Section 5: About ANZ

This Section sets out information in relation to ANZ and its operations including the effect of the issue of ANZ StEPS on ANZ.

Further details about the information available on ANZ and its operations are contained in Sections 8.1 and 8.2.

Section 5: About ANZ

5.1 The Group overview

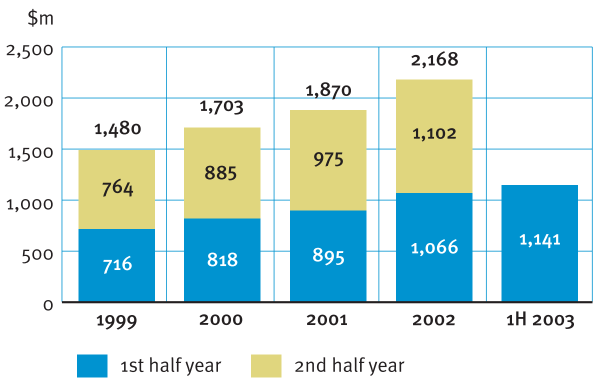
Established in 1835, ANZ is one of Australia's ten largest publicly listed companies, with a market capitalisation of approximately $27.4 billion as at 13 August 2003. The Group operates in 27 countries, with the principal markets being Australia and New Zealand, and with smaller operations in Asia, the Pacific, the United Kingdom, Europe and the United States.

ANZ's specialisation strategy is executed through a management structure of ten business segments covering 17 specialist business units.

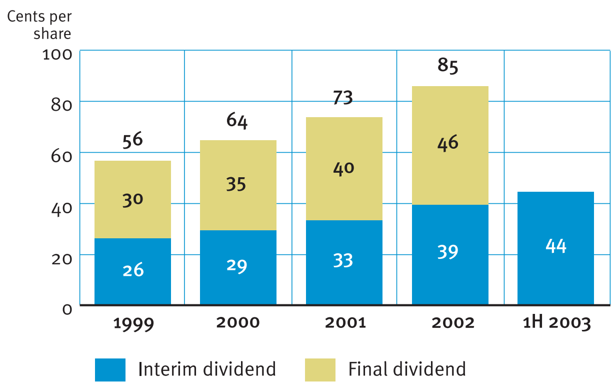
The Group offers a broad range of financial products and services, including mortgages, credit cards, deposit and investment products, corporate and business lending, trade finance and investment banking products and services. The Group's business is conducted through a network of more than 1,000 branches.

With total assets of $191 billion as at 31 March 2003, ANZ is the fourth largest Australian-based bank on this measure. Net profit after tax for the year ended 30 September 2002 totalled $2,168 million (excluding Significant Transactions) and for the half year ended 31 March 2003 was $1,141 million. The Significant Transactions are detailed in the notes to the table in Section 5.4.

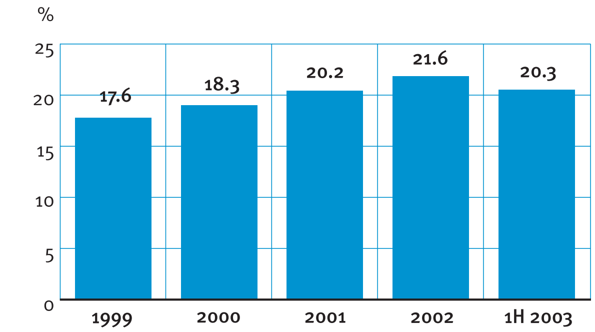
Net profit after tax[1]



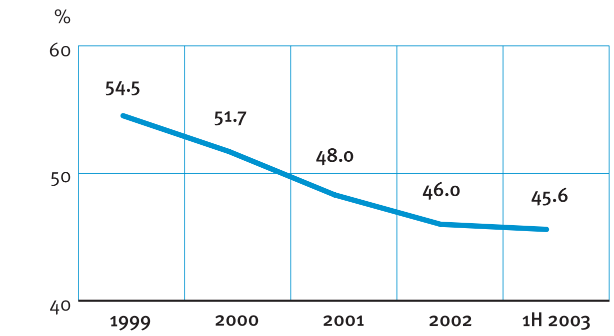
Dividends per Ordinary Share



Return on equity[2]



Cost to income ratio[3]



Notes:

Extracted from the audited financial statements for years ended 30 September, except for 1H 2003 which is extracted from the reviewed financial statements for the half year ended 31 March 2003.

