British pound | **0.4465** | **0.4694** | 0.5062 | 0.4963 | 0.4764 | 0.4659 |
| United States dollar | **0.7197** | **0.7679** | 0.7914 | 0.7685 | 0.7520 | 0.7406 |
| New Zealand dollar | **1.1272** | **1.1191** | 1.1314 | 1.1340 | 1.1498 | 1.1407 |

## 42: Employee Share Purchase and Share Option Schemes

The Company has four share purchase and share option schemes available for employees and directors of the Group: the ANZ Group Employee Share Purchase Scheme; the ANZ Group Senior Officers' Share Purchase Scheme; the ANZ Group Share Option Scheme; and the Directors' Share and Option Purchase Scheme. Shareholders of the Company have approved the Rules of each of the schemes. Fully paid ordinary shares issued under these schemes rank equally with other existing fully paid ordinary shares, except for fully paid ordinary shares issued on conversion from partly paid shares which are not entitled to the first dividend paid. Partly paid ordinary shares, paid to 10 cents, issued under the ANZ Group Senior Officers' Share Purchase Scheme and the Directors' Share and Option Purchase Scheme are not entitled to dividends payable by the Company, but are entitled to one vote for every ten partly paid shares. They are also entitled to participate in rights and bonus issues.

Each option granted under the ANZ Group Share Option Scheme and the Directors' Share and Option Purchase Scheme entitles a holder to purchase one ordinary share subject to any attached terms and conditions.

An offer to employees and non-executive directors cannot be made under any of the schemes if an issue pursuant to that offer will result in the aggregate of shares issued, and those liable to be issued pursuant to exercisable options granted under any of the schemes, and bonus shares issued in respect of shares issued under these schemes, exceeding 7% of the issued capital of the Company.

During the financial year, loans at concessional interest rates were available for financing shares purchased under the ANZ Group Employee Share Purchase Scheme. Shares issued under these schemes are free of brokerage and stamp duty costs.

The market price of one ordinary share at 30 September 1997 was $11.28.

Amounts received from employee share purchase and share option schemes are accounted for as follows

- the par value of fully paid shares and amounts received on partly paid shares are recognised as issued and paid-up capital;
- the difference between par value and issue price is credited to the share premium reserve; and
- amounts received for options are credited to the general reserve.

Amounts received from employee share purchase and share option schemes during the financial year, excluding calls on partly paid shares issued in prior financial years, were recognised as follows

| | The Company | |
|---|---|---|
| | **1997 $** | **1996 $** |
| Issued and paid-up capital | **6,175,275** | 3,200,483 |
| Share premium reserve | **31,382,725** | 12,679,869 |
| General reserve | **(7,469)** | – |

### ANZ Group Employee Share Purchase Scheme

All employees, excluding part-time service employees, who have had continuous service for one year with the Company or any of its controlled entities are eligible to participate in this scheme. Each eligible employee's entitlement depends on the employment level of the employee, and the maximum entitlement is 5,000 ordinary shares.

During the financial year, 4,135,275 fully paid ordinary shares were issued at a 20% discount to the market price at 28 February 1997 to 2,777 eligible employees for a total consideration of $26,589,818. 32,780 employees were eligible to participate in this offer. The total market value of the shares at issue date, which was 25 March 1997, was $33,785,198. At 30 September 1997, 43,798,610 ordinary shares had been issued since the commencement of this scheme.

### ANZ Group Senior Officers' Share Purchase Scheme

Senior officers eligible to participate in this scheme may be offered fully paid or partly paid ordinary shares.

During the financial year, no ordinary shares were issued under the scheme.

At 30 September 1997, 11,035,400 fully paid ordinary shares and 7,805,000 partly paid ordinary shares had been issued since the commencement of this scheme. The partly paid ordinary shares were paid to 10 cents on application and the balance payable either at the request of the employee or upon cessation of employment, except in the event of death, retirement or illness, in which case, the balance is payable three months after the event.

## 42: Employee Share Purchase and Share Option Schemes (continued)

### ANZ Group Share Option Scheme

Executive directors and executive officers may be invited to purchase options at one cent each under this scheme. These options do not entitle the holder to participate in a share issue of any other body corporate apart from the Company.

1,412,850 options were issued during the financial year. 60,148 options granted under the scheme lapsed during the financial year.

At 30 September 1997, 6,933,091 options were outstanding under this scheme. Options which may be exercised no later than 30 January 1999 may only be exercised if the basic earnings per share of the Group (before abnormal items) for one of the financial years ending 30 September 1996, 1997 or 1998 is at least 50% over the equivalent figure for the 1993 financial year.

Options issued during the financial year were issued pursuant to the Senior Executive Remuneration Scheme which requires that part of an executive's remuneration relative to performance against target must be taken in the form of options. These options cannot be exercised until the expiration of three years after the date of issue or after the expiration of five years after the date of issue.

| No. of options outstanding at 30 September 1997 | Exercise price | Exercisable period |
|---|---|---|
| 300,000 | $5.34 | [1]Not exercisable before 31 Jan 1997, or later than 30 Jan 1999 |
| 1,110,000 | $5.34 | [1]Not exercisable before 22 Dec 1997, or later than 30 Jan 1999 |
| 4,120,000 | $5.34 | [1]Not exercisable before 23 Mar 1998, or later than 30 Jan 1999 |
| 366,753 | $8.76 | Not exercisable before 31 Jan 2000, or later than 30 Jan 2002 |
| 36,338 | $8.76 | Not exercisable before 14 Feb 2000, or later than 13 Feb 2002 |
| 100,000 | $8.76 | Not exercisable before 24 Mar 2000, or later than 23 Mar 2002 |
| 900,000 | $8.76 | Not exercisable before 2 Jun 2000, or later than 1 Jun 2002 |

[1] *subject to performance condition*

These options will expire immediately on termination of employment, except in the event of retirement, death or where agreed by the directors of the Company, in which case, the directors may allow the options to be exercised. 2,049,611 options were exercised by former employees during the financial year with the consent of the directors where required. In the event of a takeover offer or takeover announcement, the directors of the Company may allow the options to be exercised within thirty days from the date of notification.

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

### Directors' Share and Option Purchase Scheme

This Scheme was approved by shareholders in January 1988. During the financial year, no director was eligible to subscribe for shares under the scheme and no shares were issued and no options were offered. There will be no further issues of shares or options under this Scheme and following the expiration of the remaining options on issue on 1 March 1998 or earlier exercise, the Scheme will be discontinued.

Under the Scheme each non-executive director was entitled to subscribe for up to 50,000 partly paid ordinary shares at market price, paid to 10 cents, with the balance payable any time at the request of the director or upon ceasing to be a director, except in the event of retirement, death or illness, in which case the balance is payable 90 days after such date.

Each director was, subject to the Board's approval, eligible to subscribe for an equivalent number of options at one cent each under this scheme. Options granted under this scheme were exercisable within five years after issuance or within 90 days after ceasing to be a director, if earlier. The exercise price of an option is based on the market price of an ordinary share when the option is granted, less one cent, which is payable on issue of the option.

During the financial year 290,000 partly paid shares were paid up and 50,000 options were exercised.

## 42: Employee Share Purchase and Share Option Scheme (continued)

At 30 September 1997, 950,000 partly paid shares, paid to 10 cents and 1,100,000 options had been issued since the commencement of this scheme.

| No. of options outstanding at 30 September 1997 | Exercise Price | Expiry date |
|---|---|---|
| 50,000 | $3.44 | 1 March 1998 |

## 43: Related Party Disclosures

The directors during the year were

C B Goode (Chairman)
Dr R S Deane
J K Ellis
J C Dahlsen
C J Harper
M A Jackson
A T L Maitland (retired 30 June 1997)
D P Mercer (retired 30 September 1997)
J F Ries
Dr B W Scott
Sir R R Trotter (retired 9 October 1997)
R B Vaughan

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, by an Australian Securities Commission class order, 97/1016 dated 9 July 1997, from making disclosures of loans made, guaranteed or secured by a bank to related parties (other than specified categories of directors) and financial instrument transactions (other than shares and share options) of a bank where a director of the relevant entity is not a party to the transaction and where the loan or financial instrument transaction is lawfully made and occurs in the course of ordinary banking business either at arm's length or with the approval of a general meeting of the relevant entity and its ultimate chief entity (if any).

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

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

(i) in the case of any material financial instrument transaction, ensure that; and
(ii) in any other case, are designed to provide a reasonable degree of assurance that,

any financial instrument transaction of a bank which may be required to be disclosed in the Company's financial statements and which is not entered into regularly, is drawn to the attention of the directors.

### (a) Transactions with directors and director-related entities

**Shares and Share Options**

Aggregate number of shares and share options issued to directors of the Company and their director-related entities by the Company were as follows

| | The Company | |
|---|---|---|
| | **1997** | 1996 |
| | **No.** | No. |
| Fully paid ordinary shares in the Company | **886,050** | 224,229 |
| Partly paid ordinary shares in the Company | **-** | 50,000 |
| Options issued under the ANZ Group Share Option Scheme | **40,944** | - |

Certain executive directors have acquired fully paid ordinary shares under the ANZ Group Senior Officers' Share Purchase Scheme on conditions no more favourable than those offered to other employees. All other fully paid ordinary shares were acquired on terms and conditions no more favourable than those offered to other shareholders.

Certain non-executive directors paid up partly paid ordinary shares issued to them in prior years under the Directors' Share and Option Purchase Scheme, approved by shareholders in January 1988. No partly paid ordinary shares or options have been issued to directors under this scheme during the financial year.

The reduction in the number of partly paid shares held by directors of the Company and their director-related entities during the financial year was 290,000 (1996: 100,000).

### 43: Related Party Disclosures (continued)

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

| | **1997 No.** | 1996 No. |
|---|---|---|
| Fully paid ordinary shares in the Company | **1,039,536** | 872,544 |
| Partly paid ordinary shares, paid to 10 cents per share, in the Company | **-** | 290,000 |
| Share options over ordinary shares in the Company | **380,234** | 1,200,000 |

Directors of the Company and their director-related entities received normal dividends on these shares, with the exception of partly paid ordinary shares, paid to 10 cents per share, which qualify for dividends only when fully paid.

**Loans made to Directors**

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

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

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

The directors involved are

S Armstrong [1,2]
I W A Brandon [1,2,3,4]
D J Brunskill [1,3,4]
A H Buhindi [3]
G J Camm [3]
K Chan [1,2]
G M Collinson [2]
P J Conway [1,4]
J C Dahlsen [3]
R M Evans [1,2]
C J Harper [1,2,3]
P F Horsfall [1,3,4]
B J Joliffe [1,3,4]
R G Jones [3]
W J C Laird [1,2]
A T L Maitland[1,3]
D W Manoa [1,4]
D P Mercer[1,3,4]
I F Peterkin [1,3]
J F Ries [1,2,3,4]
J L Roach [1,3]
J G Todd [1,3,4]
R R Trotter [1,4]
A E Ward [1,3]
D F Wicks [3]

[1] *Repayments made during the year*
[2] *Loans made during the year*
[3] *Repayments made during the prior year*
[4] *Loans made during the prior year*

The aggregate amount of such loans outstanding at 30 September was

| | **Consolidated** | | **The Company** | |
|---|---|---|---|---|
| | **1997 $'000** | 1996 $'000 | **1997 $'000** | 1996 $'000 |
| Balance outstanding at 30 September | **1,599** | 2,176 | **743** | 1,198 |
| Total interest received | **185** | 173 | **103** | 89 |
| The aggregate amount of repayments received from directors and their director-related entities during the financial year was | | | | |
| Normal terms and conditions | **413** | 1,012 | **102** | 305 |
| Employee terms and conditions | **657** | 1,689 | **565** | 1,460 |
| The aggregate amount of loans made during the financial year was | | | | |
| Normal terms and conditions | **73** | 273 | **73** | 13 |
| Employee terms and conditions | **413** | 238 | **139** | 187 |

## 43: Related Party Disclosures (continued)

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

(i) Financial instrument transactions

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

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

(ii) Transactions other than financial instrument transactions of banks

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

**(b) Transactions with associated entities**

During the course of the financial year the Company and the Group conducted transactions with associated entities on normal commercial terms and conditions, other than a loan of nil (1996: $2,390,000) to Valuta Group Pty Ltd at an interest rate of 5%. Transactions with associated entities on normal commercial terms and conditions are detailed below.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **1997** | 1996 | **1997** | 1996 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Aggregate | | | | |
| Amounts receivable from associated entities | **336** | 2,290 | **300** | 300 |
| Interest revenue | **171** | 630 | **77** | 24 |
| Dividend revenue | **790** | 2,581 | **-** | - |
| Interest expense | **-** | 105 | **-** | - |
| Other revenue | **13** | 186 | **27** | - |

## 44: Remuneration of Directors

Remuneration includes income from salaries, bonuses, other benefits (including non-cash benefits), retirement benefits and superannuation contributions. The maximum total remuneration for non-executive directors of the Company was set at the Annual General Meeting of 20 January 1995 at $0.85 million. Total fees paid to non-executive directors by the Company for the year was $0.8 million (1996: $0.7 million).

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

| | The Company | | | The Company | |
|---|---|---|---|---|---|
| | **1997** | 1996 | | **1997** | 1996 |
| $60,001 to $70,000 | **1** | 4 | $580,001 to $590,000 | **-** | 2 |
| $70,001 to $80,000 | **5** | 4 | $630,001 to $640,000 | **1** | - |
| $80,001 to $90,000 | **2** | - | $1,000,001 to $1,010,000 | **-** | 1 |
| $160,001 to $170,000 | **-** | 1 | $1,940,001 to $1,950,000 | **1**[1] | - |
| $170,001 to $180,000 | **1** | - | $4,210,001 to $4,220,000 | **1**[2] | - |
| Total number of directors | | | | **12** | 12 |

[1] *A T L Maitland - comprises fixed remuneration ($355,274), 1995/96 bonus ($114,481), 1996/97 bonus ($330,178), annual leave and long service leave payout ($353,839), retirement allowance under pre-existing arrangements ($319,797) and payment under contract ($475,000)*

[2] *D P Mercer - comprises fixed remuneration ($770,000), 1995/96 bonus ($187,782), 1996/97 bonus ($659,033), annual leave and long service leave payout ($352,140), additional superannuation contribution and retirement allowance under pre-existing arrangements ($589,925) and payment relating to unexpired period of contract ($1,656,027)*

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **1997** | 1996 | **1997** | 1996 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Total income paid or payable to directors of the Company and controlled entities from the Company or related entity[3] | **13,127** | 7,555 | **7,587** | 2,911 |

[3] *Including the total income of executive directors, excluding executive directors of wholly owned controlled entities who are executives of the Company*

## 45: Remuneration of Executives

Remuneration includes salaries, bonuses, other benefits (including non-cash benefits), and superannuation contributions. The remuneration of executives who work wholly or mainly outside Australia are excluded from this disclosure.

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

| | Consolidated | | The Company | | | Consolidated | | The Company | |
|---|---|---|---|---|---|---|---|---|---|
| | **1997** | 1996 | **1997** | 1996 | | **1997** | 1996 | **1997** | 1996 |
| $100,001 to $110,000 | **1** | – | **-** | – | $350,001 to $360,000 | **1** | 1 | **1** | 1 |
| $110,001 to $120,000 | **-** | 2 | **-** | 1 | $360,001 to $370,000 | **-** | 2[1] | **-** | 1 |
| $120,001 to $130,000 | **2** | – | **-** | – | $370,001 to $380,000 | **3[1]** | – | **2** | – |
| $130,001 to $140,000 | **-** | 1[1] | **-** | – | $380,001 to $390,000 | **1** | 3[1] | **1** | 3[1] |
| $140,001 to $150,000 | **1[1]** | – | **1[1]** | – | $390,001 to $400,000 | **1[1]** | 1 | **1[1]** | 1 |
| $150,001 to $160,000 | **1** | 2[1] | **-** | – | $400,001 to $410,000 | **1** | 1 | **1** | 1 |
| $160,001 to $170,000 | **-** | 3 | **-** | – | $410,001 to $420,000 | **1** | – | **1** | – |
| $170,001 to $180,000 | **3** | 2 | **1** | – | $420,001 to $430,000 | **-** | 1 | **-** | 1 |
| $180,001 to $190,000 | **1** | 4 | **-** | 1 | $430,001 to $440,000 | **2** | 2 | **2** | 2 |
| $190,001 to $200,000 | **1** | 2 | **-** | 1 | $440,001 to $450,000 | **1** | 1 | **1** | 1 |
| $200,001 to $210,000 | **6[1]** | 5[1] | **1** | 1 | $460,001 to $470,000 | **2[1]** | – | **-** | – |
| $210,001 to $220,000 | **5[1]** | 1 | **1** | – | $470,001 to $480,000 | **2** | – | **2** | – |
| $220,001 to $230,000 | **1** | 4 | **-** | 2 | $520,001 to $530,000 | **-** | 2 | **-** | 2 |
| $230,001 to $240,000 | **1** | 2 | **1** | 1 | $530,001 to $540,000 | **3[1]** | – | **2** | – |
| $240,001 to $250,000 | **1** | 1 | **-** | 1 | $580,001 to $590,000 | **1** | 2 | **1** | 2 |
| $250,001 to $260,000 | **4** | 1 | **1** | 1 | $590,001 to $600,000 | **1** | – | **1** | – |
| $260,001 to $270,000 | **2** | 1 | **1** | 1 | $630,001 to $640,000 | **3[1]** | - | **3[1]** | - |
| $270,001 to $280,000 | **2** | 3 | **-** | 1 | $650,001 to $660,000 | **-** | 1[1] | **-** | 1[1] |
| $280,001 to $290,000 | **3** | 4 | **2** | 3 | $720,001 to $730,000 | **-** | 1 | **-** | 1 |
| $290,001 to $300,000 | **-** | 1 | **-** | 1 | $760,001 to $770,000 | **-** | 1 | **-** | – |
| $300,001 to $310,000 | **5[1]** | – | **2** | – | $1,000,001 to $1,010,000 | **-** | 1 | **-** | 1 |
| $310,001 to $320,000 | **3[1]** | – | **1** | – | $1,280,001 to $1,290,000 | **1** | – | **1** | – |
| $320,000 to $330,000 | **2[1]** | 2[1] | **1[1]** | 2[1] | $1,550,001 to $1,560,000 | **1** | – | **1** | – |
| $330,001 to $340,000 | **-** | 1[1] | **-** | – | $1,940,001 to $1,950,000 | **1[2]** | – | **1** | – |
| $340,001 to $350,000 | **-** | 1 | **-** | 1 | $4,210,001 to $4,220,000 | **1[3]** | – | **1** | – |
| Total number of executives | | | | | | **72** | 63 | **36** | 36 |
| Total remuneration received or due and receivable directly or indirectly by executives of the Company and controlled entities ($'000) | | | | | | **30,651** | 19,778 | **21,265** | 13,621 |

[1] *The executives whose remuneration is recorded in these bands include fixed term employees with contracts which recognise their particular expertise and that they have been recruited by the Group for specialised activities. These bands also include employees in the sharebroking industry whose income includes bonuses in accordance with the practice of that industry*

[2] *A T L Maitland - comprises fixed remuneration ($355,274), 1995/96 bonus ($114,481), 1996/97 bonus ($330,178), annual leave and long service leave payout ($353,839), retirement allowance under pre-existing arrangements ($319,797) and payment under contract ($475,000)*

[3] *D P Mercer - comprises fixed remuneration ($770,000), 1995/96 bonus ($187,782), 1996/97 bonus ($659,033), annual leave and long service leave payout ($352,140), additional superannuation contribution and retirement allowance under pre-existing arrangements ($589,925) and payment relating to unexpired period of contract ($1,656,027)*

## 46: 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 financial statements, applying US GAAP instead of Australian GAAP.