1 *NPAT (excluding Significant Transactions).*

2 *Return on equity is calculated as NPAT (excluding Significant Transactions) attributable to Ordinary Shareholders divided by average Ordinary Shareholders' equity.*

3 *Cost to income ratio is calculated as operating expenses (excluding goodwill amortisation and Significant Transactions) divided by operating income (excluding Significant Transactions).*

5.2 Outlook and strategy

ANZ seeks to pursue a distinctive specialisation strategy that is well executed and consistently delivers superior performance for shareholders, staff, customers and the community. This strategy is built on the changes ANZ has made in recent years to reduce risk, to achieve global industry-leading productivity, to build a balanced and sustainable business mix and to evolve a high performance culture.

ANZ has identified four priorities for the future to assist in the delivery of superior performance. These priorities are broadly as follows:

- leveraging real capabilities to build a sustainable strategic position;
- growing value by creating a rich, diversified portfolio of specialised businesses;
- becoming one of the best managed and most efficient banks in the world; and
- being bold and different, leveraging a unique performance culture and approach.

ANZ's specialised businesses continue to produce superior performance with eight out of 17 business units delivering more than 10% earnings growth in the half year ended 31 March 2003 compared to the half year ended 31 March 2002.

ANZ remains confident that overall growth in net profit after tax (excluding Significant Transactions) for the full year ending 30 September 2003 will be in line with market expectations of around 8%. Mortgage demand has remained strong, offset by a difficult interest rate climate and low institutional loan demand.

ANZ has previously stated that it expects 2004 to be a more challenging year given among other things, the new credit card interchange arrangements (see Section 6.2.5). While reasonable economic growth is expected in Australia, challenges for the financial services sector as a whole include a difficult interest rate environment, a strong Australian dollar and a softening outlook for housing.

ANZ sees its challenges in the years ahead as maintaining superior financial performance and a low risk profile, as well as growing revenues and its customer base. To achieve this, ANZ will seek to establish stronger relative positions in its core businesses in Australia and New Zealand, and selectively overseas.

The Group regularly examines a range of corporate opportunities with a view to determining whether those opportunities will enhance its financial performance and position. Selected corporate opportunities currently being investigated by ANZ include:

- National Bank of New Zealand (NBNZ) – Lloyds TSB has announced that it has entered into discussions with a number of parties regarding the future ownership of its subsidiary, NBNZ. In the interests of shareholders, ANZ is investigating potential ownership of NBNZ. As part of this process, ANZ has lodged an application with the New Zealand Commerce Commission and may make further regulatory applications;
- Metrobank Card Corporation (MCC), the credit card issuing company of Metropolitan Bank and Trust Company of the Philippines – ANZ is in the final stages of negotiating the terms of the acquisition of a 40% stake in MCC; and
- Shanghai Rural Credit Co-operatives Union (SRCCU) – ANZ is currently in discussions with SRCCU with respect to forming an alliance involving, among other things, ANZ taking a minority equity stake in SRCCU (or its successor).