| | Note | **1997 $M** | 1996 $M | 1995 $M |
|---|---|---|---|---|
| **Operating profit after income tax using Australian GAAP**[1] | | **1,024** | 1,116 | 1,052 |
| Items having the effect of increasing (decreasing) reported income: | | | | |
| Depreciation charged on the difference between revaluation amount and historical cost of buildings | (i) | **3** | 1 | 2 |
| Difference in gain or loss on disposal of properties revalued under historical cost | (i) | **17** | 4 | 2 |
| Amortisation of goodwill | (ii) | **(36)** | (36) | (36) |
| Write-off of goodwill | (ii) | **-** | (7) | (5) |
| Amortisation of sale-leaseback gain over lease term | (iii) | **-** | 4 | 5 |
| Pension expense adjustment | (vi) | **10** | 5 | 2 |
| Net income according to US GAAP | | **1,018** | 1,087 | 1,022 |
| **Shareholders' equity according to Australian GAAP**[2] | | **6,943** | 6,290 | 5,700 |
| Elimination of gross asset revaluation reserves | (i) | **(349)** | (366) | (370) |
| Adjustment to provision for depreciation on buildings revalued | (i) | **36** | 33 | 32 |
| Restoration of previously deducted goodwill | (ii) | **807** | 807 | 807 |
| Accumulated amortisation and write-off of goodwill | (ii) | **(472)** | (436) | (393) |
| Provision for final dividend | (iv) | **392** | 355 | 260 |
| Pension expense adjustment | (vi) | **44** | 34 | 30 |
| Restoration of deferred gain on sale-leaseback transactions less amortisation | (iii) | **-** | - | (4) |
| Shareholders' equity according to US GAAP | | **7,401** | 6,717 | 6,062 |
| **Total assets according to Australian GAAP** | | **138,241** | 127,604 | 112,587 |
| Elimination of gross asset revaluation reserves | (i) | **(349)** | (366) | (370) |
| Adjustment to provision for depreciation on buildings revalued | (i) | **36** | 33 | 32 |
| Restoration of previously deducted goodwill | (ii) | **807** | 807 | 807 |
| Accumulated amortisation and write-off of goodwill | (ii) | **(472)** | (436) | (393) |
| Prepaid pension adjustment | (vi) | **33** | 26 | 26 |
| Reclassification of deferred tax assets against deferred tax liabilities | (v) | **(392)** | (388) | (350) |
| Total assets according to US GAAP | | **137,904** | 127,280 | 112,339 |

[1] *After abnormal items*
[2] *Excluding outside equity interests*

## 46: US GAAP Reconciliation (continued)

### (i) Premises and equipment

Properties have been revalued by the Group at various times, increasing the book value of these assets (refer note 1(xiii)). Under Australian GAAP, any increments on revaluation are credited directly to the Asset Revaluation Reserve ("ARR"), and decrements are debited to the ARR to the extent of any previous revaluation increments.

Decrements in excess of any previous revaluation increments are charged to the Profit and Loss Account. The ARR forms part of Shareholders' equity.

Under US GAAP, revaluation of properties is not permitted except for decrements which are regarded as permanent.

Accordingly, under Australian GAAP, depreciation charges are generally higher and profits on disposal are lower than those required under US GAAP. The depreciation charges, together with the profits and losses on revalued assets sold have been adjusted to historical cost in the US GAAP reconciliation.

### (ii) Goodwill

The Group changed its accounting policy in respect of goodwill in the financial year ended 30 September 1993. Previously, goodwill on acquisition was charged in full to the Group's Profit and Loss Account in the year of acquisition. Under US GAAP, goodwill is capitalised and amortised over the period of time during which the benefits are expected to arise, such period not exceeding 40 years generally or 25 years in respect of bank acquisitions.

Adjustments have been made in the US GAAP reconciliation statement to writeback goodwill written-off in full and to amortise such goodwill over the period of the expected benefits.

Additionally, to the extent that periodic reviews of the carrying amount of goodwill lead to a write-down of goodwill previously capitalised for US purposes, this is adjusted in the US GAAP reconciliation.

### (iii) Sale-leaseback transactions

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

### (iv) Dividends

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

### (v) Income taxes

Under Australian GAAP, tax benefits relating to carry forward tax losses must be "virtually certain" of being realised before being booked. Realisations of benefits relating to other timing differences must be "beyond reasonable doubt" before they may be booked. These tests are as stringent as those applied under US GAAP and hence no write-down of future tax benefits is required.

Australian GAAP allows offsetting of future income tax benefits and liabilities to the extent they will reverse in the same period. US GAAP requires an offset of these two items where reversal will occur within twelve months and in the period exceeding twelve months. This has been adjusted in the US GAAP reconciliation.

### (vi) Pension commitments

Under Australian GAAP, contributions in respect of defined benefit schemes are made at levels necessary to ensure that these schemes are maintained with sufficient assets to meet their actuarially assessed liabilities. Any net deficiency arising from the aggregation of assets and liabilities of the Group's defined benefit schemes is provided for in the Group's financial statements (refer note 39 in the Financial Statements). Under US SFAS 87 "Employer's Accounting for Pensions", pension expense is a function of an employee's service period, interest costs, actuarial return on the schemes' assets, amortisation of unrecognised prior service costs and unrecognised net gains or losses.

### (vii) Post retirement benefits

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

### (viii) Trading securities

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

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

### (ix) Accounting for the impairment of loans

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

## 46: US GAAP Reconciliation (continued)

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

No adjustment is required in the US GAAP reconciliation as the estimated fair value of impaired loans is not materially different from the carrying value as at 30 September 1997.

### (x) Accounting for the impairment of long lived assets and for long-lived assets to be disposed of

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

SFAS 121 was adopted by the Group effective for the year ending 30 September 1997. The Group has assessed the carrying values of all non-current assets and determined that they are not in excess of their recoverable amounts.

### (xi) Accounting for stock-compensation plans

Under Australian GAAP, an expense is not recognised for share options issued to employees or for shares issued at a discount. SFAS 123 "Accounting for Stock-Based Compensation", requires share options and shares issued to employees to be recognised using either the fair value based method or the intrinsic value based method as prescribed by APB No 25. No adjustment is made for the impact of the intrinsic value based method in the US GAAP reconciliation as the impact is not material.

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

The Group has adopted certain provisions of SFAS 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 125 prescribes the accounting and reporting requirements for transfers of financial assets and extinguishments of liabilities occurring after 31 December 1996. Under certain circumstances, the statement also requires a transferor of financial assets that are pledged as collateral to reclassify those assets, and the transferee to recognise those assets and their obligation to return them.

The issue of SFAS 127 "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" has deferred the application of certain provisions of SFAS 125 until 1 January 1998.

The adoption of the provisions of SFAS 125 by the Group during the year ending 30 September 1997 did not result in a material adjustment to the US GAAP reconciliation.

The adoption of certain provisions of SFAS 125 applicable from 1 January 1998 is not expected to have a material impact on the US GAAP reconciliation.

### (xiii) Statements of comprehensive income and disclosures about segments

The Group has not adopted the disclosure provisions of SFAS 130 "Reporting Comprehensive Income" and SFAS 131 "Disclosures about Segments of an Enterprise and Related Information", which are not effective until financial years commencing on or after 15 December 1997. The adoption of these standards would not have resulted in a material impact on the Group's net income, total assets or shareholders' equity.

## 46: US GAAP Reconciliation (continued)

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

Reconciliations of the funded status of major defined benefit schemes as at 30 September 1997 are summarised below. Details of the funding of the schemes are set out in note 39.

| | Australian Scheme accumulated benefits exceed assets $M | UK Scheme assets exceed accumulated benefits $M |
|---|---|---|
| Accumulated benefit obligation - vested | 59 | 544 |
| Projected benefit obligation | 59 | 596 |
| Fair value of plan assets | 47 | 748 |
| (Deficiency)excess of assets over projected benefit obligation | (12) | 152 |
| Unrecognised net transition loss(gain) | 7 | (46) |
| Unrecognised net loss(gain) | 6 | (103) |
| Unrecognised prior service cost | - | 30 |
| Adjustment required to recognise minimum unfunded projected benefit obligation | (13) | - |
| (Pension liability)prepaid pension cost | (12) | 33 |

The assumptions used in the actuarial calculations are as follows

| | Australian Scheme | UK Scheme |
|---|---|---|
| Discount rate used in determining present values | | |
| - active members | 9% | 7.5% |
| - pensioners | 8% | 7.5% |
| Annual increase in future compensation levels | | |
| - salary | 5% | 6% |
| - pensions | 3% | 6% |
| Expected long-term rate of return on assets | 8% | 8.5% |

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

| | **1997 $M** |
|---|---|
| Service cost | 13 |
| Interest cost | 49 |
| Actual return on schemes' assets | (95) |
| Net amortisation and deferral | 34 |
| Net periodic pension cost | 1 |

The Group also sponsors defined contribution schemes. The Group's contributions to major defined contribution schemes amounted to $75 million for the year.

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

There have been no significant events since 30 September 1997 to the date of this Report.

In the opinion of the directors of Australia and New Zealand Banking Group Limited, the accompanying financial statements of the Company and the Economic entity are properly drawn up in accordance with the provisions of the Corporations Law in the manner authorised for a prescribed corporation being a bank and on this basis

(i) the financial statements set out on pages 40 to 102 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 30 September 1997, and the state of affairs at 30 September 1997, of the Company and the Economic entity;

(ii) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and

(iii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The directors have elected to adopt early AASB 1014: Set-off and Extinguishment of Debt, AASB 1016: Accounting for Investments in Associates, AASB 1032: Specific Disclosures by Financial Institutions, and AASB 1033: Presentation and Disclosure of Financial Instruments.

The financial statements have been prepared in accordance with applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

The Company and some of its wholly owned controlled entities listed in note 38 executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by the class order 95/1530, dated 10 November 1995 issued by the Australian Securities Commission.

The nature of the Deed of Cross Guarantee is to guarantee each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee.

At the date of this statement, there are reasonable grounds to believe that the Company and its controlled entities to which the class order applies, are able, as an Economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors

**Charles Goode**
*Chairman*

**John McFarlane**
*Chief Executive Officer*

28 November 1997

**To the Members of Australia and New Zealand Banking Group Limited**

**Scope**

We have audited the financial statements of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 1997, consisting of the profit and loss accounts, balance sheets, statements of changes in shareholders' equity, statements of cash flows, accompanying notes and the directors' statement set out on pages 40 to 103. The financial statements comprise the accounts of the Company and the consolidated accounts of the Economic entity being the Company and its controlled entities. The Company's directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America) to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with accounting standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements in the manner authorised for a prescribed corporation being a banking corporation so as to present a view which is consistent with our understanding of the Company's and the Economic entity's financial position, the results of their operations and their cash flows.

The names of the controlled entities of which we have not acted as auditors are set out in note 34. We have received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

**Audit Opinion**

In our opinion, the financial statements of Australia and New Zealand Banking Group Limited, and the financial statements of the Economic entity, are properly drawn up:

(a) so as to give a true and fair view of:
  (i) the state of affairs of the Economic entity at 30 September 1997 and 1996 and the results and cash flows of the Economic entity for the financial years ended on 30 September 1997, 1996 and 1995;
  (ii) the state of affairs of the Company at 30 September 1997 and 1996 and of the results and cash flows of the Company for the financial years ended 30 September 1997 and 1996; and
  (iii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law in the manner authorised for a prescribed corporation being a banking corporation; and

(c) in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the two sets of principles is presented in note 46 to the financial statements. The application of the United States principles would have affected the determination of consolidated net profit for each of the three years in the period ended 30 September 1997 and the determination of the consolidated financial position as of 30 September 1997, 1996 and 1995 to the extent summarised in note 46 to the financial statements.

KPMG

**KPMG**
*Chartered Accountants*

Melbourne
28 November 1997

**P M Burroughs**
*Partner*

**P S Nash**
*Partner*

## 1: Capital Adequacy

The Reserve Bank of Australia (RBA) adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy in relation to its credit risk.

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

Risk weightings are applied to balance sheet assets and to credit converted off-balance sheet exposures to determine total risk weighted assets. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned.

| Qualifying capital | 1997 $M | 1996 $M | 1997 $M | 1996 $M | 1997 $M | 1996 $M |
|---|---|---|---|---|---|---|
| **Tier 1** | | | | | | |
| Total shareholders' equity and outside equity interests | | | | | **6,993** | 6,336 |
| Unamortised goodwill | | | | | **(21)** | (17) |
| Net future income tax benefit | | | | | **-** | (46) |
| **Tier 1 capital** | | | | | **6,972** | 6,273 |
| **Tier 2** | | | | | | |
| Perpetual notes - subordinated | | | | | **776** | 896 |
| General provision for doubtful debts | | | | | **918** | 709 |
| | | | | | **1,694** | 1,605 |
| Subordinated notes[1] | | | | | **2,336** | 2,418 |
| **Tier 2 capital** | | | | | **4,030** | 4,023 |
| Investment in ANZ Life | | | | | **(436)** | (354) |
| Investments in funds management and securitisation activities | | | | | **(151)** | (122) |
| **Total qualifying capital** | | | | | **10,415** | 9,820 |
| **Balance sheet assets** | | | Assets | | Risk weighted assets | |
| Liquid assets | | | **6,298** | 6,901 | **1,878** | 1,715 |
| Due from other financial institutions | | | **11,588** | 11,352 | **2,387** | 2,403 |
| Trading securities | | | **7,266** | 7,334 | **4,191** | 2,681 |
| Investment securities | | | **3,139** | 2,570 | **769** | 630 |
| Net loans and advances | | | **84,148** | 75,901 | **66,182** | 59,142 |
| Customers' liabilities for acceptances | | | **14,040** | 14,013 | **13,563** | 12,948 |
| Regulatory deposits | | | **1,206** | 1,163 | **189** | 178 |
| Shares in associates | | | **7** | 10 | **7** | 10 |
| Other assets | | | **8,490** | 6,340 | **1,464** | 1,538 |
| Premises and equipment | | | **2,059** | 2,020 | **2,059** | 2,020 |
| | | | **138,241** | 127,604 | **92,689** | 83,265 |
| **Off-balance sheet exposures** | Contract/ notional amount | | Credit equivalent | | | |
| Direct credit substitutes | **4,779** | 3,360 | **4,779** | 3,360 | **3,506** | 2,369 |
| Trade and performance related items | **9,689** | 7,964 | **4,266** | 3,577 | **3,715** | 3,202 |
| Commitments | **39,293** | 30,965 | **4,574** | 4,085 | **3,911** | 3,431 |
| Foreign exchange, interest rate and other market related transactions | **657,409** | 516,371 | **9,045** | 5,105 | **2,326** | 1,250 |
| | | | | | **13,458** | 10,252 |
| **Total risk weighted assets and off-balance sheet exposures** | | | | | **106,147** | 93,517 |
| **Capital adequacy ratios** | | | | | **%** | % |
| Tier 1 | | | | | **6.6** | 6.7 |
| Tier 2 | | | | | **3.8** | 4.3 |
| Deductions | | | | | **(0.6)** | (0.5) |
| Total | | | | | **9.8** | 10.5 |

[1] *Subordinated note issues are reduced each year by 20% of the original amount during the last five years to maturity*

## 2: Interest Spreads and Net Interest Average Margins

| | 1997 $M | 1996 $M | 1995 $M |
|---|---|---|---|
| **Net interest income** | | | |
| Australia | **2,296** | 2,271 | 2,102 |
| New Zealand | **472** | 484 | 494 |
| International markets | **652** | 574 | 513 |
| | **3,420** | 3,329 | 3,109 |
| **Average interest earning assets** | | | |
| Australia | **60,288** | 55,079 | 50,989 |
| New Zealand | **16,882** | 14,815 | 13,389 |
| International markets | **35,972** | 29,777 | 26,534 |
| | **113,142** | 99,671 | 90,912 |
| | % | % | % |
| **Gross earnings rate**[1] | | | |
| Australia | **8.46** | 9.85 | 9.65 |
| New Zealand | **9.43** | 10.17 | 9.87 |
| International markets | **7.63** | 7.94 | 7.90 |
| Total Group | **8.34** | 9.33 | 9.17 |
| Interest spreads and net interest average margins may be analysed as follows | | | |
| **Australia** | | | |
| Gross interest spread | **3.16** | 3.37 | 3.46 |
| Interest forgone on impaired assets[2] | **(0.09)** | (0.15) | (0.25) |
| Net interest spread | **3.07** | 3.22 | 3.21 |
| Interest attributable to net non-interest bearing items | **0.74** | 0.90 | 0.91 |
| Net interest average margin - Australia | **3.81** | 4.12 | 4.12 |
| **New Zealand** | | | |
| Gross interest spread | **2.18** | 2.43 | 2.77 |
| Interest forgone on impaired assets[2] | **(0.04)** | (0.06) | (0.01) |
| Net interest spread | **2.14** | 2.37 | 2.76 |
| Interest attributable to net non-interest bearing items | **0.66** | 0.90 | 0.93 |
| Net interest average margin - New Zealand | **2.80** | 3.27 | 3.69 |
| **International markets** | | | |
| Gross interest spread | **1.53** | 1.49 | 1.48 |
| Interest forgone on impaired assets[2] | **(0.03)** | (0.04) | 0.02 |
| Net interest spread | **1.50** | 1.45 | 1.50 |
| Interest attributable to net non-interest bearing items | **0.32** | 0.48 | 0.43 |
| Net interest average margin - International markets | **1.82** | 1.93 | 1.93 |
| **Group** | | | |
| Gross interest spread | **2.48** | 2.67 | 2.79 |
| Interest forgone on impaired assets[2] | **(0.06)** | (0.10) | (0.14) |
| Net interest spread | **2.42** | 2.57 | 2.65 |
| Interest attributable to net non-interest bearing items | **0.60** | 0.77 | 0.77 |
| Net interest average margin - Group | **3.02** | 3.34 | 3.42 |

[1] *Average interest rate received on interest earning assets*
[2] *Refer note 14 to the financial statements*

### 3: Cross Border Outstandings

Cross border outstandings of the Group to countries which individually represented in excess of 0.75% of the Group's total assets are shown below. There were no cross border outstandings to any other country exceeding 0.75% of total assets.

Cross border foreign outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk and comprise loans (including accrued interest), placements with banks, acceptances and other monetary assets denominated in currencies other than the borrower's local currency.

| | Governments and other official institutions $M | Banks and other financial institutions $M | Other commercial and industrial $M | **Total $M** | % of Economic entity assets |
|---|---|---|---|---|---|
| **At 30 September 1997** | | | | | |
| New Zealand | **10** | **1,462** | **4,498** | **5,970** | **4.3** |
| USA | **462** | **1,803** | **937** | **3,202** | **2.3** |
| Japan | **12** | **1,033** | **1,084** | **2,129** | **1.5** |
| United Kingdom | **94** | **772** | **894** | **1,760** | **1.3** |
| Singapore | **12** | **1,371** | **324** | **1,707** | **1.2** |
| Hong Kong | **1** | **1,288** | **356** | **1,645** | **1.2** |
| South Korea | **16** | **918** | **600** | **1,534** | **1.1** |
| India | **-** | **661** | **531** | **1,192** | **0.9** |
| France | **12** | **577** | **574** | **1,163** | **0.8** |
| Indonesia | **2** | **559** | **542** | **1,103** | **0.8** |
| **At 30 September 1996** | | | | | |
| New Zealand | 13 | 788 | 3,998 | 4,799 | 3.8 |
| USA | 922 | 683 | 881 | 2,486 | 2.0 |
| Japan | 84 | 1,675 | 623 | 2,382 | 1.9 |
| United Kingdom | 97 | 1,367 | 786 | 2,250 | 1.8 |
| Singapore | 26 | 1,180 | 336 | 1,542 | 1.2 |
| Hong Kong | 1 | 904 | 537 | 1,442 | 1.1 |
| France | 92 | 1,019 | 73 | 1,184 | 0.9 |

### 4: Certificates of Deposit and Term Deposit Maturities

The following table shows the maturity profile of the Group's certificates of deposit and term deposits in excess of $100,000 issued at 30 September 1997

| | Less than 3 months $M | Between 3 months and 6 months $M | Between 6 months and 12 months $M | After 1 year $M | **Total $M** |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Certificates of deposit | 883 | – | – | 44 | **927** |
| Term deposits | 7,391 | 892 | 730 | 632 | **9,645** |
| | 8,274 | 892 | 730 | 676 | **10,572** |
| **Overseas** | | | | | |
| Certificates of deposit | 2,919 | 1,436 | 1,297 | 271 | **5,923** |
| Term deposits | 10,711 | 1,323 | 1,275 | 363 | **13,672** |
| | 13,630 | 2,759 | 2,572 | 634 | **19,595** |
| Total | 21,904 | 3,651 | 3,302 | 1,310 | **30,167** |

## 5: Volume and Rate Analysis

The following table allocates changes in interest income and interest expense between changes in volume and changes in rate for the past two years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. The variance caused by the change of both volume and rate has been allocated in proportion to the relationship of the absolute dollar amounts of each change to the total.