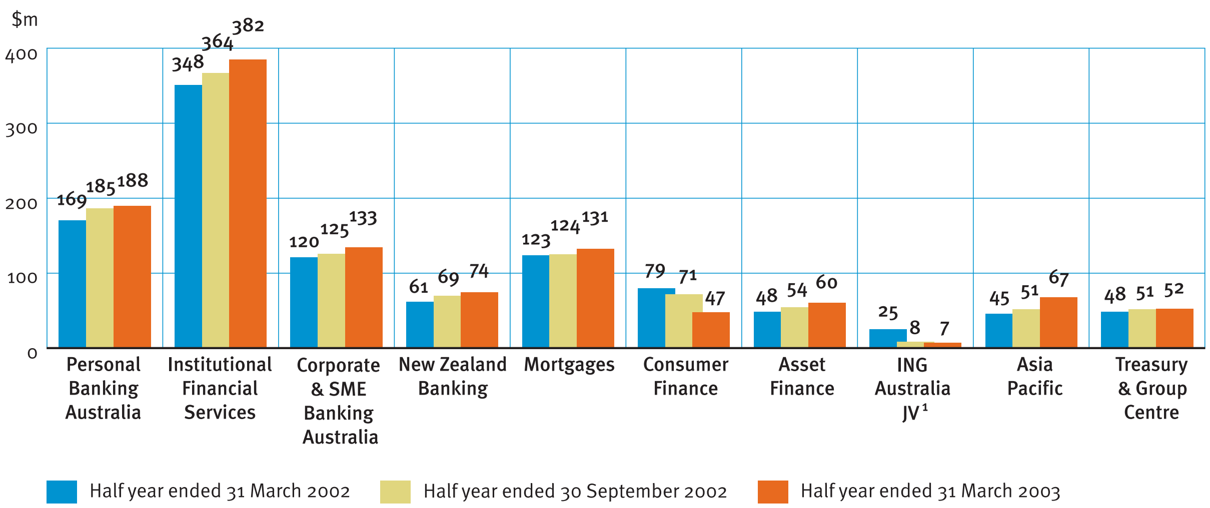
Section 5: About ANZ

5.3 Business description

The Group operates ten business segments:

Business segment	Principal activities
Personal Banking Australia	Personal Banking Australia provides a range of banking services to personal customers, high net worth individuals and SME rural customers in Australia
Institutional Financial Services	Institutional Financial Services brings together the institutional customer segment with specialised wholesale product segments to provide a broad range of financial solutions for institutional customers
Corporate & SME Banking Australia	Corporate & SME Banking Australia provides the principal relationship between ANZ's corporate and SME customers and all areas of ANZ, including working capital management, liquidity management and transaction processing
New Zealand Banking	New Zealand Banking provides a broad range of banking services, including wealth management, for personal, small business and corporate clients in New Zealand
Mortgages	Mortgages provides mortgage finance secured by residential real estate in Australia and New Zealand
Consumer Finance	Consumer Finance provides consumer and commercial credit cards, ePayment products, personal loans and merchant payment facilities
Asset Finance	Asset Finance provides finance and operating leases for vehicles and business equipment
ING Australia JV	ING Australia JV is a joint venture that provides integrated manufacture and distribution of wealth creation, management and protection products and services
Asia Pacific	Asia Pacific provides primarily retail banking services in the Asia and Pacific region and includes ANZ's share of PT Panin Bank in Indonesia
Treasury & Group Centre	Treasury is the banker to all ANZ businesses. Group Centre provides support to the Group and includes finance, legal, risk, tax and audit functions

Net profit after tax (excluding Significant Transactions) by business segment



Note:

Extracted from the reviewed financial statements for the half year ended 31 March 2003.

1 *Includes the financial performance of ING Australia JV in the period starting from 1 May 2002 and the financial performance of the businesses sold to ING Australia JV for the prior periods.*

5.4 Financial performance

For the half year ended 31 March 2003, the Group recorded a net profit after tax (excluding Significant Transactions) of $1,141 million, an increase of 7.0% on the half year ended 31 March 2002. Earnings per Ordinary Share (EPS) (excluding Significant Transactions) increased by 6.8% to 72 cents. The interim dividend per Ordinary Share increased by 12.8% to 44 cents, reflecting the Group's strong capital position.

Return on equity (excluding Significant Transactions) for the half year ended 31 March 2003 was 20.3%, which decreased from 21.3% (excluding Significant Transactions) for the half year ended 30 September 2002. This return was still ahead of the Group's 20% target.

For the year ended 30 September 2002, the Group recorded a net profit after tax (excluding Significant Transactions) of $2,168 million, an increase of 15.9% over the year ended 30 September 2001. EPS (excluding Significant Transactions) increased from $1.17 to $1.37 and return on equity (excluding Significant Transactions) increased from 20.2% to 21.6% for the same period. The Group recorded a net profit after tax (including Significant Transactions) of $2,322 million.