| | **1997 over 1996 Change due to** | | | 1996 over 1995 Change due to | | |
|---|---|---|---|---|---|---|
| | **Volume $M** | **Rate $M** | **Total $M** | Volume $M | Rate $M | Total $M |
| **Interest earning assets** | | | | | | |
| Due from other financial institutions | | | | | | |
| Australia | **(10)** | **1** | **(9)** | 16 | – | 16 |
| New Zealand | **1** | **(7)** | **(6)** | 1 | (2) | (1) |
| International markets | **12** | **(11)** | **1** | 87 | 5 | 92 |
| Regulatory deposits with | | | | | | |
| Reserve Bank of Australia | **-** | **(8)** | **(8)** | 2 | (19) | (17) |
| Investments in public securities | | | | | | |
| Australia | **(10)** | **(69)** | **(79)** | 33 | 15 | 48 |
| New Zealand | **36** | **(17)** | **19** | (2) | 9 | 7 |
| International markets | **182** | **(44)** | **138** | (21) | 20 | (1) |
| Loans, advances and bills discounted | | | | | | |
| Australia | **427** | **(709)** | **(282)** | 367 | 101 | 468 |
| New Zealand | **147** | **(78)** | **69** | 155 | 17 | 172 |
| International markets | **246** | **(72)** | **174** | 133 | 29 | 162 |
| Other assets | | | | | | |
| Australia | **69** | **(17)** | **52** | (19) | 11 | (8) |
| New Zealand | **7** | **(4)** | **3** | (4) | 11 | 7 |
| International markets | **67** | **1** | **68** | 47 | (32) | 15 |
| Change in interest income | **1,174** | **(1,034)** | **140** | 795 | 165 | 960 |

## 5: Volume and Rate Analysis (continued)

| | 1997 over 1996 Change due to Volume $M | Rate $M | Total $M | 1996 over 1995 Change due to Volume $M | Rate $M | Total $M |
|---|---|---|---|---|---|---|
| **Interest bearing liabilities** | | | | | | |
| Time deposits | | | | | | |
| Australia | **(3)** | **(240)** | **(243)** | 67 | 22 | 89 |
| New Zealand | **80** | **(44)** | **36** | 95 | 36 | 131 |
| International markets | **268** | **(38)** | **230** | 123 | 18 | 141 |
| Savings deposits | | | | | | |
| Australia | **22** | **(64)** | **(42)** | 4 | 21 | 25 |
| New Zealand | **11** | **2** | **13** | 6 | 25 | 31 |
| International markets | **6** | **6** | **12** | (1) | 3 | 2 |
| Other demand deposits | | | | | | |
| Australia | **133** | **(135)** | **(2)** | 87 | 25 | 112 |
| New Zealand | **19** | **(18)** | **1** | 11 | 7 | 18 |
| International markets | **8** | **(2)** | **6** | 8 | (3) | 5 |
| Due to other financial institutions | | | | | | |
| Australia | **(6)** | **(6)** | **(12)** | 13 | (1) | 12 |
| New Zealand | **10** | **(9)** | **1** | (11) | 14 | 3 |
| International markets | **3** | **(50)** | **(47)** | 40 | 1 | 41 |
| Commercial paper | | | | | | |
| Australia | **41** | **(46)** | **(5)** | 65 | 11 | 76 |
| New Zealand | **-** | **-** | **-** | - | - | - |
| International markets | **35** | **(2)** | **33** | (5) | (2) | (7) |
| Borrowing corporations' debt | | | | | | |
| Australia | **20** | **(31)** | **(11)** | 14 | 4 | 18 |
| New Zealand | **6** | **(2)** | **4** | 2 | 10 | 12 |
| International markets | **-** | **-** | **-** | - | - | - |
| Loan capital, bonds and notes | | | | | | |
| Australia | **52** | **(61)** | **(9)** | 14 | (6) | 8 |
| New Zealand | **25** | **(9)** | **16** | 8 | (6) | 2 |
| International markets | **2** | **2** | **4** | 1 | (2) | (1) |
| Other liabilities | | | | | | |
| Australia | **(29)** | **2** | **(27)** | (6) | 4 | (2) |
| New Zealand | **26** | **-** | **26** | - | (2) | (2) |
| International markets | **79** | **(14)** | **65** | 22 | 4 | 26 |
| Change in interest expense | **808** | **(759)** | **49** | 557 | 183 | 740 |
| Change in net interest income | **366** | **(275)** | **91** | 238 | (18) | 220 |

## 6: Concentrations of Credit Risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Off-balance sheet transactions of the Group are substantially with other banks.

| | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | **Loans and advances[1] $M** | **Specific provision $M** | Loans and advances[1] $M | Specific provision $M | Loans and advances[1] $M | Specific provision $M |
| **Australia** | | | | | | |
| Agriculture, forestry, fishing and mining | **2,716** | **12** | 2,038 | 21 | 1,721 | 25 |
| Business service | **1,488** | **5** | 950 | 27 | 1,053 | 36 |
| Entertainment, leisure and tourism | **1,392** | **28** | 1,302 | 18 | 1,079 | 23 |
| Financial, investment and insurance | **3,997** | **6** | 2,472 | 22 | 2,106 | 32 |
| Government and official institutions | **68** | **–** | 70 | – | 104 | – |
| Lease finance | **3,272** | **5** | 3,282 | 8 | 3,138 | 14 |
| Manufacturing | **2,446** | **29** | 2,998 | 17 | 2,639 | 62 |
| Personal[2] | **6,229** | **90** | 7,384 | 35 | 7,109 | 40 |
| Real estate – construction | **1,216** | **8** | 857 | 12 | 817 | 15 |
| Real estate – mortgage[3] | **26,095** | **54** | 23,518 | 82 | 22,734 | 126 |
| Retail and wholesale trade | **4,375** | **14** | 4,210 | 51 | 3,615 | 75 |
| Other | **3,398** | **64** | 3,008 | 53 | 2,157 | 57 |
| | **56,692** | **315** | 52,089 | 346 | 48,272 | 505 |
| **Overseas** | | | | | | |
| Agriculture, forestry, fishing and mining | **2,439** | **4** | 1,471 | 4 | 1,309 | 11 |
| Business service | **346** | **6** | 439 | 6 | 501 | 9 |
| Entertainment, leisure and tourism | **555** | **–** | 393 | 3 | 319 | 7 |
| Financial, investment and insurance | **3,189** | **4** | 4,493 | 23 | 2,066 | 26 |
| Government and official institutions | **656** | **–** | 377 | 3 | 320 | 3 |
| Lease finance | **73** | **–** | 68 | – | 51 | – |
| Manufacturing | **5,172** | **53** | 3,722 | 55 | 3,973 | 54 |
| Personal[2] | **2,852** | **12** | 3,115 | 15 | 3,221 | 11 |
| Real estate – construction | **900** | **8** | 753 | 16 | 602 | 16 |
| Real estate – mortgage[3] | **9,412** | **2** | 8,034 | 8 | 7,488 | 10 |
| Retail and wholesale trade | **1,851** | **15** | 1,711 | 28 | 1,554 | 27 |
| Other | **2,782** | **34** | 2,254 | 2 | 1,618 | 23 |
| | **30,227** | **138** | 26,830 | 163 | 23,022 | 197 |
| **Total portfolio** | **86,919** | **453** | 78,919 | 509 | 71,294 | 702 |

[1] *Loans and advances exclude acceptances*

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

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

## 6: Concentrations of Credit Risk (continued)

| | 1994 Loans and advances[1] $M | 1994 Specific provision $M | 1993 Loans and advances[1] $M | 1993 Specific provision $M |
|---|---|---|---|---|
| **Australia** | | | | |
| Agriculture, forestry, fishing and mining | 1,884 | 42 | 1,802 | 98 |
| Business service | 851 | 48 | 759 | 91 |
| Entertainment, leisure and tourism | 827 | 88 | 894 | 34 |
| Financial, investment and insurance | 2,359 | 36 | 1,638 | 44 |
| Government and official institutions | 345 | – | 205 | – |
| Lease finance | 3,179 | 21 | 3,212 | 32 |
| Manufacturing | 1,752 | 65 | 1,948 | 93 |
| Personal[2] | 6,379 | 69 | 6,252 | 78 |
| Real estate – construction | 704 | 14 | 774 | 45 |
| Real estate – mortgage[3] | 21,674 | 221 | 19,676 | 712 |
| Retail and wholesale trade | 3,362 | 107 | 3,497 | 132 |
| Other | 1,451 | 96 | 2,042 | 22 |
| | 44,767 | 807 | 42,699 | 1,381 |
| **Overseas** | | | | |
| Agriculture, forestry, fishing and mining | 750 | 20 | 901 | 24 |
| Business service | 481 | 5 | 449 | 12 |
| Entertainment, leisure and tourism | 237 | 10 | 227 | 32 |
| Financial, investment and insurance | 1,607 | 31 | 1,776 | 20 |
| Government and official institutions | 595 | 17 | 409 | 1 |
| Lease finance | 52 | – | 63 | 2 |
| Manufacturing | 2,598 | 52 | 2,821 | 58 |
| Personal[2] | 2,388 | 17 | 2,366 | 49 |
| Real estate – construction | 373 | 38 | 865 | 61 |
| Real estate – mortgage[3] | 6,245 | 23 | 4,958 | 29 |
| Retail and wholesale trade | 1,485 | 27 | 1,524 | 33 |
| Other | 1,486 | 38 | 1,991 | 423 |
| | 18,297 | 278 | 18,350 | 744 |
| **Total portfolio** | 63,064 | 1,085 | 61,049 | 2,125 |

## 7: Doubtful Debts – Industry Analysis

| | 1997 $M | 1996 $M | 1995 $M | 1994 $M | 1993 $M |
|---|---|---|---|---|---|
| Balance at start of year | **1,218** | 1,380 | 1,652 | 2,690 | 3,338 |
| Adjustment for exchange rate fluctuations | **16** | (16) | (2) | (84) | 56 |
| Bad debts written off (refer (i) below) | **(199)** | (346) | (497) | (1,427) | (1,440) |
| Transfer from profit and loss account | **336** | 200 | 226 | 469 | 718 |
| Provisions acquired(disposed) | **-** | - | - | 3 | (22) |
| Tax (liability) realised on rescheduled debt | **-** | - | - | - | (2) |
| Recognition of provisions previously netted against tax benefits | **-** | - | - | - | 35 |
| Other | **-** | - | 1 | 1 | 7 |
| Total provisions for doubtful debts | **1,371** | 1,218 | 1,380 | 1,652 | 2,690 |
| **(i) Total write-offs by industry** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry, fishing and mining | **(5)** | (11) | (19) | (75) | (55) |
| Business service | **(3)** | (17) | (11) | (52) | (75) |
| Entertainment, leisure and tourism | **(11)** | (19) | (29) | (95) | (22) |
| Financial, investment and insurance | **(8)** | (8) | (11) | (34) | (49) |
| Government and official institutions | **-** | - | - | (#) | - |
| Lease finance | **(5)** | (12) | (45) | (26) | (53) |
| Manufacturing | **(10)** | (49) | (41) | (79) | (46) |
| Personal[1] | **(55)** | (46) | (47) | (42) | (91) |
| Real estate – construction | **(6)** | (6) | (6) | (36) | (22) |
| Real estate – mortgage[2] | **(26)** | (77) | (102) | (382) | (576) |
| Retail and wholesale trade | **(11)** | (33) | (50) | (127) | (93) |
| Other | **(4)** | (23) | (55) | (21) | (18) |
| **Overseas** | | | | | |
| Rescheduled country debt | **n/a** | n/a | n/a | (321) | (82) |
| Other | **(55)** | (45) | (81) | (137) | (258) |
| **Total write-offs** | **(199)** | (346) | (497) | (1,427) | (1,440) |
| **(ii) Total recoveries by industry** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry, fishing and mining | **4** | 3 | 1 | 4 | 1 |
| Business service | **1** | 1 | 1 | 1 | 2 |
| Entertainment, leisure and tourism | **1** | 2 | 3 | 3 | 1 |
| Financial, investment and insurance | **2** | 3 | 2 | 4 | 5 |
| Government and official institutions | **-** | - | - | - | - |
| Lease finance | **2** | 3 | 3 | 4 | 5 |
| Manufacturing | **4** | 2 | 1 | 1 | # |
| Personal[1] | **9** | 9 | 10 | 11 | 8 |
| Real estate – construction | **-** | 1 | - | 1 | # |
| Real estate – mortgage[2] | **7** | 9 | 3 | 5 | 7 |
| Retail and wholesale trade | **2** | 2 | 4 | 6 | 2 |
| Other | **7** | 2 | 3 | 3 | 1 |
| **Overseas** | | | | | |
| Rescheduled country debt | **n/a** | n/a | n/a | 12 | 30 |
| Other | **10** | 9 | 21 | 33 | 9 |
| **Total recoveries** | **49** | 46 | 52 | 88 | 71 |
| Net write-offs | **(150)** | (300) | (445) | (1,339) | (1,369) |
| Ratio of net write-offs to average loans and acceptances | **0.1%** | 0.3% | 0.6% | 1.9% | 1.9% |

*# Amounts less than $500,000*

*n/a Not applicable*

[1] *Personal includes non-business loans to individuals through overdrafts, personal loans, credit cards and fully drawn advances*

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

## 8: Short Term Borrowings

The Group's short term borrowings comprise commercial paper, as well as unsecured notes issued by subsidiary borrowing corporations with an original term to maturity of less than one year. The Group has commercial paper programmes in the United States, where it issues paper through ANZ (Delaware) Inc., and in Europe and Asia, where the Group issues paper direct.

| | 1997 $M | 1996 $M | 1995 $M |
|---|---|---|---|
| **Balance at end of year** | | | |
| Commercial paper - ANZ (Delaware) Inc. | **1,808** | 946 | 1,164 |
| Commercial paper - other | **3,023** | 2,341 | 2,046 |
| Unsecured notes | **552** | 490 | 382 |
| **Weighted average interest rate at end of year** | | | |
| Commercial paper - ANZ (Delaware) Inc. | **5.55%** | 5.58% | 5.76% |
| Commercial paper - other | **5.39%** | 7.22% | 5.71% |
| Unsecured notes | **6.35%** | 6.93% | 7.40% |
| **Maximum amount outstanding at any month end during year** | | | |
| Commercial paper - ANZ (Delaware) Inc. | **2,094** | 1,841 | 1,860 |
| Commercial paper - other | **3,395** | 3,021 | 2,396 |
| Unsecured notes | **564** | 506 | 419 |
| **Average amount outstanding during year** | | | |
| Commercial paper - ANZ (Delaware) Inc. | **1,731** | 1,087 | 1,173 |
| Commercial paper - other | **3,081** | 2,469 | 1,601 |
| Unsecured notes | **427** | 478 | 379 |
| **Weighted average interest rate during year** | | | |
| Commercial paper - ANZ (Delaware) Inc. | **5.41%** | 5.58% | 5.80% |
| Commercial paper - other | **5.87%** | 7.53% | 6.90% |
| Unsecured notes | **6.64%** | 6.48% | 7.40% |

## 1: Major Shareholders

**Ordinary shares**

At 31 October 1997 the twenty largest holders of ordinary shares held 817,497,668 ordinary shares, equal to 54.1 per cent of the total issued ordinary capital.

| | Number of shares | % |
|---|---|---|
| Westpac Custodian Nominees Limited | 168,798,501 | 11.2 |
| Chase Manhattan Nominees Ltd | 148,354,109 | 9.8 |
| National Nominees Limited | 89,662,708 | 5.9 |
| ANZ Nominees Ltd | 58,440,942 | 3.9 |
| Australian Mutual Provident Society | 38,821,349 | 2.6 |
| Citicorp Nominees Pty Limited | 31,654,043 | 2.1 |
| Queensland Investment Corporation | 30,377,728 | 2.0 |
| MLC Limited | 29,749,298 | 2.0 |
| Pendal Nominees Pty Limited | 29,057,731 | 1.9 |
| SAS Trustee Corporation | 27,304,960 | 1.8 |
| Permanent Trustee Australia Limited | 25,864,240 | 1.7 |
| Perpetual Trustees Victoria Limited | 17,934,743 | 1.2 |
| Perpetual Trustees Company Limited | 17,350,265 | 1.2 |
| Mercantile Mutual Life Insurance Company Limited | 16,764,357 | 1.1 |
| HKBA Nominees Pty Limited | 15,909,044 | 1.0 |
| Commonwealth Custodial Services Limited | 15,685,776 | 1.0 |
| Permanent Trustee Company Limited | 15,584,947 | 1.0 |
| Perpetual Trustees Nominees Limited | 15,450,963 | 1.0 |
| The National Mutual Life Association of Australasia Limited | 13,166,460 | 0.9 |
| Commonwealth Superannuation Board of Trustees | 11,565,504 | 0.8 |
| | 817,497,668 | 54.1 |

## 2: Substantial Ordinary Shareholders

At 31 October 1997, there were no entries in the Register of Substantial Shareholdings.

During the year to 31 October 1997 notices were received from The Capital Group Companies Inc regarding shares held by that company. On 29 October 1997 they advised that they held 75,317,646 shares (being 4.99% of the ordinary voting shares). This holding is held by several of the companies listed in Item 1 above.

## 3: Average Size of Shareholdings

At 31 October 1997 the average size of holding of ordinary shareholdings was 11,432 (1996: 12,119) shares.

## 4: Distribution of Shareholdings

**Ordinary shares – fully paid**

| At 31 October 1997<br>Range | Number of holders | % of holders | Number of shares '000 | % of shares |
|---|---|---|---|---|
| 1 to 1,000 shares | 52,207 | 39.6 | 25,397 | 1.7 |
| 1,001 to 5,000 shares | 59,618 | 45.2 | 140,247 | 9.3 |
| 5,001 to 10,000 shares | 11,903 | 9.0 | 84,200 | 5.6 |
| 10,001 to 100,000 shares | 7,698 | 5.8 | 167,045 | 11.0 |
| Over 100,001 shares | 552 | 0.4 | 1,091,933 | 72.4 |
| | 131,978 | 100.0 | 1,508,822 | 100.0 |

## 5: Voting Rights of Shareholders

**Ordinary shares – fully paid**

The Articles provide for
(i) on show of hands 1 vote;
(ii) on a poll 1 vote for each ordinary share held; and
(iii) 1 vote for every 10, 10 cent paid shares issued pursuant to the Company's Senior Officers' Share Purchase Scheme and the Directors' Share and Option Purchase Scheme.

## 6: Holders of Non-Marketable Parcels

**Ordinary shares**

At 31 October 1997, shareholdings of less than a marketable parcel (1 to 99 shares) were 6,519 (1996: 5,370), which is 4.9% of the total holdings of ordinary shares.

## 7: Employee Shareholder Information

At the January 1994 Annual General Meeting, shareholders approved a limit of 7% of the issued share capital of the Company on the number of shares which may be issued under the Employee and Senior Officers' Share Purchase Schemes and the unissued shares to which options may be granted under any incentive schemes for employees and directors of the Group.

At 31 October 1997, participants in the Employee and Senior Officers' Share Purchase Schemes held 1.6% (1996: 1.8%) of the issued share capital. At 31 October 1997, 6,983,091 options to purchase ordinary shares which have been granted under the Directors' Share and Option Purchase and the ANZ Group Share Option Schemes, had not been exercised.

## 8: Directors' Shareholding Interests

| | A | B | C | D |
|---|---|---|---|---|
| C B Goode | 267,075 | – | – | – |
| J C Dahlsen | 83,400 | – | – | 12,000 |
| Dr R S Deane | 75,000 | – | – | – |
| J K Ellis | 52,471 | – | – | – |
| C J Harper | 55,500 | – | – | – |
| M A Jackson | 71,123 | – | – | – |
| J McFarlane | 2,000 | – | – | – |
| J F Ries | 102,000 | 50,000 | 310,710 | – |
| Dr B W Scott | 84,053 | – | – | – |
| R B Vaughan | 88,512 | – | – | – |
| | 881,134 | 50,000 | 310,710 | 12,000 |

*A Beneficially held - fully paid ordinary shares of $1.00 each*

*B Beneficially held - options issued pursuant to the Directors' Share and Option Purchase Scheme to take up shares in the Company during the period of 5 years after issue at market prices fixed as at the time of issue less one cent, which was paid on issue of the option*

*C Beneficially held - options issued pursuant to the ANZ Group Share Option Scheme to take up shares in the Company no earlier than 3 years or later than 5 years after issue at market prices fixed as at the time of issue less one cent, which was paid on issue of the option, provided certain performance criteria are met*

*D Non-beneficially held - fully paid ordinary shares of $1.00 each*

**Core Operating Expenses**
Core operating expenses represents total operating expenses excluding direct income-related expenditure and restructuring expenses.