Over the last three years, the Group has achieved a compound annual growth rate of 13.6% per annum in net profit after tax (excluding Significant Transactions). A summary of the Group's recent financial performance is set out in the following table:

ANZ SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

($ million)	1999	2000	2001	2002	1H 2003
Net interest income	3,655	3,801	3,833	4,018	2,140
Net profit before tax (excluding Significant Transactions)	2,222	2,568	2,783	3,051	1,587
Net profit after tax (including Significant Transactions)	1,480	1,747	1,870	2,322	1,141
Net profit after tax (excluding Significant Transactions)	1,480	1,703	1,870	2,168	1,141
Per Ordinary Share					
EPS[1]	$0.91	$1.04	$1.17	$1.37	$0.72
Dividends	$0.56	$0.64	$0.73	$0.85	$0.44

Notes:

Extracted from the audited financial statements for years ended 30 September, except for 1H 2003 which is extracted from the reviewed financial statements for the half year ended 31 March 2003. The Significant Transactions are as follows, for the half years ended:

- *30 September 2002: profit on sale of businesses to ING Australia JV of $170 million after tax ($174 million before tax);*
- *31 March 2002: return of funds on settlement of National Housing Bank of India litigation of $159 million after tax ($248 million before tax) and special provision for doubtful debts of $(175) million after tax ($(250) million before tax);*
- *30 September 2000:*
  - *restructuring provision for specialist businesses and eTransformation of $(245) million after tax ($(361) million before tax);*
  - *write down of investment in PT Panin Bank Indonesia of $(81) million after tax;*
  - *profit and provisions related to the sale of Grindlays and associated businesses of $404 million after tax; and*
  - *provision for litigation of $(33) million after tax ($(50) million before tax); and*
- *31 March 2000:*
  - *reversal of previous property revaluation of $30 million after tax;*
  - *gain on sale of investment in Colonial Limited following the announcement of its acquisition by Commonwealth Bank of Australia of $33 million after tax; and*
  - *restatement of deferred tax balances by $(64) million to reflect new company tax rate.*

1 *Excluding Significant Transactions and based on the weighted average number of Ordinary Shares outstanding during each period.*

Section 5: About ANZ

5.5 Group Risk Management

ANZ's Group Risk Management function is part of the Treasury & Group Centre business segment and operates with the authority of the Directors and Chief Executive Officer.

The Group Risk Management function is responsible for establishing risk policies, principles and process standards that reflect the Group's risk strategy and risk tolerance level, and determining the risk parameters for the Group and for each business segment. The Group Risk Management function measures, assesses and monitors the level of risk in the Group and approves material risk exposures, limits and transactions. These and other material risk issues are regularly reported to executive management, the Directors and regulators.

All major credit decisions (including automated decision processes) for the Group's corporate and consumer businesses require dual approval by Group Risk Management and executive management within the relevant business segment. Market risk is managed by a variety of different techniques with Group Risk Management setting the limits to control trading positions and interest rate risk within parameters approved by the Directors. Operational risk is managed across the Group by each business unit, with Group Risk Management responsible for establishing policies and developing operational risk monitoring capabilities and specialists in key risk areas.

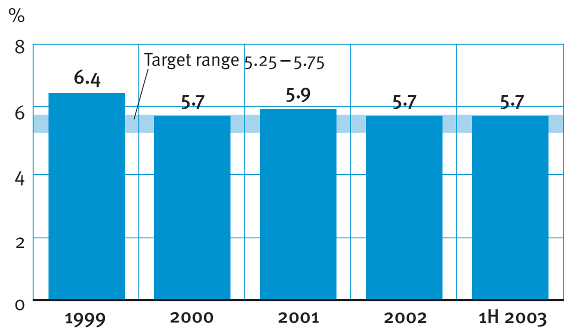
5.6 Capital management

ANZ pursues an active approach to capital management. This involves a continual review of the level and composition of the Group's capital base, assessed against a range of objectives including maintenance of sufficient capital to ensure ANZ remains in the 'AA' rating category.

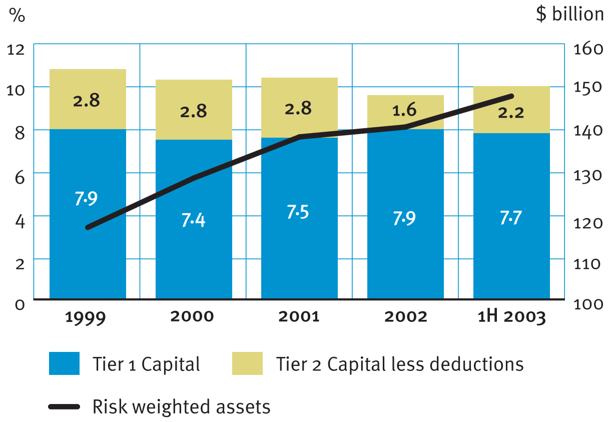
ANZ seeks to ensure that it maintains an appropriate level of capital to meet its economic capital needs. Economic capital is the equity allocated to a business unit's inherent risk profile. It is allocated for several categories including credit risk, operating risk, interest rate risk, basis risk, mismatch risk, investment risk, trading risk and other risks. The methodology used to allocate capital to business units for risk is designed to incentivise appropriate risk management and investment decisions across the Group.