**Geographic segmentation**

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

Asia Pacific includes Cook Islands, Fiji, Hong Kong, Indonesia, Japan, Korea, Malaysia, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Taiwan, Thailand, The People's Republic of China, Tonga, Vanuatu and Vietnam.

South Asia includes Bangladesh, India and Nepal.

Americas includes Argentina, Brazil, Chile, Mexico and United States of America.

Middle East includes Bahrain, Greece, Israel, Jordan, Oman, Pakistan, Qatar and United Arab Emirates.

**Impaired assets**
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**
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**
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**
Net interest spread is 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**
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.

**Operating expenses**
Operating expenses exclude charges for doubtful debts and abnormal items.

**Total advances**
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**
Unproductive facilities comprise standby letters of credit, bill endorsements, documentary letters of credit and guarantees to third parties.

# Worldwide Representation

## Australia

**Group Headquarters**
Australia and New Zealand Banking Group Limited,
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AA 139920 (Domestic)

**Principal State Offices**

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GPO Box 495,
Sydney 2001
Telephone: (61-2) 9227 1911

*Queensland*
324 Queen Street,
Brisbane 4000
GPO Box 1051,
Brisbane 4001
Telephone: (61-7) 3228 3228

*South Australia*
13 Grenfell Street,
Adelaide 5000
GPO Box 1819,
Adelaide 5001
Telephone: (61-8) 8218 8122

*Tasmania*
ANZ Centre
2nd Floor,
22 Elizabeth Street,
Hobart 7000
GPO Box 504E,
Hobart 7001
Telephone: (61-03) 6221 2601

*Western Australia*
77 St. George's Terrace,
Perth 6000
GPO Box L905, Perth 6001
Telephone: (61-8) 9323 8111

*Australian Capital Territory*
25 Petrie Plaza,
Canberra City 2601
GPO Box 371,
Canberra City 2601
Telephone: (61-2) 6276 4100

*Northern Territory*
Smith Street, 43 The Mall,
Darwin 0800
GPO Box 1, Darwin 0800
Telephone: (61-8) 89 823510

**Subsidiary Companies**

ANZ Funds Management,
(ANZ Managed Investments Limited/ANZ Life Assurance Company Limited/ANZ Executors and Trustee Company
Limited)
68 Pitt Street, Sydney 2000
Telephone: (61-2) 9216 2345
Fax: (61-2) 9216 2350

ANZ Securities Limited,
10th Floor, 530 Collins Street,
Melbourne 3000
Telephone: (61-3) 9205 1400
Fax: (61-3) 9649 7023

Esanda Finance Corporation Limited,
85 Spring Street,
Melbourne 3000
Telephone: (61-3) 9666 9100
Fax: (61-3) 9666 9626

Town & Country Bank
(a division of Australia and New Zealand Banking Group Limited)
297 Murray Street,
Perth W.A. 6000
Telephone: (61-8) 9267 3333
Fax: (61-8) 9267 3435

## New Zealand

**Headquarters**
ANZ Banking Group
(New Zealand) Limited,
215-229 Lambton Quay, Wellington
PO Box 1492, Wellington
Telephone: (64-4) 496 7000
Telex: NZ 3385
Fax: (64-4) 473 6919

**Subsidiary Companies**
ANZ Securities (NZ) Limited,
21st Floor, ASB Building,
135 Albert Street, Auckland
PO Box 6243,
Wellesley Street, Auckland
Telephone: (64-9) 356 3450
Freephone: 0800 800 611
Telex: 63372
Fax: (64-9) 309 9410

UDC Group Holdings Limited,
113-119 The Terrace, Wellington
PO Box 1616, Wellington
Telephone: (64-4) 471 4500
Fax: (64-4) 471 4592

## International

**Headquarters**
Australia and New Zealand Banking Group Limited,
100 Queen Street
Melbourne
Victoria 3000
Australia
Tel: (61-3) 9273 5555
Fax: (61-3) 9273 4909

***ARGENTINA***
Australia and New Zealand Banking Group Limited
Bouchard 547, 10th Floor
1106 Buenos Aires
Argentina
Tel: (54-1) 315 2330
Fax: (54-1) 313 3967

***BAHRAIN***
Grindlays Bahrain Bank B.S.C. (c)
P O Box 793
Manama Centre, Entrance No 3
Government Road
Manama
Bahrain
Tel: (973) 225 999
Fax: (973) 224 482

ANZ Grindlays Bank Limited
Offshore Banking Unit
P O Box 5793
1st Floor, Manama Centre
Bahrain
Tel: (973) 224 210
Fax: (973) 224 478

***BANGLADESH***
ANZ Grindlays Bank Limited
P O Box 502
2 Dilkusha Commercial Area
Dhaka 1000
Bangladesh
Tel: (880-2) 955 0181
Fax: (880-2) 956 2329/956 2332

***BRAZIL***
Australia and New Zealand Banking Group Limited
Av. Nilo Pecanha, 50 Grupo 810
20044 Rio de Janeiro - RJ
Brazil
Tel: (55-21) 240 2294
Fax: (55-21) 220 0840

***CHILE***
Australia and New Zealand Banking Group Limited
Edificio Atlantis
Av. El Bosque Norte 0440, Of. 604
Las Condes
Santiago
Chile
Tel: (56-2) 203 5217
Fax: (56-2) 203 5226

***CHINA***
Australia and New Zealand Banking Group Limited
10th Floor, Novel Plaza
116-128 Nanjing Road West
Shanghai 200003
Peoples Republic of China
Tel: (86-21) 6350 9599
Fax: (86-21) 6350 9590

***COOK ISLANDS***
Australia and New Zealand Banking Group Limited
1st Floor, Development Bank Building
P O Box 907
Avarua, Rarotonga
Cook Islands
Tel: (682) 21 750
Fax: (682) 21 760

***FIJI***
Australia and New Zealand Banking Group Limited
ANZ House, 25 Victoria Parade
P O Box 179
Suva
Fiji
Tel: (679) 302 144
Fax: (679) 300 267

***FRANCE***
Australia and New Zealand Banking Group Limited
6 rue de Berri
75008 Paris
France
Tel: (33-1) 40 75 05 37
Fax: (33-1) 40 75 05 46

***GERMANY***
Australia and New Zealand Banking Group Limited
Mainzer Landstrasse 46
60325 Frankfurt am Main
Germany
Tel: (49-69) 710 0080
Fax: (49-69) 710 00821

***GREECE***
ANZ Grindlays Bank Limited
7 Merlin Street
P O Box 30391
Athens 10671
Greece
Tel: (30-1) 362 4601/5
Fax: (30-1) 360 3811

***GUERNSEY***
ANZ Bank (Guernsey) Ltd
P O Box 153
Frances House, Sir William Place
St Peter Port
Guernsey
Channel Islands
Tel: (44-1481) 726 771
Fax: (44-1482) 727 851

***HONG KONG***
Australia and New Zealand Banking Group Limited
27th Floor, One Exchange Square
8 Connaught Place Central
Hong Kong
Tel: (852) 2843 7111
Fax: (852) 2525 2475/2868 0089

***INDIA***
ANZ Grindlays Bank Limited
90 Mahatma Gandhi Road
P O Box 725
Mumbai 400 001
India
Tel: (91-22) 267 0162/267 1495
Fax: (91-22) 261 9903

***INDONESIA***
PT ANZ Panin Bank
17th Floor, BNI Building
Jl Jend, Sudirman Kav. 1
Jakarta Pusat 10220
Indonesia
Tel: (62-21) 251 0530
Fax: (62-21) 251 0536

Australia and New Zealand Banking Group Limited
Representative Office
17th Floor, BNI Building
Jl Jend, Sudirman Kav. 1
Jakarta Pusat 10220
Indonesia
Tel: (62-21) 570 1204
Fax: (62-21) 570 5138

***IRAN***
Australia and New Zealand Banking Group Limited
3rd Floor, No 14, 4th Alley
Shahid Ahmad Ghasir
(Ex Bucharest Avenue)
Tehran 15146
Iran
Tel: (98-21) 873 3554
Fax: (98-21) 873 3559

### *ISRAEL*
Australia and New Zealand Banking Group Limited
1 Salahadin Street
P O Box 19390
Jerusalem 91133
Israel
Tel: (972-2) 626 3444
Fax: (972-2) 626 3311

### *JAPAN*
Australia and New Zealand Banking Group Limited
8th Floor, Yanmar Tokyo Building
1-1 Yaesu 2-Chome, Chuo Ku
Tokyo 104
Japan
Tel: (81-3) 3271 1151
Fax: (81-3) 3281 8417

### *JERSEY*
ANZ Grindlays Bank (Jersey) Ltd
P O Box 80
West House, Wests Centre
Peter Street
St Helier
Jersey
Channel Islands
Tel: (44-1534) 874 248
Fax: (44-1534) 877 695

ANZ Grindlays Trust Corporation (Jersey) Ltd
West House, Wests Centre
Peter Street
St Helier
Jersey
Channel Islands
Tel: (44-1534) 607 351
Fax: (44-1534) 37 600

### *JORDAN*
ANZ Grindlays Bank Limited
P O Box 9997
Shmeissani
Amman 11191
Jordan
Tel: (962-6) 660 201/7
Fax: (962-6) 679 115

### *KOREA*
Australia and New Zealand Banking Group Limited
18th Floor, Kyobo Building
1 Chongro 1, Chongro-ku
KPO 1065
Seoul
Korea
Tel: (82-2) 730 3151
Fax: (82-2) 737 6325

### *MALAYSIA*
Australia and New Zealand Banking Group Limited
Wisma Genting
4th Floor, Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
Tel: (60-3) 261 6088
Fax: (60-3) 261 3210

### *MEXICO*
Australia and New Zealand Banking Group Limited
Ejercito Nacional No 926 - 2o Piso
11510 Mexico D.F.
Tel: (52-5) 580 1036
Fax: (52-5) 580 1031

### *NEPAL*
Nepal Grindlays Bank Ltd
Grindlays Bhawan
P O Box 3990
Kathmandu
Nepal
Tel: (977-1) 247 304
Fax: (977-1) 247 314

### *PAKISTAN*
ANZ Grindlays Bank Limited
I.I. Chundrigar Road
P O Box 5556
Karachi
Pakistan
Tel: (92-21) 241 4131
Fax: (92-21) 241 4914