Based on these criteria, ANZ has targeted a capital structure with adjusted common equity (ACE) as a percentage of risk weighted assets (RWA) in the range of 5.25% to 5.75%. ACE is determined by ANZ as Tier 1 Capital less the face value of preference shares (calculated at exchange rates as at the balance date) less Total Capital deductions (as defined by APRA). RWA is an APRA determined measure, which applies a weighted level of relative risk to on and off-balance sheet assets. The weightings are based on scales determined by APRA to reflect the relative risk of the counterparty and the asset class.

ACE/RWA ratio



Regulatory capital ratios and balances



Note:

Extracted from the audited financial statements as at 30 September, except for 1H 2003 which is extracted from the reviewed financial statements as at 31 March 2003.

As at 31 March 2003, the Tier 1 Capital Ratio was 7.7% and the ACE/RWA ratio was 5.7%. The raising of $750 million of new hybrid equity through the issue of ANZ StEPS will strengthen the Group's capital ratios resulting in increased financial flexibility. The Group's pro forma regulatory capital position presented as if the issue of ANZ StEPS was complete as at 31 March 2003 is set out in Section 5.8.2.

5.7 ANZ Holdings (New Zealand) Limited

ANZ (NZ) is a wholly-owned subsidiary of ANZ and is a New Zealand bank holding company with consolidated assets of NZ$27.5 billion as at 30 September 2002.

ANZ (NZ) SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(NZ$ million)	1999	2000	2001	2002
Net interest income	547	576	618	663
Net profit before tax	331	340	491	512[1]
Net profit after tax	232	250	346	361[1]

Notes:

Extracted from the audited financial statements for the years ended 30 September. ANZ (NZ) prepares audited financial statements on an annual basis only.

1 Excluding a Significant Transaction for the full year ended 30 September 2002 of NZ$38 million after tax from the sale of businesses to the ING Australia JV.

ANZ (NZ) holds ANZ's investment in ANZ Banking Group (New Zealand) Limited (ANZ NZ Bank). ANZ NZ Bank is New Zealand's oldest bank, with operations dating back to 1840 and is the fourth largest full service banking group in New Zealand. ANZ NZ Bank is registered under the Reserve Bank of New Zealand Act 1989 (New Zealand). ANZ NZ Bank has around 14% of the total assets held by registered banks in New Zealand, is supported by a network of over 140 branches and has approximately 800,000 customers – the second largest customer base in New Zealand.

Six of ANZ's business segments operate in the ANZ NZ Bank:

- New Zealand Banking;
- Mortgages;
- Consumer Finance;
- Asset Finance;
- Institutional Financial Services; and
- Treasury & Group Centre.

ANZ (NZ) borrows funds from ANZ and provides funding to ANZ NZ Bank.

5.8 Pro forma financial information

The following pro forma financial information assumes $750 million was raised through the issue of ANZ StEPS. It sets out the Group's summarised pro forma statement of financial position and regulatory capital position as at 31 March 2003 assuming that:

- the Offer was completed as at 31 March 2003;
- $736 million of net proceeds was raised (after estimated transaction costs of $14 million); and
- the net proceeds are initially used to replace existing funding and reduce 'Deposits and other borrowings'.

Also, the issue of ANZ StEPS is expected to result in a marginal increase in net profit after tax and an immaterial decrease in EPS and return on equity to Ordinary Shareholders. Preference share dividends will increase to the extent that Distributions are paid.

Section 5: About ANZ

5.8.1 Statement of financial position

ANZ's summarised consolidated statement of financial position is taken from the financial statements for the half year ended 31 March 2003 which were reviewed by KPMG, the Group's auditors. The purpose of the pro forma statement of financial position is to present the Group's financial position as at 31 March 2003 adjusted for the effect of the issue of ANZ StEPS. The first column is the summarised consolidated statement of financial position for ANZ as at 31 March 2003. The Adjustments column assumes that the net proceeds reduce 'Deposits and other borrowings'.