### *PAPUA NEW GUINEA*
Australia and New Zealand Banking Group (PNG) Ltd
3rd Floor, Defens Haus
Cnr Champion Parade & Hunter Street
Port Moresby
Papua New Guinea
Tel: (675) 322 3333
Fax: (675) 322 3306

### *PHILIPPINES*
Australia and New Zealand Banking Group Limited
Tower One, Ayala Triangle, Ayala Avenue
Makati City
Philippines
Tel: (632) 848 5091
Fax: (632) 848 5086

### *QATAR*
ANZ Grindlays Bank Limited
Rayyan Road
P O Box 2001
Doha
Qatar
Tel: (974) 418 222
Fax: (974) 428 077

### *SAMOA*
ANZ Bank (Samoa) Limited
P O Box L 1855
Apia
Western Samoa
Tel: (685) 22 422
Fax: (685) 24 595

### *SINGAPORE*
Australia and New Zealand Banking Group Limited
10 Collyer Quay
17-01/07 Ocean Building
Singapore 0104
Tel: (65) 535 8355
Fax: (65) 539 6111

### *SOLOMON ISLANDS*
Australia and New Zealand Banking Group Limited
Mendana Avenue
Honiara
Solomon Islands
Tel: (677) 21 835
Fax: (677) 22 957

### *SRI LANKA*
ANZ Grindlays Bank Limited
P O Box 112
37 York Street
Colombo 1
Sri Lanka
Tel: (94-1) 446 150/7
Fax: (94-1) 446 158

### *SWITZERLAND*
ANZ Grindlays Bank Limited
Case Postale 1560
7 Quai du Mont Blanc
CH-1211 Geneva
Switzerland
Tel: (41-22) 906 0111
Fax: (41-22) 906 0122

### *TAIWAN*
Australia and New Zealand Banking Group Limited
P O Box 9-595
8F, 44 Chung Shan North Road
Section 2
Taipei
Taiwan
Tel: (886-2) 568 3353
Fax: (886-2) 511 1232

### *THAILAND*
Australia and New Zealand Banking Group Limited
9th Floor, Tower A, Diethelm Towers
93/1 Wireless Road
Bangkok 10330
Thailand
Tel: (66-2) 256 6350
Fax: (66-2) 256 6347

### *TONGA*
Australia and New Zealand Banking Group Limited
Cnr Salote & Railway Roads
P O Box 910
Nuku'alofa
Tonga
Tel: (676) 24 944
Fax: (676) 23 870

### *UNITED ARAB EMIRATES*
ANZ Grindlays Bank Limited
P O Box 4166
Al Maktoum Street
Near Deira Clock Tower
Deira, Dubai
United Arab Emirates
Tel: (971-4) 508 8111
Fax: (971-4) 508 8222

### *UNITED KINGDOM*
Australia and New Zealand Banking Group Limited
P O Box 7
Minerva House
Montague Close
London SE1 9DH
United Kingdom
Tel: (44-171) 378 2656
Fax: (44-171) 378 2257

Grindlays Private Banking
13 St James's Square
London SW1Y 4LF
United Kingdom
Tel: (44-171) 451 3500
Fax: (44-171) 451 3652

### *UNITED STATES OF AMERICA*
Australia and New Zealand Banking Group Limited
1177 Avenue of the Americas
New York, NY 10036
USA
Tel: (1-212) 801 9800
Fax: (1-212) 801 9859

### *VANUATU*
ANZ Bank (Vanuatu) Ltd
ANZ House, Kumul Highway
Port Vila
Vanuatu
Tel: (678) 22 536
Fax: (678) 22 814

### *VIETNAM*
Australia and New Zealand Banking Group Limited
14 Le Thai To Street
Hanoi
Vietnam
Tel: (84-4) 825 8190
Fax: (84-4) 825 8188

*ANZ Grindlays, Mumbai, India.*

# Phone Directory

## Customer Banking Enquiries

### *13 13 14*

8.00am - 8.00pm, Monday to Friday

- Account balances & enquiries
- Periodical payment information
- Statement information
- Cheque/Deposit book ordering
- Account maintenance
- Stop payments
- Fee information

### Home Buyers Line

***1800 035 500***

8am - 11pm, 7 days a week

### Small Business Hotline

***1800 035 500***

8am - 11pm, 7 days a week

- Arrange a callback from an ANZ Business Manager
- Arrange an appointment to see an ANZ Business Manager

### Customer Compliments & Concerns

***1800 805 154***

### International Services

***1800 678 273***

### ANZ Securities

**ANZ Stockbroking**

***13 13 70***

**ANZ Margin Lending**

***1800 639 330*** *(Australia wide)*

***1800 243 554*** *(NSW)*

***07 3228 3283*** *(QLD)*

**ANZ Futures**

***02 9322 6514*** *(Australia wide)*

***03 9205 1450*** *(VIC)*

## ANZ Phone Banking

### *13 13 14*

24 Hours, 7 days a week

- Account balances
- Transaction history
- Order statements
- Funds transfer
- Product information
- Cheque/Deposit book ordering
- Bill payments

### ANZ Direct

**Home Loans & Investment Loans**

***13 14 09***

**Car Loans**

***13 22 07***

**Superannuation, Insurance & Investments**

***13 11 95***

### Esanda

**Esanda Finance**

***13 23 73***

**Esanda Investments**

***13 12 15***

### ANZ Funds Management

**Unit Trusts**

***1800 022 893***

**Life Insurance & Superannuation**

***1800 021 052***

**Rollovers/Approved Deposits/ Superannuation Savings**

***1800 036 190***

**D.I.Y. Super**

***1800 655 431***

**Charitable Trusts Information Line**

***1800 808 910***

**Estate Planning & Management (ANZ Trustees)**

***1800 011 047***

**V2 Plus General Enquiries**

***13 28 33***

**V2 Plus Rate Recorded Message**

***1800 033 043***

## Credit Card Enquiries

### *13 22 73*

8.00am - 6.00pm, Monday to Friday

**ANZ Gold Card**

***13 17 24***

**Qantas/Telstra Gold Card**

***13 27 24***

**Qantas/Telstra Card**

***13 19 51***

**Business/Purchasing Card**

***1800 032 481***

### Lost or Stolen Cards

***1800 033 844***

24 Hours, 7 days a week

### EFTPOS & Fast Track Help Centre

***1800 035 315***

24 Hours, 7 days a week

### Merchant Enquiries

***1800 039 025***

8.00am - 6.00pm, Monday to Friday

ANZ product and service information is also available on ANZ's internet site: **www.anz.com**

# Shareholder Information

## Dividends

The final dividend of 26 cents per share will be paid on 21 January 1998 bringing the full year dividend to 48 cents per share. The interim dividend paid in July 1997 was fully franked and the final dividend is fully franked at 36% for Australian taxation purposes. Dividends may be paid directly to a bank account in Australia, New Zealand or United Kingdom. Shareholders who want their dividends paid this way should advise the relevant share registry in writing prior to books closing date. Dividend Reinvestment and Bonus Option plans are available to shareholders. The plans are detailed in a booklet called "Shareholder Alternatives", copies of which are available from the share registries at the addresses shown.

## Stock Exchange Listings

The Group's ordinary shares are listed on the Australian Stock Exchange, the London Stock Exchange and the New Zealand Stock Exchange. The Capital Securities offered in February 1993 are listed on the New York Stock Exchange.

## American Depositary Receipts

The Bank of New York sponsors an American Depositary Receipt (ADR) program in the United States of America. The ADRs were listed on the New York Stock Exchange on 6 December 1994. ADR holders should deal directly with the Depositary, Bank of New York, New York, Telephone (212) 815-2729, Fax (212) 571-3050 on all matters relating to their ADRs.

## Enquiries

Shareholders who wish to contact the Company on any matter related to their shareholding are invited to telephone or write to the most convenient share registry.

## Change of Address

It is important that shareholders notify the share registry in writing if there is a change to their address. For added protection shareholders should quote their Shareholder Number.

## Removal from Annual Report Mailing List

Shareholders who do not want the Annual Report or who are receiving more than one copy should advise the share registry in writing. These shareholders will continue to receive all other shareholder information.

## To Consolidate Shareholdings

Shareholders who wish to consolidate their separate holdings should advise the share registry in writing.

## Annual General Meeting

The Annual General Meeting will be held at the Melbourne Concert Hall, 100 St Kilda Road, Melbourne on Wednesday, 21 January 1998.

## Chairman's Address

A summary of the Chairman's address to the AGM will be published in the "Shareholder Contact" magazine issued in February 1998.

## Credit Ratings (December 1996)

| | |
|---|---|
| **Short Term Debt** | |
| Moody's Investors Service | P-1 |
| Standard & Poor's Ratings Group | A-1+ |
| **Long Term Debt** | |
| Moody's Investors Service | Aa3 |
| Standard & Poor's Ratings Group | AA- |

## Registered Office

Level 2, 100 Queen Street, Melbourne,
Victoria 3000 Australia
Phone: (03) 9273-6141
Fax: (03) 9273-6142
Secretary: R T Jones
General Manager Investor Relations: D H Ward

## Share Registry

**Australia**
Coopers & Lybrand
Level 12, 333 Collins Street,
Melbourne, Victoria 3000
Phone: (03) 9205 4999
Toll Free: 1800 331 721 *(outside Melbourne metropolitan area)*
Fax: (03) 9205 4900

**New Zealand**
C/- ANZ Banking Group (New Zealand) Limited
8th Floor, 215-229 Lambton Quay, Wellington
Phone: (04) 496 7000
Fax: (04) 496 8872

**United Kingdom**
7th Floor, Jupiter House
Triton Court
14 Finsbury Square
London EC2A IBR UK
Phone: (0171) 920 0010
Fax: (0171) 920 0120

Australia New Zealand Argentina Bahrain Bangladesh

Brazil Chile China Cook Islands Fiji France Germany Greece

Guernsey Hong Kong India Indonesia Iran Israel

Japan Jersey Jordan Korea Malaysia Mexico Nepal Pakistan

Papua New Guinea Philippines Qatar Samoa

Singapore Solomon Islands Sri Lanka Switzerland Taiwan

Thailand Tonga United Arab Emirates

United Kingdom United States of America Vanuatu Vietnam

Australia and New Zealand Banking Group Limited
ACN 005 357 522

Registered Office: Level 2, 100 Queen Street, Melbourne, Victoria 3000, Australia.
Telephone: (03) 9273 6141 Facsimile: (03) 9273 6142