ANZ SUMMARISED CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2003

($ million)	Group[1]	Adjustments[2]	Pro forma[2]
Liquid assets	7,759	–	7,759
Due from other financial institutions	3,123	–	3,123
Trading and investment securities	9,520	–	9,520
Net loans and advances including acceptances	155,235	–	155,235
Other	14,881	–	14,881
Total assets	**190,518**	**–**	**190,518**
Due to other financial institutions	8,824	–	8,824
Deposits and other borrowings	122,256	(736)	121,520
Liability for acceptances	13,270	–	13,270
Bonds and notes	14,917	–	14,917
Other	18,766	–	18,766
Total liabilities	**178,033**	**(736)**	**177,297**
NET ASSETS	**12,485**	**736**	**13,221**
Ordinary Shares	4,058	–	4,058
Preference shares			
TrUEPrS[3]	1,225	–	1,225
ANZ StEPS	–	736	736
Reserves	485	–	485
Retained profits	6,700	–	6,700
Outside equity interests	17	–	17
TOTAL SHAREHOLDERS' EQUITY	**12,485**	**736**	**13,221**

Notes:

1 *ANZ's summarised reviewed consolidated statement of financial position as at 31 March 2003.*

2 *The pro forma adjustments and the pro forma statement of financial position are unaudited. If there is oversubscription for ANZ StEPS, the 'Deposits and other borrowings' and 'ANZ StEPS' balances in the Adjustments column will be increased by the amount of the oversubscription, net of transaction costs.*

3 *TrUEPrS are stated at the A$:US$ exchange rates at the dates when they were issued, net of transaction costs.*

5.8.2 Regulatory capital position

ANZ's summarised consolidated regulatory capital statement is extracted from the financial statements as at 31 March 2003, which were reviewed by KPMG, the Group's auditors. The purpose of the pro forma regulatory capital position is to present the Group's regulatory capital position as at 31 March 2003 adjusted for the effect of the issue of ANZ StEPS.

The first column is the summarised consolidated regulatory capital position for ANZ as at 31 March 2003. The Adjustments column assumes that:

- total preference share capital increases by $736 million, the net proceeds from the issue of ANZ StEPS;
- Tier 1 Capital increases by the net proceeds of the Offer; and
- ACE is reduced by the estimated transaction costs ($14 million) for the issue of ANZ StEPS.

ANZ SUMMARISED CONSOLIDATED REGULATORY CAPITAL POSITION AS AT 31 MARCH 2003

($ million)	Group	Adjustments[1]	Pro forma
TrUEPrS[2]	1,225	–	1,225
ANZ StEPS	–	736	736
Total preference shares	**1,225**	**736**	**1,961**
Tier 1 Capital	11,511	736	12,247
Tier 2 Capital	5,043	–	5,043
Deductions	(1,784)	–	(1,784)
Total Capital	**14,770**	**736**	**15,506**
Adjusted common equity	8,443	(14)[3]	8,429
Capital ratios			
Tier 1 Capital Ratio	7.7%	0.5%	8.2%
Tier 2 Capital Ratio	3.4%	–	3.4%
Deductions	(1.2%)	–	(1.2%)
Total Capital Adequacy Ratio	**9.9%**	**0.5%**	**10.4%**
ACE/RWA ratio	5.7%	–	5.7%

Notes:

1 *If there is oversubscription for ANZ StEPS, the preference shares balance, Tier 1 Capital balance and the Tier 1 Capital Ratio in the Adjustments column will be adjusted by the amount of the oversubscription, net of transaction costs. The ACE balance would be reduced for the additional transaction costs.*

2 *TrUEPrS are stated at the A$:US$ exchange rates at the date when they were issued, net of transaction costs.*

3 *ACE is reduced by the estimated transaction costs for the issue of ANZ StEPS.*

On 1 July 2003, revised APRA prudential standards 'APS110 – Capital Adequacy' and 'APS 111 – Capital Adequacy: Measurement of Capital' came into force. These standards will, among other things, require the intangible component of certain equity investments to be deducted from Tier 1 Capital for capital adequacy purposes. Prior to 1 July 2003, both the tangible and intangible components of the investment are a deduction from Total Capital for capital adequacy purposes. The revised prudential standard also introduced the concept of Level 3 capital adequacy requirements. At this stage APRA has advised that ANZ is not subject to Level 3 capital assessment. The changes resulting from adoption of the revised prudential standards are not included in the pro forma regulatory capital position at 31 March 2003. ANZ expects that the changes will reduce the Group's Tier 1 Capital Ratio by approximately 0.6%, with Total Capital and ACE being unaffected by these changes.

5.9 Credit ratings

ANZ and ANZ StEPS have been rated by Standard & Poor's and Moody's. As at the date of this Prospectus, key ratings are as follows:

Standard & Poor's	Rating	Moody's	Rating
Issue credit rating – ANZ StEPS	'A–'	Issue credit rating – ANZ StEPS	'A2'
Long-term counterparty credit rating (Outlook Stable)	'AA–'	Long-term senior issuer rating (Outlook Stable)	'Aa3'
Short-term counterparty credit rating	'A-1+'	Short-term issuer rating	'P-1'

Section 5: About ANZ

5.9.1 ANZ StEPS issue credit rating
An issue credit rating is a current opinion of the creditworthiness of an obligor with respect to specific financial obligations, a specific class of financial obligations or a specific financial program.

Issues rated 'BBB–' or higher by Standard & Poor's are considered to be investment grade. **ANZ StEPS have been assigned an 'A–' rating by Standard & Poor's and are therefore investment grade.** An issue credit rating of 'A–' describes an issue that is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Issues rated 'Baa3' or higher by Moody's are considered to be investment grade. **ANZ StEPS have been assigned an 'A2' rating by Moody's and are therefore investment grade.** An issue credit rating of 'A2' describes an issue that possesses many favourable investment attributes and may be considered as upper-medium-grade obligations. The factors that give security to principal and interest are considered adequate but elements may be present that suggest a susceptibility to impairment some time in the future.

5.9.2 Standard & Poor's counterparty credit ratings
A counterparty credit rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. The key Standard & Poor's counterparty credit ratings for ANZ are:

– long-term – 'AA–' (Outlook Stable) describes an obligor that has a very strong capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree; and
– short-term – 'A-1+' describes an obligor that has a strong capacity to meet its financial commitments and is rated in the highest category by Standard & Poor's.

The ratings for 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (–) sign to show relative standing within the major rating categories. The rating outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. Rating outlooks fall into the following four categories: positive, negative, stable and developing. The outlook applied to ANZ's counterparty credit ratings above is 'Outlook Stable' which indicates that ratings are not expected to change.

5.9.3 Moody's credit ratings
A long-term rating is a current opinion of the future ability of an issuer to repay its long-term debt obligations and the level of legal protection afforded to the holder of a specific security based on the security's specific terms.

A short-term rating is an opinion of the ability of an issuer to honour senior financial obligations and contracts. Such obligations generally have an original maturity not exceeding one year.

The key Moody's credit ratings for ANZ are:

– long-term – 'Aa3' (Outlook Stable). Issuers rated 'Aa' offer excellent financial security. Together with the 'Aaa' group, they constitute what are generally known as high grade entities. They are rated lower than 'Aaa' rated entities because long-term risks appear somewhat larger; and
– short-term – 'P-1' describes issuers that have a superior ability for repayment of senior short-term debt obligations.

Moody's applies numerical modifiers of 1, 2 and 3 in each generic rating category from 'Aa' to 'Caa'. The modifier 1 indicates that the issuer is in the higher end of its letter rating category; the modifier 2 indicates a mid-range ranking; the modifier 3 indicates that the issuer is in the lower end of the letter ranking category. The rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term. Rating outlooks fall into the following four categories: positive, negative, stable and developing (contingent upon an event). The outlook applied to ANZ's long-term and short-term credit ratings above is 'Outlook Stable' which indicates that ratings are not likely to change.

Credit ratings are not market ratings, nor are they recommendations to buy, hold or sell securities (including ANZ StEPS). Credit ratings are subject to revision or withdrawal at any time. As at the date of this Prospectus, ANZ has not approached any other rating agency for an issue credit rating of ANZ StEPS.